NEW ISSUE – FULL BOOK ENTRY ONLY **S&P RATING: “AA-”**
See the caption “RATING.”

In the opinion of Best Best & Krieger LLP, San Diego, California, Bond Counsel, subject to certain qualifications described herein, under existing statutes, regulations, rules and court decisions, and assuming certain representations and compliance with certain covenants and requirements described herein, the interest on the 2015A Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings. Interest on the 2015B Bonds is subject to all applicable federal income taxation. In the further opinion of Bond Counsel, interest on the 2015A Bonds and the 2015B Bonds is exempt from California personal income taxes. See the caption “TAX MATTERS.”

$84,710,000
SUCCESSOR AGENCY TO THE
SAN MARCOS REDEVELOPMENT AGENCY
TAX ALLOCATION REFUNDING BONDS,
SERIES 2015A

$139,285,000
SUCCESSOR AGENCY TO THE
SAN MARCOS REDEVELOPMENT AGENCY
TAXABLE TAX ALLOCATION REFUNDING BONDS,
SERIES 2015B

Dated: Date of Delivery **Due: October 1, as shown on inside cover**

The 2015 Bonds are being issued pursuant to an Indenture of Trust, dated as of July 1, 2015, by and between the Successor Agency to the San Marcos Redevelopment Agency and MUFG Union Bank, N.A., as trustee. The 2015 Bonds will be issued as fully-registered bonds in book-entry form only, initially registered in the name of Cede & Co., New York, New York, as nominee of The Depository Trust Company, New York, New York. Interest payable on the 2015 Bonds will be payable on October 1, 2015, and each April 1 and October 1 thereafter. Principal payable on the 2015 Bonds will be paid by the Trustee to The Depository Trust Company for subsequent disbursement to Participants who will remit such payments to the Beneficial Owners of the 2015 Bonds.

The 2015 Bonds are being issued by the Agency: (i) to refund certain outstanding obligations of the Agency; (ii) to purchase a municipal bond debt service reserve insurance policy issued by Assured Guaranty Municipal Corp. for deposit in the Reserve Account in satisfaction of the Reserve Requirement; and (iii) to pay costs of issuance with respect to the 2015 Bonds.

The 2015 Bonds are limited obligations of the Agency payable solely from and secured by Pledged Tax Revenues to be received by the Agency from San Marcos Redevelopment Project Area No. 1, San Marcos Redevelopment Project Area No. 2 and San Marcos Redevelopment Project Area No. 3, and from the amounts on deposit in certain funds held under the Indenture. The 2015 Bonds are payable from Pledged Tax Revenues on a subordinate basis to the San Marcos Redevelopment Agency Housing Set-Aside Tax Allocation Bonds, Series 2010 (Taxable), which are currently outstanding in the aggregate principal amount of $49,440,000. The Agency has pledged not to issue additional obligations payable from Pledged Tax Revenues on a senior basis to the 2015 Bonds. See the caption “SECURITY FOR THE 2015 BONDS—Additional Indebtedness” for a description of the conditions under which the Agency may issue additional obligations payable from the Pledged Tax Revenues on a parity with the 2015 Bonds.

The 2015 Bonds are subject to optional and mandatory sinking fund redemption prior to maturity as described in this Official Statement. See the caption “THE 2015 BONDS—Redemption.”

This cover page contains information for general reference only. It is not a summary of the security or terms of this issue. Investors must read the entire Official Statement, including the matters set forth under the caption “RISK FACTORS AND LIMITATIONS ON PLEDGED TAX REVENUES,” for a discussion of special factors which should be considered, in addition to the other matters set forth in this Official Statement, in considering the investment quality of the 2015 Bonds. Capitalized terms used on this cover page and not otherwise defined have the meanings set forth in this Official Statement.

THE 2015 BONDS ARE NOT A DEBT, OBLIGATION OR LIABILITY OF THE CITY OF SAN MARCOS, THE COUNTY OF SAN DIEGO, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS (OTHER THAN THE AGENCY), NOR DO THE 2015 BONDS CONSTITUTE A PLEDGE OF THE FAITH AND CREDIT OR THE TAXING POWER OF ANY OF THE FOREGOING (INCLUDING THE AGENCY). THE AGENCY HAS NO TAXING POWER. THE 2015 BONDS DO NOT CONSTITUTE AN INDEBTEDNESS WITHIN THE MEANING OF ANY CONSTITUTIONAL DEBT LIMITATION OR RESTRICTION.

The 2015 Bonds are offered when, as and if delivered and received by the Underwriters, subject to the approval as to the valid and binding nature of the Indenture by Best Best & Krieger LLP, San Diego, California, as Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the Agency by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, as Disclosure Counsel, and by the City Attorney, acting as Agency Counsel. Certain legal matters will be passed upon for the Underwriters by Jones Hall, a Professional Law Corporation, San Francisco, California, as Underwriters' Counsel, and for the Trustee by its counsel. It is anticipated that the 2015 Bonds will be available for delivery through the facilities of The Depository Trust Company on or about July 14, 2015.

STIFEL PiperJaffray®

Dated: June 16, 2015

MATURITY SCHEDULE
BASE CUSIP®† 79876C

$84,710,000
SUCCESSOR AGENCY TO THE SAN MARCOS REDEVELOPMENT AGENCY
TAX ALLOCATION REFUNDING BONDS, SERIES 2015A

Maturity Date (October 1)	*Principal Amount*	*Interest Rate*	*Yield*	*Price*	*CUSIP®†*
2016	$3,175,000	2.000%	0.550%	101.751	AA6
2017	3,245,000	4.000	0.960	106.642	AB4
2018	3,370,000	4.000	1.300	108.470	AC2
2019	3,510,000	5.000	1.520	114.150	AD0
2020	3,700,000	5.000	1.790	115.908	AE8
2021	3,895,000	5.000	2.050	117.126	AF5
2022	4,085,000	5.000	2.240	118.287	AG3
2023	4,305,000	5.000	2.410	119.192	AH1
2024	4,080,000	5.000	2.620	119.366	AJ7
2025	4,300,000	5.000	2.790	119.519	AK4
2026	4,920,000	5.000	2.940	118.057(c)	AL2
2027	5,170,000	5.000	3.060	116.902(c)	AM0
2028	5,440,000	5.000	3.190	115.667(c)	AN8
2029	5,705,000	5.000	3.310	114.540(c)	AP3
2030	6,645,000	5.000	3.360	114.074(c)	AQ1
2031	6,985,000	5.000	3.420	113.519(c)	AR9
2032	4,615,000	5.000	3.470	113.058(c)	AS7
2033	4,860,000	5.000	3.520	112.600(c)	AT5
2034	2,705,000	5.000	3.560	112.235(c)	AU2

$139,285,000
SUCCESSOR AGENCY TO THE SAN MARCOS REDEVELOPMENT AGENCY
TAXABLE TAX ALLOCATION REFUNDING BONDS, SERIES 2015B

Maturity Date (October 1)	*Principal Amount*	*Interest Rate*	*Yield*	*Price*	*CUSIP®†*
2016	$5,125,000	1.090%	1.090%	100.000	AV0
2017	5,160,000	1.540	1.540	100.000	AW8
2018	5,245,000	2.080	2.080	100.000	AX6
2019	5,350,000	2.500	2.615	99.541	AY4
2020	5,460,000	2.965	2.965	100.000	AZ1
2021	5,630,000	3.000	3.266	98.511	BA5
2022	5,780,000	3.250	3.566	98.002	BB3
2025	6,410,000	4.016	4.016	100.000	BE7

$12,150,000 3.866% Term 2015B Bond due October 1, 2024 – Yield 3.866%, Price: 100.000, CUSIP®†: BD9

$13,415,000 4.000% Term 2015B Bond due October 1, 2027 – Yield 4.416% Price: 96.099, CUSIP®†: BG2

$13,040,000 4.466% Term 2015B Bond due October 1, 2029 – Yield 4.466%, Price: 100.000, CUSIP®†: BJ6

$31,000,000 4.852% Term 2015B Bond due October 1, 2034 – Yield 4.852%, Price: 100.000, CUSIP®†: BL1

$25,520,000 5.002% Term 2015B Bond due October 1, 2038 – Yield 5.002%, Price: 100.000, CUSIP®†: BM9

---

† 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. None of the Agency, the City or the Underwriters takes any responsibility for the accuracy of such numbers.

(c) Priced to first optional redemption date of October 1, 2025 at par.

SUCCESSOR AGENCY TO THE SAN MARCOS REDEVELOPMENT AGENCY
SAN MARCOS, CALIFORNIA

AGENCY MEMBERS AND CITY COUNCIL

Jim Desmond, Chair and Mayor
Rebecca Jones, Vice Chair and Vice Mayor
Chris Orlando, Agency Member and Council Member
Kristal Jabara, Agency Member and Council Member
Sharon Jenkins, Agency Member and Council Member

AGENCY STAFF AND CITY STAFF

Jack Griffin, Executive Director and City Manager
Phil Scollick, Agency Secretary and City Clerk
Helen Holmes Peak, Agency Counsel and City Attorney
Laura Rocha, Finance Director
Roque Chiriboga, Manager of Financial Analysis and Debt Administration

SPECIAL SERVICES

BOND COUNSEL

Best Best & Krieger LLP
San Diego, California

DISCLOSURE COUNSEL

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

FINANCIAL ADVISOR

Fieldman Rolapp & Associates, Inc.
Irvine, California

FISCAL CONSULTANT

Rosenow Spevacek Group Inc.
Santa Ana, California

TRUSTEE

MUFG Union Bank, N.A.
Los Angeles, California

VERIFICATION AGENT

Grant Thornton LLP
Minneapolis, Minnesota

No dealer, broker, salesperson or other person has been authorized by the Agency or the Underwriters to give any information or to make any representations 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 Agency or the Underwriters. 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 2015 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 of the 2015 Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, are intended solely as such and are not to be construed as representations of fact.

The Underwriters have provided the following sentence for inclusion in this Official Statement:

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

The information set forth herein has been obtained from the Agency, the City of San Marcos and other sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness. The information and expressions of opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there have been no changes in the affairs of the Agency since the date hereof. All summaries of the Indenture or other documents are made subject to the provisions of such documents, and do not purport to be complete statements of any or all of such provisions.

All information considered material to the making of an informed investment decision with respect to the 2015 Bonds is contained in this Official Statement. While the City of San Marcos maintains an Internet website for various purposes, none of the information on its website is incorporated by reference into this Official Statement. Any such information that is inconsistent with the information set forth in this Official Statement should be disregarded.

This Official Statement is submitted in connection with the sale of the 2015 Bonds and may not be reproduced or used, in whole or in part, for any other purpose.

IN CONNECTION WITH THE OFFERING OF THE 2015 BONDS, THE UNDERWRITERS MAY EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2015 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 UNDERWRITERS MAY OFFER AND SELL THE 2015 BONDS TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENT AT PRICES LOWER THAN THE PUBLIC OFFERING PRICE STATED ON THE COVER PAGE HEREOF. THE PUBLIC OFFERING PRICE MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS.

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" or other similar words. Such forward-looking statements include, but are not limited to, certain statements contained in the information under the captions "THE REDEVELOPMENT PLANS," "PROJECT AREA NO. 1," "PROJECT AREA NO. 2," "PROJECT AREA NO. 3" and "PLEDGED TAX REVENUE PROJECTIONS AND DEBT SERVICE COVERAGE."

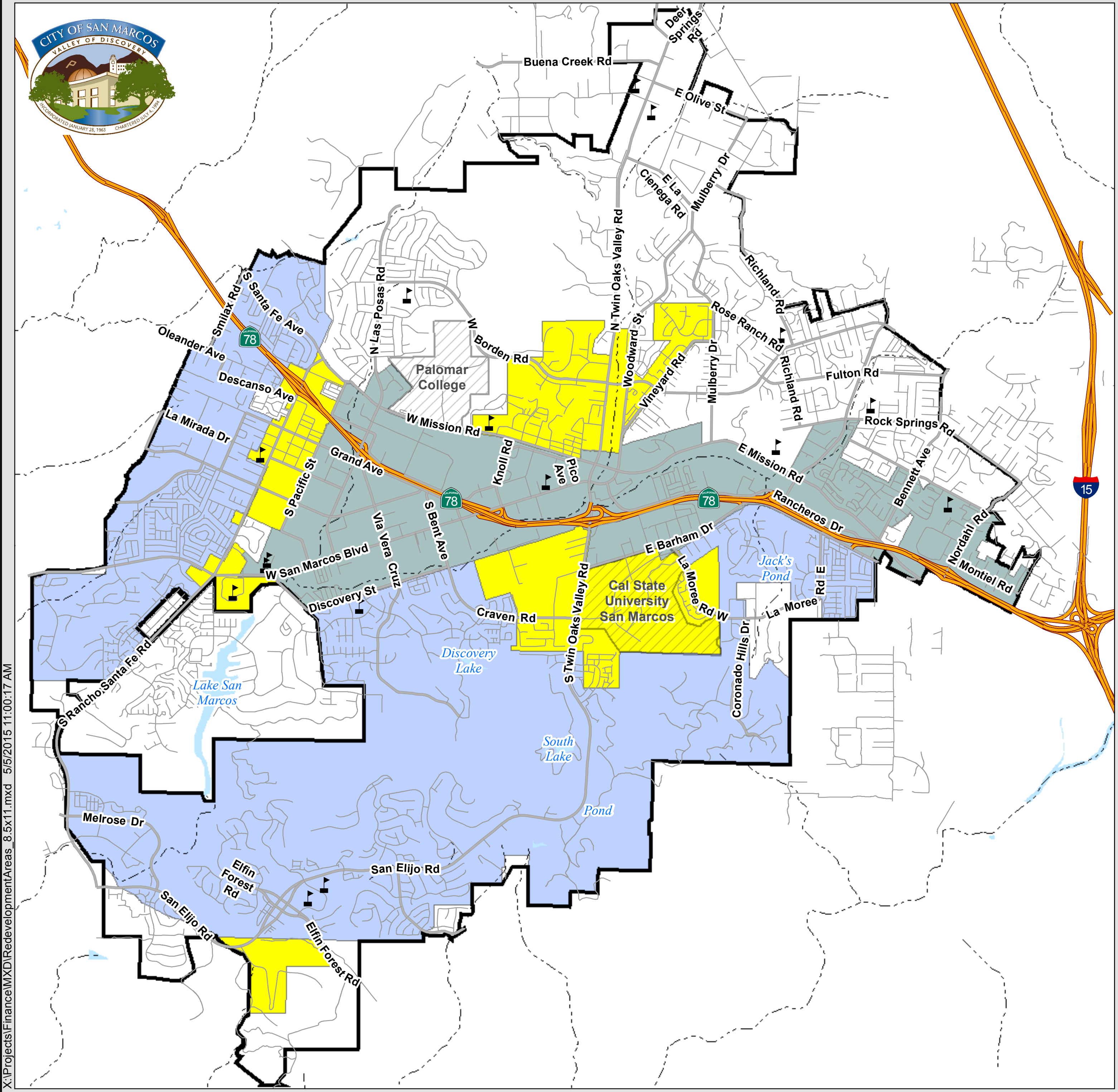
THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE AGENCY DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THE FORWARD-LOOKING STATEMENTS SET FORTH IN THIS OFFICIAL STATEMENT.

TABLE OF CONTENTS

TABLE OF CONTENTS
(continued)

TABLE OF CONTENTS
(continued)


Fallbrook
Pala
79
Warner Springs
76
Oceanside
Vista
15
San Marcos
78
Carlsbad
Escondido
Santa Ysabel
Julian
Encinitas
Poway
Ramona
Solana Beach
SAN DIEGO COUNTY
Del Mar
67
56
Mira Mesa
Santee
52
8
La Jolla
5
San Diego
125
Alpine
Pine Valley
163
El Cajon
Mission Beach
La Mesa
94
Jamul
209
Lemon Grove
Pt. Loma
54
National City
Dulzura
Coronado
75
805
Chula Vista
Imperial Beach
NORTH



City of San Marcos

REDEVELOPMENT PROJECT AREAS

Redevelopment Districts

- PROJECT AREA 1
- PROJECT AREA 2
- PROJECT AREA 3

City of San Marcos

N
W E
S

0 2,500 5,000 Feet

1 inch = 5,000 feet

Source of Data:
SanGIS, 11/2006, 04/2008
City of San Marcos, 04/2015
SANDAG, 01/2004

Created By: City of San Marcos GIS

X:\Projects\Finance\MXD\RedevelopmentAreas_8.5x11.mxd 5/5/2015 11:00:17 AM

(THIS PAGE INTENTIONALLY LEFT BLANK)

$84,710,000 SUCCESSOR AGENCY TO THE SAN MARCOS REDEVELOPMENT AGENCY TAX ALLOCATION REFUNDING BONDS, SERIES 2015A	$139,285,000 SUCCESSOR AGENCY TO THE SAN MARCOS REDEVELOPMENT AGENCY TAXABLE TAX ALLOCATION REFUNDING BONDS, SERIES 2015B

INTRODUCTION

This Official Statement is provided to furnish information in connection with the sale by the Successor Agency to the San Marcos Redevelopment Agency (the "Agency") of its Tax Allocation Refunding Bonds, Series 2015A (the "2015A Bonds") and Taxable Tax Allocation Refunding Bonds, Series 2015B (the "2015B Bonds" and, together with the 2015A Bonds, the "2015 Bonds").

General

The 2015 Bonds are being issued pursuant to the Constitution and laws of the State of California (the "State"), including the Community Redevelopment Law, being Part 1 (commencing with Section 33000) of Division 24 of the Health and Safety Code of the State (the "Law") and Article 11 (commencing with Section 53580) of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State (the "Refunding Law"). The 2015 Bonds are issued pursuant to an Indenture of Trust, dated as of July 1, 2015 (the "Indenture"), by and between the Agency and MUFG Union Bank, N.A., as trustee (the "Trustee").

Proceeds of the 2015 Bonds will be used: (i) to refund certain outstanding obligations of the Agency, as described under the caption "REFUNDING PLAN;" (ii) to purchase a municipal bond debt service reserve insurance policy (the "Reserve Policy") issued by Assured Guaranty Municipal Corp. ("AGM") for deposit in the Reserve Account in satisfaction of the Reserve Requirement, as described under the caption "SECURITY FOR THE 2015 BONDS—Deposit of Amounts by Trustee;" and (iii) to pay costs of issuance with respect to the 2015 Bonds. See the caption "ESTIMATED SOURCES AND USES OF FUNDS."

The 2015 Bonds are payable from the Pledged Tax Revenues (as such term is defined herein) on a subordinate basis to the San Marcos Redevelopment Agency Housing Set-Aside Tax Allocation Bonds, Series 2010 (Taxable) (the "Housing Bonds"), which are currently outstanding in the aggregate principal amount of $49,440,000. See the caption "SECURITY FOR THE 2015 BONDS—Additional Indebtedness" for a description of the conditions under which the Agency may issue additional obligations payable from the Pledged Tax Revenues on a parity with the 2015 Bonds ("Parity Debt" and together with the 2015 Bonds, the "Bonds").

Terms used in this Official Statement and not otherwise defined have the meanings given to them in Appendix A.

The Agency and the Project Areas

The City and the Agency. The City of San Marcos (the "City") is located in the north central part of the County of San Diego (the "County"), approximately 24 miles north of the city of San Diego and 90 miles south of the city of Los Angeles. The City, which was incorporated in 1963 and established as a charter city in 1994, has a population of approximately 90,179.

The San Marcos Redevelopment Agency (the "Former Agency"), the predecessor to the Agency, was established pursuant to the Law and was activated by Ordinance No. 73-266 adopted by the City Council on August 28, 1973. The Former Agency was charged with the authority and responsibility of redeveloping and upgrading blighted areas of the City in three designated project areas described below.

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

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

On January 10, 2012, pursuant to Resolution No. 2012-7607 and Section 34173 of the Dissolution Act, the City Council of the City elected to serve as the successor agency to the Former Agency. Subdivision (g) of Section 34173 of the Dissolution Act, which was added by AB 1484, expressly affirms that the Agency is a separate public entity from the City, that the two entities shall not merge and that the liabilities of the Former Agency will not be transferred to the City, nor will the assets of the Former Agency become assets of the City. Members of the City Council serve as both Council members and Agency members.

The Project Areas. The Redevelopment Plan for the San Marcos Redevelopment Project Area No. 1 ("Project Area No. 1") was adopted on July 12, 1983 by Ordinance No. 83-604. Project Area No. 1 encompasses approximately 2,356 acres and is located in the central business core of the City. Project Area No. 1 contains a mixture of industrial, commercial and residential parcels and vacant land. Assessed valuation of taxable property in Project Area No. 1 for the fiscal year ending June 30 ("Fiscal Year"), 2015 is $1,874,245,231, for an incremental value of $1,650,274,811 over Project Area No. 1's base year assessed valuation of $223,970,420.

The Redevelopment Plan for the San Marcos Redevelopment Project Area No. 2 ("Project Area No. 2") was adopted on July 19, 1985 by Ordinance No. 85-662. Project Area No. 2 encompasses five non-contiguous sub-areas that total approximately 1,777 acres in the western, central and southern portions of the City. Project Area No. 2 consists primarily of residential parcels and also contains a mixture of commercial, industrial, office and public uses. Assessed valuation of taxable property in Project Area No. 2 for Fiscal Year 2014-15 is $1,230,319,313, for an incremental value of $1,096,952,070 over Project Area No. 2's base year assessed valuation of $133,367,243.

The Redevelopment Plan for the San Marcos Redevelopment Project Area No. 3 ("Project Area No. 3," and together with Project Area No. 1 and Project Area No. 2, the "Project Areas") was adopted on July 11, 1989 by Ordinance No. 89-820 (together with the Redevelopment Plan for Project Area No. 1 and the Redevelopment Plan for Project Area No. 2, the "Redevelopment Plans"). Project Area No. 3 encompasses approximately 6,301 acres and is located in the southern and western portions of the City. Project Area No. 3 consists primarily of residential parcels and also contains a mixture of commercial, industrial, office and public uses. Assessed valuation of taxable property in Project Area No. 3 for Fiscal Year 2014-15 is $4,090,253,815, for an incremental value of $3,728,836,644 over Project Area No. 3's base year assessed valuation of $361,417,171.

The Redevelopment Plans for the Project Areas have been amended from time to time to adopt or modify certain plan limitations. See the captions "THE REDEVELOPMENT PLANS," "PROJECT AREA NO. 1," "PROJECT AREA NO. 2" and "PROJECT AREA NO. 3" and Appendix B for a more detailed description of all amendments to the Redevelopment Plans and the Project Areas.

Security for the 2015 Bonds

Prior to the enactment of AB X1 26, the Law authorized the financing of redevelopment projects through the issuance of bonds secured by tax increment revenues. Under this tax allocation financing method, the last equalized assessed valuation of the property within a project area prior to adoption of a redevelopment plan became the base year valuation. Assuming that the taxable valuation never drops below the base year level, the taxing agencies thereafter received that portion of the taxes produced by applying then current tax rates to the base year valuation, and the redevelopment agency was allocated the remaining portion produced by applying then current tax rates to the increase in valuation over the base year. Such incremental tax revenues allocated to a redevelopment agency were authorized to be pledged to the payment of agency obligations.

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

The Dissolution Act further provides that property tax revenues pledged to any bonds authorized under the Dissolution Act, such as the 2015 Bonds, are taxes allocated to the Agency pursuant to the provisions of the Law and the California Constitution.

Pursuant to the Dissolution Act, the 2015 Bonds are payable solely from, and are secured by, the Pledged Tax Revenues (as such term is defined below), and from amounts on deposit in the Reserve Account and other funds and accounts pledged under the Indenture. See the caption "SECURITY FOR THE 2015 BONDS—Reserve Account."

Under the Indenture, "Pledged Tax Revenues" consists of all moneys deposited from time to time in the Redevelopment Property Tax Trust Fund as provided in paragraph (2) of subdivision (a) of Section 34183 of the Health and Safety Code of the State, but excluding: (i) amounts of such taxes required to be paid by the Agency to pay Pass-Through Agreements (as discussed under the caption "SECURITY FOR THE 2015 BONDS—Pass-Through Agreements with Taxing Agencies" and in Appendix B), or pursuant to Section 33607.7 of the Law, except and to the extent that any amounts so payable are payable on a basis subordinate to the payment of the 2015 Bonds and any additional Parity Debt, as applicable; (ii) amounts deducted pursuant to Section 34183(a) of the Dissolution Act for permitted administrative costs of the County Auditor-Controller; and (iii) all other amounts which prior to the adoption of the Dissolution Act were required to be deposited into the Former Agency's Low and Moderate Income Housing Fund pursuant to Sections 33334.2, 33334.3 and 33334.6 of the Law, to the extent required to pay debt service on the Housing Bonds. If, and to the extent, that the provisions of Section 34172 or paragraph (2) of subdivision (a) of Section 34183 are invalidated by a final judicial decision, then the term "Pledged Tax Revenues" will include all tax revenues allocated to the payment of indebtedness pursuant to Health and Safety Code Section 33670, or such other section as may be in effect at the time providing for the allocation of tax increment revenues in accordance with Article XVI, Section 16 of the California Constitution, subject to the exclusions set forth above.

See the caption "SECURITY FOR THE 2015 BONDS—Additional Indebtedness" for a description of the conditions pursuant to which the Agency may issue additional obligations payable from the Pledged Tax Revenues on a parity with the 2015 Bonds. See also the captions "SECURITY FOR THE 2015 BONDS—Statutory Pass-Through Requirements," "—Pass-Through Agreements with Taxing Agencies" and "—

Developer Agreements" for a discussion of additional Agency obligations payable from tax increment revenues, and the priority of such payments, with respect to the 2015 Bonds.

The Agency has no power to levy and collect taxes, and any legislative enactment or California Constitutional amendment having the effect of reducing the property tax rate would necessarily reduce the amount of Pledged Tax Revenues available to pay the principal of and interest on the 2015 Bonds. Likewise, broadened property tax exemptions could have a similar effect. Additional factors affecting the availability of Pledged Tax Revenues are set forth under the captions "THE REDEVELOPMENT PLANS—Financial Limitations." See also the caption "RISK FACTORS AND LIMITATIONS ON PLEDGED TAX REVENUES" for other matters which may affect the collection of Pledged Tax Revenues.

Forward-Looking Statements

When used in this Official Statement and in any continuing disclosure by the Agency, in any press release and in any oral statement made with the approval of an authorized officer of the Agency or any other entity described or referenced in this Official Statement, the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," "forecast," "expect," "intend" and similar expressions identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, 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 subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties; inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material. Such forward-looking statements include, but are not limited to, certain statements contained in the information under the captions "THE REDEVELOPMENT PLANS," "PROJECT AREA NO. 1," "PROJECT AREA NO. 2," "PROJECT AREA NO. 3" and "PLEDGED TAX REVENUE PROJECTIONS AND DEBT SERVICE COVERAGE" and in Appendix B.

Continuing Disclosure

The Agency has covenanted to provide certain financial information and operating data by April 1 of each year, commencing with its report for Fiscal Year 2014-15 (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events. The Annual Report and notices of material events will be filed by the Agency with the Municipal Securities Rulemaking Board's Electronic Municipal Market Access System for municipal securities disclosures, maintained on the Internet at http://emma.msrb.org/ ("EMMA"). These covenants have been made in order to assist the Underwriters in complying with Securities Exchange Commission Rule 15c2-12(b)(5) (the "Rule"). The specific nature of the information to be contained in the Annual Report or the notices of material events by the Agency is summarized in Appendix E. See the caption "CONTINUING DISCLOSURE."

Risk Factors and Limitations on Pledged Tax Revenues

Certain events could affect the timely repayment of the principal and interest on the 2015 Bonds when due or the receipt of Pledged Tax Revenues by the Agency. See the caption "RISK FACTORS AND LIMITATIONS ON PLEDGED TAX REVENUES" for a discussion of certain factors which should be considered when investing in the 2015 Bonds.

Should legislation be introduced adversely impacting the Agency's receipt of tax increment revenues or the Agency's ability to issue the 2015 Bonds or impose additional limitations or burdens on the Agency or the City by reason of the issuance of the 2015 Bonds, the Agency has the right under the bond purchase agreement with the Underwriters to not proceed in issuing the 2015 Bonds.

Summary of Terms

Brief descriptions of the 2015 Bonds, the Indenture, the Agency, the Project Areas and the Redevelopment Plans are included in this Official Statement. Such descriptions do not purport to be comprehensive or definitive. All references in this Official Statement to the Indenture, the Law, the Refunding Law and the Constitution and laws of the State are qualified in their entirety by reference to such documents, statutes or laws, and all references to the 2015 Bonds are qualified in their entirety by reference to the form thereof included in the Indenture. Copies of the proceedings of the Agency referred to above, the Indenture and other documents described in this Official Statement are available for inspection at the offices of the Agency, One Civic Center, Second Floor, San Marcos, California 92069.

Changes since the Preliminary Official Statement

Changes have been made to this Official Statement since the Preliminary Official Statement dated June 10, 2015: (i) under the caption "RISK FACTORS AND LIMITATIONS ON PLEDGED TAX REVENUES—Property Tax Collection Procedures—Collections" to clarify that the Agency does not participate in the Teeter Plan; and (ii) under the caption "SECURITY FOR THE 2015 BONDS—Tax Increment Financing—Litigation Challenging Residual Redevelopment Property Tax Trust Fund Dispersals" to reflect updated information with respect to certain litigation.

REFUNDING PLAN

General

The Agency expects to apply a portion of the proceeds of the 2015 Bonds, together with other funds on hand, to cause the defeasance of all or a portion (as noted below) of the amounts payable pursuant to the below-listed obligations (collectively, the "Refunded Obligations") on the date of issuance of the 2015 Bonds, and to refund the Refunded Obligations on the redemption dates noted below and at the applicable redemption prices noted below.

OBLIGATIONS TO BE REFUNDED FROM 2015A BOND PROCEEDS

Obligation	*Outstanding Principal Amount*	*Principal Amount Being Refunded*	*Redemption Date*	*Redemption Price*
San Marcos Public Facilities Authority 2001 Public Improvement Refunding Revenue Bonds, Series A (Civic Center/Public Works Yard) (Tax-Exempt Portion)	$38,760,000	$35,655,000	August 1, 2015	100%
San Marcos Public Facilities Authority 2003 Tax Allocation Revenue Bonds (Project Areas No. 1, No. 2 and No. 3 Refunding and Financing Project), Series A (Tax-Exempt Portion)	53,120,000	45,150,000	August 1, 2015	100
San Marcos Public Facilities Authority 2005 Tax Allocation Revenue Bonds (Project Areas No. 1 and No. 3 Refunding Project), Series A	26,800,000	26,800,000	August 1, 2015	102

OBLIGATIONS TO BE REFUNDED FROM 2015B BOND PROCEEDS

Obligation	*Outstanding Principal Amount*	*Principal Amount Being Refunded*	*Redemption Date*	*Redemption Price*
Redevelopment Agency of the City of San Marcos Tax Allocation Bonds (1997 Affordable Housing Project), Series 1997A	$ 6,035,000	$6,035,000	July 20, 2015	100%
Redevelopment Agency of the City of San Marcos Tax Allocation Bonds (1998 Affordable Housing Project), Series 1998A	4,935,000	4,935,000	July 20, 2015	100
San Marcos Public Facilities Authority 2001 Public Improvement Refunding Revenue Bonds, Series A (Civic Center/Public Works Yard) (Taxable Portion)	38,760,000	3,105,000	August 1, 2015	100
San Marcos Public Facilities Authority 2003 Tax Allocation Revenue Bonds (Project Areas No. 1, No. 2 and No. 3 Refunding and Financing Project), Series A (Taxable Portion)	53,120,000	7,970,000	August 1, 2015	100
San Marcos Public Facilities Authority 2003 Tax Allocation Revenue Bonds (Project Area No. 1 Refunding and Financing Project), Taxable Series B	16,725,000	16,725,000	August 1, 2015	100
San Marcos Public Facilities Authority 2005 Tax Allocation Revenue Bonds (Project Area No. 1 Refunding and Financing Project), Taxable Series B	26,385,000	26,385,000	August 1, 2015	102
San Marcos Public Facilities Authority 2005 Tax Allocation Revenue Bonds (Project Areas No. 2 and No. 3 Financing Project), Series C (Taxable Portion)	50,705,000	50,705,000	August 1, 2015	100/102*
San Marcos Public Facilities Authority 2006 Tax Allocation Revenue Bonds (Project Area No. 3 Financing Project), Series A (Taxable Portion)◊	30,575,000	30,575,000	August 1, 2016	100

Under nine separate Escrow Deposit and Trust Agreements, each dated as of July 1, 2015 (each, an "Escrow Agreement" and collectively, the "Escrow Agreements"), and each by and between the Agency and the escrow banks named therein (each, an "Escrow Bank" and collectively, the "Escrow Banks"), the Agency will cause a portion of the proceeds of the 2015 Bonds to be delivered to the respective Escrow Banks on the date of issuance of the 2015 Bonds for deposit in the applicable escrow fund established under each Escrow Agreement (each, an "Escrow Fund" and collectively, the "Escrow Funds").

Proceeds of the 2015 Bonds and other moneys held in the respective Escrow Funds to redeem the applicable series of Refunded Obligations will in certain cases (as denoted by the "◊" symbol in the above

* *The 2038 term maturity of this obligation in the principal amount of $16,110,000 is subject to redemption at a price of 102%.*

tables) be invested in Federal Securities (as such term is defined in the Indenture). The Federal Securities will be scheduled to mature in such amounts and at such times and bear interest at such rates as to provide funds (together with any cash deposit) sufficient to pay the regularly scheduled principal and accrued interest on the applicable series of Refunded Obligations through August 1, 2016 and to pay the redemption price of the remaining outstanding amounts of the applicable series of Refunded Obligations on August 1, 2016.

For those series of Refunded Obligations that are not denoted by the "◊" symbol in the above tables, the amounts to be delivered by or on behalf of the Agency to the respective Escrow Banks on the date of issuance of the 2015 Bonds, together with amounts transferred from funds and accounts established in connection with the applicable series of Refunded Obligations, will be sufficient to pay the redemption price of the applicable series of Refunded Obligations on August 1, 2015 or July 20, 2015, as set forth in the above tables.

Sufficiency of the deposits in the Escrow Funds for such purposes will be verified by Grant Thornton LLP, Minneapolis, Minnesota (the "Verification Agent"). Assuming the accuracy of such computations, as a result of the deposit and application of funds as provided in the Escrow Agreement, the Refunded Obligations will be defeased pursuant to the provisions of the indentures under which they were issued as of the date of issuance of the 2015 Bonds.

The amounts held by the respective Escrow Banks in each Escrow Fund are pledged solely to the redemption of the applicable series of outstanding Refunded Obligations. Neither the moneys deposited in the Escrow Funds nor the interest on the invested moneys will be available for the payments of principal of and interest on the 2015 Bonds.

Verification of Mathematical Computations

Upon issuance of the 2015 Bonds, the Verification Agent will deliver a report on the mathematical accuracy of certain computations based upon certain information and assertions provided to it by the Underwriters relating to: (a) the adequacy of the cash and/or the maturing principal of and interest on the Federal Securities to be deposited in the respective Escrow Funds to pay the respective redemption price of the applicable series of Refunded Obligations; and (b) the computations of yield on the 2015A Bonds and the Federal Securities which support Bond Counsel's opinion that the interest on the 2015A Bonds is excluded from gross income for federal income tax purposes.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds are summarized as follows:

Sources[1]:	***2015A Bonds***	***2015B Bonds***	***Total***
Principal Amount of Bonds	$ 84,710,000	$ 139,285,000	$ 223,995,000
Other Moneys[2]	14,398,144	14,788,707	29,186,851
Plus Original Issue Premium	12,381,067	-	12,381,067
Less Net Original Issue Discount	-	(747,191)	(747,191)
Total Sources:	**$ 111,489,211**	**$ 153,326,516**	**$ 264,815,727**
Uses[1]**:**			
Tax-Exempt Refunded Obligations Escrow Fund Deposits	$ 110,778,142	$ -	$ 110,778,142
Taxable Refunded Obligations Escrow Fund Deposits	-	152,130,285	152,130,285
Reserve Surety Premium	101,528	166,937	268,465
Costs of Issuance Fund[3]	609,541	1,029,294	1,638,835
Total Uses:	**$ 111,489,211**	**$ 153,326,516**	**$ 264,815,727**

(1) Amounts rounded to nearest dollar.
(2) Includes moneys held in funds and accounts established in connection with the Refunded Obligations.
(3) Includes fees and expenses of Bond Counsel, Disclosure Counsel, Financial Advisor, Fiscal Consultant, Trustee, Escrow Agent, Underwriters' counsel and Verification Agent, printing expenses, rating agency fees, Underwriters' discount and other miscellaneous costs.

THE 2015 BONDS

Authority for Issuance

Pursuant to resolutions of the Agency and the Oversight Board for the Agency adopted on April 14, 2015, and June 9, 2015, and on April 16, 2015, respectively, the Agency and the Oversight Board authorized the issuance of the 2015 Bonds pursuant to the Indenture and the Law.

Description of the 2015 Bonds

The 2015 Bonds will be issued only as registered bonds without coupons in denominations of $5,000 or any integral multiple thereof. The 2015 Bonds will be dated the date of their delivery, will mature on October 1 in the years and in the respective principal amounts, and will bear interest at the respective rates per annum, all as set forth on the inside front cover hereof. Interest on the 2015 Bonds will be paid on October 1, 2015 and each April 1 and October 1 thereafter (each, an "Interest Payment Date"). Interest on the 2015 Bonds will be payable on each Interest Payment Date to the person whose name appears on the Registration Books as the Owner thereof as of the Record Date immediately preceding each such Interest Payment Date, such interest to be paid by check of the Trustee mailed by first class mail, postage prepaid, on each Interest Payment Date to the Owner at the address of such Owner as it appears on the Registration Books as of the preceding Record Date; provided however, that payment of interest may be by wire transfer to an account in the United States of America to any Owner of 2015 Bonds of the same series in the aggregate amount of $1,000,000 or more who furnishes written instructions to the Trustee before the applicable Record Date. Any such written instructions will remain in effect until rescinded in writing by the Owner. Principal of and premium (if any) on any 2015 Bond will be paid upon presentation and surrender thereof, at maturity or the prior redemption thereof, at the Office of the Trustee and will be payable in lawful money of the United States of America

Each 2015 Bond bears interest (calculated on the basis of a 360-day year consisting of twelve 30-day months) from the Interest Payment Date next preceding the date of authentication thereof, unless: (a) it is authenticated after a Record Date and on or before the following Interest Payment Date, in which event it will bear interest from such Interest Payment Date; or (b) unless it is authenticated on or before October 1, 2015, in which event it will bear interest from the date of issuance of the 2015 Bonds; *provided, however*, that if, as of the date of authentication of any 2015 Bond, interest thereon is in default, such 2015 Bond will bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon.

Redemption

Optional Redemption.

2015A Bonds. The 2015A Bonds maturing on or before October 1, 2025, are not subject to optional redemption prior to maturity. The 2015A Bonds maturing on and after October 1, 2026, are subject to redemption, at the option of the Agency on any date on or after October 1, 2025, as a whole or in part, by such maturities as determined by the Agency, and by lot within a maturity, from any available source of funds, at a redemption price equal to the principal amount of the 2015A Bonds to be redeemed, together with accrued interest thereon to the date fixed for redemption, without premium.

2015B Bonds. The 2015B Bonds maturing on or before October 1, 2025, are not subject to optional redemption prior to maturity. The 2015B Bonds maturing on and after October 1, 2026, other than the Term 2015B Bonds maturing on October 1, 2029, which are not subject to optional redemption prior to maturity, are subject to redemption, at the option of the Agency on any date on or after October 1, 2025, as a whole or in part, by such maturities as determined by the Agency, and by lot within a maturity, from any available source of funds, at a redemption price equal to the principal amount of the 2015B Bonds to be redeemed, together with accrued interest thereon to the date fixed for redemption, without premium.

Mandatory Sinking Fund Redemption.

The 2015B Bonds maturing on October 1, 2024, October 1, 2027, October 1, 2029, October 1, 2034 and October 1, 2038 are subject to redemption in whole, or in part by lot, on October 1 in each of the years as set forth below, from Sinking Account payments made by the Agency pursuant to the Indenture, at a redemption price equal to the principal amount thereof to be redeemed together with accrued interest thereon to the redemption date, without premium, or in lieu thereof will be purchased pursuant to the Indenture, in the aggregate respective principal amounts and on the respective dates as set forth below; provided, however, that if some but not all of such 2015B Bonds have been redeemed pursuant to optional redemption provisions of the Indenture, the total amount of all future Sinking Account payments pursuant to the Indenture with respect to such 2015B Bonds will be reduced by the aggregate principal amount of such 2015B Bonds so redeemed, to be allocated among such Sinking Account payments on a pro rata basis in integral multiples of $5,000 as determined by the Agency (written notice of which determination will be given by the Agency to the Trustee).

2015B Term Bonds Maturing October 1, 2024

Payment Dates (October 1)	***Amount***
2023	$ 5,965,000
2024 (maturity)	6,185,000

2015B Term Bonds Maturing October 1, 2027

Payment Dates (October 1)	*Amount*
2026	$ 6,580,000
2027 (maturity)	6,835,000

2015B Term Bonds Maturing October 1, 2029

Payment Dates (October 1)	*Amount*
2028	$ 6,585,000
2029 (maturity)	6,455,000

2015B Term Bonds Maturing October 1, 2034

Payment Dates (October 1)	*Amount*
2030	$ 6,015,000
2031	6,310,000
2032	6,370,000
2033	6,665,000
2034 (maturity)	5,640,000

2015B Term Bonds Maturing October 1, 2038

Payment Dates (October 1)	*Amount*
2035	$ 8,060,000
2036	8,460,000
2037	4,390,000
2038 (maturity)	4,610,000

In lieu of redemption of the 2015 Bonds pursuant to the Indenture, amounts on deposit in the Debt Service Fund (to the extent not required to be transferred by the Trustee pursuant to the Indenture during the current Bond Year) may also be used and withdrawn at the direction of the Agency at any time for the purchase of such 2015 Bonds at public or private sale as and when and at such prices (including brokerage and other charges and including accrued interest) as the Agency may in its discretion determine. The par amount of any of such 2015 Bonds so purchased by the Agency in any twelve-month period ending on July 1 in any year will be credited towards and will reduce the par amount of such 2015 Bonds required to be redeemed pursuant to the mandatory sinking fund provisions of the Indenture on the next succeeding October 1.

Notice of Redemption; Rescission. Subject to the Indenture, the Trustee on behalf and at the expense of the Agency will mail (by first class mail, postage prepaid) notice of any redemption, at least 30 but not more than 60 days prior to the redemption date, to: (i) the Owners of any 2015 Bonds designated for redemption at their respective addresses appearing on the Registration Books; and (ii) the Securities Depositories and to one or more Information Services designated in a Request of the Agency delivered to the Trustee (by any means acceptable to such depositories and services in substitution of first class mail); provided, however, that such mailing is not a condition precedent to such redemption and neither failure to receive any such notice nor any defect therein will affect the validity of the proceedings for the redemption of such 2015 Bonds or the cessation of the accrual of interest thereon. Such notice will state the redemption date and the redemption price, will, if applicable, designate the CUSIP number of the 2015 Bonds to be redeemed, will state the individual number of each 2015 Bond to be redeemed or state that all 2015 Bonds between two stated numbers (both inclusive) or state that all of the 2015 Bonds Outstanding of one or more maturities are to be redeemed, and require that such 2015 Bonds be then surrendered at the Office of the Trustee for redemption at the said redemption price, giving notice also that further interest on the 2015 Bonds to be redeemed will not accrue from and after the date fixed for redemption.

The Agency has the right to rescind any optional redemption by written notice to the Trustee on or prior to the date fixed for redemption. Any such notice of optional redemption will be canceled and annulled if for any reason funds will not be or are not available on the date fixed for redemption for the payment in full of the 2015 Bonds then called for redemption, and such cancellation will not constitute an Event of Default under the Indenture. The Agency and the Trustee have no liability to the Owners or any other party related to or arising from such rescission of redemption. The Trustee will mail notice of such rescission of redemption in the same manner as the original notice of redemption was sent.

Partial Redemption of 2015 Bonds. In the event that only a portion of any 2015 Bond is called for redemption, then upon surrender thereof the Agency will execute and the Trustee will authenticate and deliver to the Owner thereof, at the expense of the Agency, a new 2015 Bond or Bonds of the same interest rate and maturity, of authorized denominations in aggregate principal amount equal to the unredeemed portion of the 2015 Bond to be redeemed.

Effect of Redemption. From and after the date fixed for redemption, if funds available for the payment of the principal of and interest (and premium, if any) on the 2015 Bonds so called for redemption have been duly deposited with the Trustee, such 2015 Bonds so called will cease to be entitled to any benefit under the Indenture other than the right to receive payment of the redemption price and accrued interest to the redemption date, and no interest will accrue thereon from and after the redemption date specified in such notice.

Manner of Redemption. Whenever provision is made in the Indenture for the redemption of less than all of the maturity of the 2015 Bonds, the Trustee will select the 2015 Bonds of such maturity to be redeemed by lot in any manner which the Trustee in its sole discretion deems appropriate and fair. For purposes of such selection, all 2015 Bonds will be deemed to be comprised of separate $5,000 denominations and such separate denominations will be treated as separate 2015 Bonds that may be separately redeemed.

Book-Entry System

The Depository Trust Company ("DTC") will act as securities depository for the 2015 Bonds. The 2015 Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered bond will be issued for each maturity of the 2015 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. See Appendix F for further information with respect to DTC and its book entry system.

The Agency and the Trustee cannot and do not give any assurances that DTC, DTC Participants or others will distribute payments of principal, interest or premium with respect to the 2015 Bonds paid to DTC or its nominee as the registered owner, or will distribute any redemption notices or other notices, to the Beneficial Owners, or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. The Agency and the Trustee are not responsible or liable for the failure of DTC or any DTC Participant to make any payment or give any notice to an Owner with respect to the 2015 Bonds or an error or delay relating thereto.

Debt Service Schedule

The following table sets forth the debt service with respect to the 2015 Bonds for each Bond Year ending on October 1:

Year (Amount Payable as of October 1)	*2015A Bonds*			*2015B Bonds*			
	Principal	***Interest***	***Debt Service***	***Principal***	***Interest***	***Debt Service***	***Total Debt Service***
2015	$ -	$ 871,404.72	$ 871,404.72	$ -	$ 1,181,426.61	$ 1,181,426.61	$ 2,052,831.33
2016	3,175,000.00	4,074,100.00	7,249,100.00	5,125,000.00	5,523,552.96	10,648,552.96	17,897,652.96
2017	3,245,000.00	4,010,600.00	7,255,600.00	5,160,000.00	5,467,690.46	10,627,690.46	17,883,290.46
2018	3,370,000.00	3,880,800.00	7,250,800.00	5,245,000.00	5,388,226.46	10,633,226.46	17,884,026.46
2019	3,510,000.00	3,746,000.00	7,256,000.00	5,350,000.00	5,279,130.46	10,629,130.46	17,885,130.46
2020	3,700,000.00	3,570,500.00	7,270,500.00	5,460,000.00	5,145,380.46	10,605,380.46	17,875,880.46
2021	3,895,000.00	3,385,500.00	7,280,500.00	5,630,000.00	4,983,491.40	10,613,491.40	17,893,991.40
2022	4,085,000.00	3,190,750.00	7,275,750.00	5,780,000.00	4,814,591.40	10,594,591.40	17,870,341.40
2023	4,305,000.00	2,986,500.00	7,291,500.00	5,965,000.00	4,626,741.40	10,591,741.40	17,883,241.40
2024	4,080,000.00	2,771,250.00	6,851,250.00	6,185,000.00	4,396,134.50	10,581,134.50	17,432,384.50
2025	4,300,000.00	2,567,250.00	6,867,250.00	6,410,000.00	4,157,022.40	10,567,022.40	17,434,272.40
2026	4,920,000.00	2,352,250.00	7,272,250.00	6,580,000.00	3,899,596.80	10,479,596.80	17,751,846.80
2027	5,170,000.00	2,106,250.00	7,276,250.00	6,835,000.00	3,636,396.80	10,471,396.80	17,747,646.80
2028	5,440,000.00	1,847,750.00	7,287,750.00	6,585,000.00	3,362,996.80	9,947,996.80	17,235,746.80
2029	5,705,000.00	1,575,750.00	7,280,750.00	6,455,000.00	3,068,910.70	9,523,910.70	16,804,660.70
2030	6,645,000.00	1,290,500.00	7,935,500.00	6,015,000.00	2,780,630.40	8,795,630.40	16,731,130.40
2031	6,985,000.00	958,250.00	7,943,250.00	6,310,000.00	2,488,782.60	8,798,782.60	16,742,032.60
2032	4,615,000.00	609,000.00	5,224,000.00	6,370,000.00	2,182,621.40	8,552,621.40	13,776,621.40
2033	4,860,000.00	378,250.00	5,238,250.00	6,665,000.00	1,873,549.00	8,538,549.00	13,776,799.00
2034	2,705,000.00	135,250.00	2,840,250.00	5,640,000.00	1,550,163.20	7,190,163.20	10,030,413.20
2035	-	-	-	8,060,000.00	1,276,510.40	9,336,510.40	9,336,510.40
2036	-	-	-	8,460,000.00	873,349.20	9,333,349.20	9,333,349.20
2037	-	-	-	4,390,000.00	450,180.00	4,840,180.00	4,840,180.00
2038	-	-	-	4,610,000.00	230,592.20	4,840,592.20	4,840,592.20
Total	$ 84,710,000.00	$ 46,307,904.72	$ 131,017,904.72	$ 139,285,000.00	$ 78,637,668.01	$ 217,922,668.01	$ 348,940,572.73

Source: Stifel, Nicolaus & Company, Incorporated.

SECURITY FOR THE 2015 BONDS

General

Pursuant to Section 34177.5(g) of the Dissolution Act, except as provided in the Indenture, the 2015 Bonds and all Parity Debt will be equally secured by a pledge of, security interest in and lien on all of the Pledged Tax Revenues (as such term is defined under the caption "INTRODUCTION—Security for the 2015 Bonds"). In addition, the 2015 Bonds, and any other Parity Debt, will, subject to the Indenture, be secured by a first and exclusive pledge of, security interest in and lien upon all of the moneys in the Debt Service Fund, the Interest Account, the Principal Account, the Sinking Account, the Redemption Account and the Reserve Account. Such pledge, security interest in and lien will be for the equal security of the Outstanding Bonds without preference or priority for series, issue, number, dated date, sale date, date of execution or date of delivery. Except for the Pledged Tax Revenues and such moneys, no funds of the Agency are pledged to, or otherwise liable for, the payment of principal of or interest or redemption premium (if any) on the Bonds. See the caption "—Additional Indebtedness."

The Dissolution Act requires the County Auditor-Controller to determine the amount of property taxes that would have been allocated to the Former Agency (pursuant to subdivision (b) of Section 16 of Article XVI of the California Constitution) had the Former Agency not been dissolved pursuant to the operation of AB X1 26, using current assessed values on the last equalized roll, and to deposit such amount in the Redevelopment Property Tax Trust Fund for the Agency established and held by the County Auditor-Controller pursuant to the Dissolution Act. Section 34177.5(g) of the Dissolution Act provides that any bonds authorized thereunder to be issued by the Agency will be considered indebtedness incurred by the dissolved Former Agency, with the same legal effect as if the bonds had been issued prior to the effective date of AB X1 26, in full conformity with the applicable provision of the Law that existed prior to that date, will be included in the Agency's Recognized Obligation Payment Schedule and will be secured by a pledge of, and lien on, and will be repaid from moneys deposited from time to time in the Redevelopment Property Tax Trust Fund established pursuant to the Dissolution Act. Property tax revenues pledged to any bonds authorized to be issued by the Agency under the Dissolution Act, including the 2015 Bonds, are taxes allocated to the Agency pursuant to subdivision (b) of Section 33670 of the Law and Section 16 of Article XVI of the California Constitution. See Appendix A and the caption "—Recognized Obligation Payment Schedule."

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

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

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

That portion of the levied taxes described in paragraph (b) above, less amounts deducted pursuant to Section 34183(a) of the Dissolution Act for permitted administrative costs of the County Auditor-Controller constitutes the amount required under the Dissolution Act to be deposited by the County Auditor-Controller into the Redevelopment Property Tax Trust Fund. In addition, Section 34183 of the Dissolution Act effectively eliminates the January 1, 1989, date referred to in paragraph (b) above.

On a subordinate basis to the Housing Bonds (as described under the caption "—Senior Obligations"), the 2015 Bonds are payable from and secured by deposits into the Redevelopment Property Tax Trust Fund to be derived from the Project Areas.

The Agency has no power to levy and collect taxes, and various factors beyond its control could affect the amount of Pledged Tax Revenues available in any six-month period to pay the principal of and interest on the 2015 Bonds. See the captions "—Tax Increment Financing," "—Recognized Obligation Payment Schedule," and "RISK FACTORS AND LIMITATIONS ON PLEDGED TAX REVENUES."

In consideration of the acceptance of the 2015 Bonds by those who hold the same from time to time, the Indenture will be deemed to be and will constitute a contract between the Agency and the Owners from time to time of the 2015 Bonds, and the covenants and agreements therein set forth to be performed on behalf of the Agency will be for the equal and proportionate benefit, security and protection of all Owners of the 2015 Bonds without preference, priority or distinction as to security or otherwise of any of the 2015 Bonds over any of the others by reason of the number or date thereof or the time of sale, execution and delivery thereof, or otherwise for any cause whatsoever, except as expressly provided therein.

Limited Obligations

The 2015 Bonds are not a debt of the City, the County, the State, or any of its political subdivisions, other than the Agency, and neither said City, said County, said State, nor any of its political subdivisions, is liable thereon, nor in any event will the 2015 Bonds be payable out of any funds or properties other than the Pledged Tax Revenues. The principal of, premium, if any, and interest on the 2015 Bonds are payable solely from the Pledged Tax Revenues and all funds and accounts pledged under the Indenture. The Agency's obligations under the Indenture are a limited obligation payable solely from Pledged Tax Revenues allocated to the Agency and from other amounts pledged under the Indenture. The 2015 Bonds do not constitute an indebtedness within the meaning of any constitutional debt limit or restriction.

Pledged Tax Revenues

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

Redevelopment Obligation Retirement Fund; Deposit of Tax Revenues

There has been established a special trust fund known as the "Redevelopment Obligation Retirement Fund," which will be held by the Agency pursuant to Section 34170.5(b) of the Dissolution Act. There has been established a special trust fund known as the "Debt Service Fund" and the accounts therein referred to below which will be held by the Trustee in accordance with the Indenture.

The Agency will take all actions required under the Dissolution Act to include the below-listed amounts in each Recognized Obligation Payment Schedule to be submitted after the effective date of the Indenture:

(i) the interest payment coming due with respect to the Outstanding Bonds during such Recognized Obligation Payment Schedule Period;

(ii) for the Recognized Obligation Payment Schedule which covers payment from January through June of any calendar year, at least one-half of the principal amount coming due with respect to the Bonds on October 1 of such calendar year (the "Principal Reserve");

(iii) for the Recognized Obligation Payment Schedule which covers payments from July through December of any calendar year, an amount equal to the principal amount coming due on October 1 of such calendar year, less the Principal Reserve already received in connection with the immediately prior Recognized Obligation Payment Schedule and deposited with the Trustee; and

(iv) any amount required under the Indenture to replenish the Reserve Account, if required pursuant to the Indenture (and any provision amendatory thereto as set forth in supplement indentures).

The Agency will deposit all of the Pledged Tax Revenues received from each distribution of Pledged Tax Revenues in any Bond Year commencing on the first day of such Bond Year from the Redevelopment Property Tax Trust Fund in accordance with the Dissolution Act for the purpose of paying debt service on the 2015 Bonds and any Parity Debt in the Redevelopment Obligation Retirement Fund immediately upon receipt thereof by the Agency, and promptly thereafter will transfer amounts therein to the Trustee for deposit in the Debt Service Fund established and held under the Indenture until such time that the aggregate amounts on deposit in such Debt Service Fund equal the aggregate amounts required to be deposited into the Interest Account, the Principal Account and the Reserve Account in each six month period of such Bond Year pursuant to the Indenture and for deposit in each such six month period of each Bond Year in the funds and accounts established with respect to Parity Bonds, as provided in any Supplemental Indenture.

Deposit of Amounts by Trustee

Moneys in the Debt Service Fund will be transferred in the following amounts at the following times, in the following respective special accounts within the Debt Service Fund, which accounts have been established with the Trustee to pay debt service on the 2015 Bonds and any Parity Debt not otherwise provided for in a Parity Debt Instrument, in the following order of priority:

(a) Interest Account. On or before the fourth Business Day preceding each date on which interest on the 2015 Bonds and any such Parity Debt becomes due and payable, the Trustee will withdraw from the Debt Service Fund and transfer to the Interest Account an amount which, when added to the amount then on deposit in the Interest Account, will be equal to the aggregate amount of the interest becoming due and payable on the Outstanding 2015 Bonds and any such Parity Debt on such date. No such transfer and deposit need be made to the Interest Account if the amount contained therein is at least equal to the interest to become due on the Interest Payment Date upon all of the Outstanding 2015 Bonds and any such Parity Debt. All moneys in the Interest Account will be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Bonds as it becomes due and payable (including accrued interest on any 2015 Bonds and any such Parity Debt purchased or redeemed prior to maturity pursuant to this Indenture).

(b) Principal Account. On or before the fourth Business Day preceding each date on which principal of the 2015 Bonds and any such Parity Debt becomes due and payable at maturity, the Trustee will withdraw from the Debt Service Fund and transfer to the Principal Account an amount which, when added to the amount then on deposit in the Principal Account, will be equal to the amount of principal coming due and payable on such date on the Outstanding 2015 Bonds and any such Parity Debt. All moneys in the Principal Account will be used and withdrawn by the Trustee solely for the purpose of paying the principal of the 2015 Bonds and any such Parity Debt upon the maturity thereof.

(c) Sinking Account. On or before the fourth Business Day preceding each date on which any Outstanding 2015 Term Bonds become subject to mandatory Sinking Account redemption, the Agency will withdraw from the Debt Service Fund and transfer to the Trustee for deposit in the Sinking Account an amount which, when added to the amount then contained in the Sinking Account, will be equal to the aggregate principal amount of the 2015 Term Bonds required subject to mandatory Sinking Account redemption on such date. All moneys on deposit in the Sinking Account will be used and withdrawn by the Trustee for the sole purpose of paying the principal of the 2015 Term Bonds as it becomes due and payable upon the mandatory Sinking Account redemption thereof.

(d) Reserve Account. There has been established in the Debt Service Fund a separate account known as the "Reserve Account" solely as security for payments payable by the Agency pursuant to the Indenture and pursuant to any other Parity Debt Instrument, which will be held by the Trustee in trust for the benefit of the Owners of the Bonds and any Parity Debt. The Reserve Requirement for the 2015 Bonds will be satisfied by the delivery of the Reserve Policy by AGM on the Closing Date with respect to the 2015 Bonds. The Agency will have no obligation to replace the Reserve Policy or to fund the Reserve Account with cash if, at any time that the 2015 Bonds are Outstanding, amounts are not available under the Reserve Policy other than in connection with a draw on the Reserve Policy.

The term "Reserve Requirement" means, with respect to the 2015 Bonds, as of any calculation date, the least of: (i) 10% of the original principal amount of the 2015 Bonds; (ii) Maximum Annual Debt Service with respect to the 2015 Bonds; or (iii) 125% of average Annual Debt Service on the 2015 Bonds; provided further that: (1) the Reserve Requirement with respect to the 2015A Bonds and the 2015B Bonds will be calculated on a combined basis, provided that, in the event that the Reserve Requirement for the 2015A Bonds and the 2015B Bonds is funded with cash, the Trustee will establish separate subaccounts for the proceeds of the 2015A Bonds and the 2015B Bonds to enable the Trustee to track the investment of the proceeds of the 2015A Bonds and the 2015B Bonds; and (2) the Agency may meet all or a portion of the Reserve Requirement by depositing a Credit Facility meeting the requirements of the Indenture.

The Reserve Account may be maintained in the form of one or more separate sub-accounts which are established for the purpose of securing separate series of 2015 Bonds or Parity Debt or for holding the proceeds of separate issues of the 2015 Bonds and any Parity Debt in conformity with applicable provisions of the Code to the extent directed by the Agency in writing to the Trustee. Additionally, the Agency may, in its discretion, combine amounts on deposit in the Reserve Account and on deposit in any reserve account relating to any (but not necessarily all) Parity Debt in order to maintain a combined reserve account for the Bonds and any (but not necessarily all) Parity Debt.

(e) Redemption Account. On or before the Business Day preceding any date on which Bonds are subject to redemption, other than mandatory Sinking Account redemption of 2015 Term Bonds, the Trustee will withdraw from the Debt Service Fund for deposit in the Redemption Account an amount required to pay the principal of and premium, if any, on the 2015 Bonds or other Parity Debt to be so redeemed on such date. The Trustee will also deposit in the Redemption Account any other amounts received by it from the Agency designated by the Agency in writing to be deposited in the Redemption Account. All moneys in the Redemption Account will be used and withdrawn by the Trustee solely for the purpose of paying the principal of and premium, if any, on the 2015 Bonds or other Parity Debt upon the redemption thereof, on the date set for such redemption, other than mandatory Sinking Account redemption of Term Bonds.

(f) Equal Rights. It is the intention of the Agency that the 2015 Bonds and Parity Debt be secured by and payable from all moneys deposited in the Redevelopment Obligation Retirement Fund on an equal basis but subordinate to the Housing Bonds. To the extent that moneys deposited in the Redevelopment Obligation Retirement Fund are insufficient to pay debt service on the 2015 Bonds and Parity Debt as it becomes due, the 2015 Bonds and Parity Debt will be payable on a pro-rata basis from all available moneys deposited in the Redevelopment Obligation Retirement Fund.

In the event that the Agency fails to make the deposits required pursuant to the Indenture above, the Trustee will immediately notify the Agency.

Tax Increment Financing

General. Prior to the enactment of AB X1 26, the Law authorized the financing of redevelopment projects through the use of tax increment revenues. This method provided that the taxable valuation of the property within a redevelopment project area on the property tax roll last equalized prior to the effective date of the ordinance which adopts the redevelopment plan became the base year valuation. Assuming that the taxable valuation never dropped below the base year level, the taxing agencies thereafter received that portion of the taxes produced by applying then current tax rates to the base year valuation, and the redevelopment agency was allocated the remaining portion produced by applying then current tax rates to the increase in valuation over the base year. Such incremental tax revenues allocated to a redevelopment agency were authorized to be pledged to the payment of agency obligations.

The Dissolution Act authorizes refunding bonds, including the 2015 Bonds, to be secured by a pledge of moneys deposited from time to time in the Redevelopment Property Tax Trust Fund, which are equivalent to the tax increment revenues that were formerly allocated under the Law to the redevelopment agency and formerly authorized under the Law to be used for the financing of redevelopment projects, less amounts deducted pursuant to Section 34183(a) of the Dissolution Act for permitted administrative costs of the county auditor-controller. Under the Indenture, Pledged Tax Revenues consist of the amounts deposited from time to time in the Redevelopment Property Tax Trust Fund established pursuant to and as provided in the Dissolution Act less amounts payable on the Housing Bonds, Pass-Through Agreements and Statutory Pass-Through Amounts (as such term is defined under the caption "—Tax Sharing") and less amounts deducted for permitted administrative costs of the County Auditor-Controller. See the caption "INTRODUCTION—Security for the 2015 Bonds" for a detailed definition of Pledged Tax Revenues.

Successor agencies have no power to levy property taxes and must look specifically to the allocation of taxes as described above. See the caption "RISK FACTORS AND LIMITATIONS ON PLEDGED TAX REVENUES."

Prior to the dissolution of redevelopment agencies, tax increment revenues from one project area could not be used to repay indebtedness incurred for another project area. However, the Dissolution Act requires only that county auditor-controllers establish a single Redevelopment Property Tax Trust Fund with respect to each former redevelopment agency within the respective county. Additionally, the Dissolution Act now requires that all revenues equivalent to the amount that would have been allocated as tax increment to the former redevelopment agency will be allocated to the Redevelopment Property Tax Trust Fund of the applicable successor agency, and this requirement does not require funds derived from separate project areas of a former redevelopment agency to be separated. In effect, in situations where a former redevelopment agency had established more than one redevelopment project area (as did the Former Agency), the Dissolution Act combines the property tax revenues derived from all project areas into a *single trust fund*, the Redevelopment Property Tax Trust Fund, to repay indebtedness of the former redevelopment agency or the successor agency. To the extent that the documents governing outstanding bonds of a redevelopment agency have pledged revenues derived from a specific project area, the Dissolution Act states that "It is the intent ... that pledges of revenues associated with enforceable obligations of the former redevelopment agencies are to be honored. It is intended that the cessation of any redevelopment agency shall not affect either the pledge, the legal existence of that pledge, or the stream of revenues available to meet the requirements of the pledge." The Agency believes that, subject to the prior claim or lien of the Housing Bonds, all of the tax increment revenues from all Project Areas will secure all of the 2015 Bonds.

Tax Sharing. The Law authorized redevelopment agencies to make payments to school districts and other taxing agencies to alleviate any financial burden or detriments to such taxing agencies caused by a redevelopment project. The Former Agency entered into several agreements for this purpose (the "Pass-Through Agreements"). Additionally, Sections 33607.5 and 33607.7 of the Law required mandatory tax sharing applicable to redevelopment projects adopted after January 1, 1994, or amended thereafter in certain manners specified in such statutes (the "Statutory Pass-Through Amounts"). The Dissolution Act requires county auditor-controllers to distribute from the Redevelopment Property Tax Trust Fund amounts required to be distributed under the Pass-Through Agreements and for Statutory Pass-Through Amounts to the taxing entities for each six-month period before amounts are distributed by the County Auditor-Controller from the Redevelopment Property Tax Trust Fund to the Agency's Redevelopment Obligation Retirement Fund each January 2 and June 1, unless: (i) pass-through payment obligations have previously been made subordinate to debt service payments for the bonded indebtedness of the Former Agency, as succeeded to by the Agency; (ii) the Agency has reported, no later than the December 1 and May 1 preceding the January 2 or June 1 distribution date, that the total amount available to the Agency from the Redevelopment Property Tax Trust Fund allocation to the Agency's Redevelopment Obligation Retirement Fund, from other funds transferred from the Former Agency and from funds that have or will become available through asset sales and all redevelopment operations is insufficient to fund the Agency's enforceable obligations, pass-through payments and the Agency's administrative cost allowance for the applicable six-month period; and (iii) the State Controller has concurred with the Agency that there are insufficient funds for such purposes for the applicable six-month period.

If the requirements set forth in clauses (i) through (iii) of the foregoing paragraph have been met, the Dissolution Act provides for certain modifications in the distributions otherwise calculated to be distributed for such six-month period. To provide for calculated shortages to be paid to the Agency for enforceable obligations, the amount of the deficiency will first be deducted from the residual amount otherwise calculated to be distributed to the taxing entities under the Dissolution Act after payment of the Agency's enforceable obligations, pass-through payments and the Agency's administrative cost allowance. If such residual amount is exhausted, the amount of the remaining deficiency will be deducted from amounts available for distribution to the Agency for administrative costs for the applicable six-month period in order to fund the enforceable obligations. Finally, funds required for servicing bond debt may be deducted from the amounts to be distributed under Pass-Through Agreements and for Statutory Pass-Through Amounts, in order to be paid to the Agency for enforceable obligations, but only after the amounts described in the previous two sentences have been exhausted. The Dissolution Act provides for a procedure by which the Agency may make Statutory Pass-Through Amounts subordinate to the 2015 Bonds. The Agency has not undertaken the requisite procedures to obtain such subordination of the Statutory Pass-Through Amounts and, therefore, Statutory Pass-Through Amounts are not subordinate to the Bonds. See the caption "THE REDEVELOPMENT PLANS." Certain of the Pass-Through Agreements have not been subordinated and constitute Senior Obligations. See the captions "PROJECT AREA NO. 1—Pass-Through Agreements," "PROJECT AREA NO. 2—Pass-Through Agreements" and "PROJECT AREA NO. 3—Pass-Through Agreements." The Agency cannot guarantee that the process prescribed by the Dissolution Act for administering the tax increment revenues will effectively result in adequate Pledged Tax Revenues for the payment of principal and interest on the 2015 Bonds when due. See the caption "—Recognized Obligation Payment Schedule." See also the caption "THE REDEVELOPMENT PLANS" for additional information regarding the Pass-Through Agreements and the Statutory Pass-Through Amounts applicable to the Agency and the revenues derived from the Project Areas.

The Agency has no power to levy and collect taxes, and any provision of law limiting property taxes or allocating additional sources of income to taxing agencies and having the effect of reducing the property tax rate must necessarily reduce the amount of Pledged Tax Revenues that would otherwise be available to pay debt service on the 2015 Bonds. Likewise, broadened property tax exemptions could have a similar effect. Additionally, Pledged Tax Revenues will be reduced each year by a collection fee charged by the County. See the caption "RISK FACTORS AND LIMITATIONS ON PLEDGED TAX REVENUES—Tax Collection Fees."

Elimination of Housing Set-Aside. Before the dissolution of the Former Agency, the Law required the Former Agency to set aside not less than 20% of the gross tax increment with respect to the Project Areas, i.e., the Housing Set-Aside, in the Low and Moderate Income Housing Fund to be expended for low and moderate income housing purposes. Generally, the Former Agency was authorized to use the Housing Set-Aside to pay debt service on bonds solely to the extent that the proceeds of such bonds were used to finance or refinance low and moderate income housing projects. The Former Agency could not pledge, and did not use, the Housing Set-Aside to pay debt service on other obligations. In contrast, under the Law, the Former Agency was authorized to use the portion of tax increment that was not part of the Housing Set-Aside (the "80 Percent Portion") to pay debt service on all bonds and other indebtedness of the Former Agency incurred to finance or refinance redevelopment projects for the Project Areas, subject to limitations set forth in the indentures or other governing documents.

The Dissolution Act has eliminated the Low and Moderate Income Housing Fund and the requirement to deposit the Housing Set-Aside into such fund. None of the property tax revenues deposited in the Redevelopment Property Tax Trust Fund are designated as the Housing Set-Aside. The Redevelopment Property Tax Trust Fund flow of funds under the Dissolution Act makes no distinction between bonds that were, in whole or in part, secured by and payable from the Housing Set-Aside and bonds that were solely secured by and payable from the 80 Percent Portion. In effect, after the Former Agency's dissolution, all of the Agency's outstanding bonds (including the Housing Bonds) are paid from Redevelopment Property Tax Trust Fund disbursements without distinction between obligations related to housing and non-housing projects.

Notwithstanding the foregoing, payments on the Housing Bonds, which are secured by a pledge and lien on the Housing Set-Aside, are payable from tax increment revenues from the Project Areas on a senior basis to the debt service of the 2015 Bonds through the maturity of the Housing Bonds in 2030. See the caption "—Senior Obligations." It is unclear whether, if challenged, a court will find that the elimination of the distinction among bonds that were secured by the Housing Set-Aside and bonds that were secured by the 80 Percent Portion is contrary to the declared intent of the Dissolution Act.

A lawsuit has been filed against the Agency and all 16 other successor agencies in San Diego County, as well as various affected taxing agencies and others, in a matter entitled *The Affordable Housing Coalition of San Diego County v. Sandoval* (Sacramento County Superior Court Case No. 34-2012-80001158-CU-WM-GDS, originally filed April 25, 2012) (the "Housing Fund Litigation"): (i) asserting that unmet affordable housing obligations of the respective former redevelopment agencies that were outstanding as of the date of the dissolution of redevelopment agencies survived the dissolution process, including any replacement and inclusionary housing obligations, as well as deferrals and loans owed to the Low and Moderate Income Housing Fund; and (ii) alleging that each of the defendant successor agencies is responsible for unmet statutory affordable housing obligations of their respective dissolved redevelopment agencies, including development obligations and/or payment obligations. The plaintiff alleges that such obligations should be treated as enforceable obligations and included on each successor agency's Recognized Obligation Payment Schedules, to be paid from former Housing Set-Aside moneys. The plaintiff further contends that the statutes creating such obligations should be treated as actual or implied statutory contracts that cannot be impaired by the Dissolution Act and remain enforceable against each of the successor agencies.

If the plaintiff is successful, each successor agency, including the Agency, could be required to use 20% of the tax increment revenues calculated in accordance with the Law (the former Housing Set-Aside) to pay the cost of development of housing units affordable to persons and families of low and moderate income. Although the prayer for relief in the complaint is not clear, the plaintiff may seek to require the defendant successor agencies, including the Agency, to include a 20% Housing Set-Aside obligation on all future Recognized Obligation Payment Schedules. The plaintiff may also seek to require the California Department of Finance (the "DOF") to approve such obligations. The complaint seeks an order to impose the housing obligations alleged in the complaint on future Recognized Obligation Payment Schedules, as well as amounts needed to make up for past Recognized Obligation Payment Schedules which did not include the alleged housing obligations. The Agency cannot predict the outcome of the Housing Fund Litigation. If the plaintiff is successful and the obligations imposed on the Agency by the judgment are treated in the same manner as the Former Agency's Housing Set-Aside obligation, only a portion of the debt service on the 2015B Bonds (the portion attributable to the refunding of the Redevelopment Agency of the City of San Marcos Tax Allocation Bonds (1997 Affordable Housing Project), Series 1997A and the Redevelopment Agency of the City of San Marcos Tax Allocation Bonds (1998 Affordable Housing Project), Series 1998A) would be payable from such moneys. Further, it is not clear what priority housing obligations imposed by a judgment in the Housing Fund Litigation would have with respect to the Bonds, although the Agency believes that any housing obligations may be imposed in connection with specific affordable housing projects, the scope and timing of which are subject to the City's discretion. Notwithstanding the foregoing, as reflected in Appendix B and the caption "PLEDGED TAX REVENUE PROJECTIONS AND DEBT SERVICE COVERAGE," the Agency does not expect that a 20% Housing Set-Aside obligation would materially impact its ability to pay debt service on the 2015 Bonds when due. The successor agency defendants are moving forward with dispositive law and motion hearings in an attempt to bifurcate the matter and first address whether legal obligations remain after the dissolution of redevelopment agencies. Resolution of this matter is not expected within this calendar year.

On August 14, 1989, Matthew G. Leitch and other individuals and the Welfare Rights Organization of San Diego brought suit in Superior Court for the County of San Diego to, among other things, declare invalid the Redevelopment Plan for Project Area No. 3, and by injunction and declaratory relief to prohibit the Former Agency from receiving or expending tax increment revenues for Project Area No. 3 (the "Leitch Lawsuit"). Named as defendants were the Former Agency, the City and all persons interested in the matter of the validity of the Redevelopment Plan for Project Area No. 3. The Leitch Lawsuit was ultimately resolved by the parties' agreement to stipulate to a judgment which provides, among other things, that the Former Agency was required to deposit into the Low and Moderate Income Housing Fund: (i) 22% of the tax increment revenues generated by Project Area No. 1; (ii) 22% of the Tax Increment generated by Project Area No. 2; and (iii) 24.7% of the tax increment revenues generated by Project Area No. 3. The additional 2% of the tax increment revenues for Project Area No. 1 and Project Area No. 2 and the additional 4.7% of the tax increment revenues for Project Area No. 3 (in excess of the 20% of the tax increment revenues that the Former Agency was required to deposit into the Low and Moderate Income Housing Fund pursuant to the Law) are collectively referred to in this Official Statement as the "Settlement Agreement Housing Funds." The stipulated judgment contained, *inter alia*, restrictions on the use of the Low and Moderate Income Housing Fund for rent subsidies and the amount of the Low and Moderate Income Housing Fund that may be used for such subsidies. In addition, the stipulated judgment contained criteria for income levels that had to be met for the use of the Low and Moderate Income Housing Fund by the Agency for housing units. The Agency included a line item on the initial Enforceable Obligation Payment Schedule and on early Recognized Obligation Payment Schedules (the last being the third such schedule) for an amount representing the obligations arising from the Leitch Lawsuit, each of which were denied by the DOF.

As a result of the elimination of the requirement to deposit the Housing Set-Aside pursuant to the Dissolution Act and DOF's denial of Recognized Obligation Payment Schedule line items associated with the

Leitch Lawsuit and replacement housing obligations, the Agency, the DOF and the County Auditor-Controller, have not been honoring the terms of the stipulated judgment in the Leitch Lawsuit to set aside the Settlement Agreement Housing Funds. In light of the Dissolution Act's elimination of the requirement to deposit the Housing Set-Aside into the (now-eliminated) Low and Moderate Income Housing Fund, pending and contingent upon the impact of the Housing Fund Litigation described above, the Agency believes that the Settlement Agreement Housing Funds constitute Pledged Tax Revenues and are available for the payment of the 2015 Bonds or any Parity Debt. It is unclear what impact, if any, the Housing Fund Litigation described above would have on the availability of the Settlement Agreement Housing Funds.

Other Taxing Agencies. Pledged Tax Revenues do not include any special taxes or *ad valorem* assessments levied by or on behalf of any taxing agency having jurisdiction over all or a portion of the Project Areas. See the captions "THE REDEVELOPMENT PLANS—Financial Limitations," "PROJECT AREA NO. 1—Bond and Tax Revenue Limitations," "PROJECT AREA NO. 2—Bond and Tax Revenue Limitations," "PROJECT AREA NO. 3—Bond and Tax Revenue Limitations" and "RISK FACTORS AND LIMITATIONS ON PLEDGED TAX REVENUES—Reduction in Taxable Value; Plan Limitations; Shortfall in Tax Revenue Projections."

The Agency has retained Rosenow Spevacek Group Inc. (the "Fiscal Consultant") to prepare a Fiscal Consultant Report for the Project Areas, a copy of which is attached hereto as Appendix B.

Pass-Through Obligations. The Former Agency made numerous payments to other taxing agencies pursuant to agreements and statutory requirements, some of which have a claim on tax increment revenues. Such amounts are now paid by the County Auditor-Controller prior to the Agency's receipt of tax increment revenues. See the captions "—Statutory Pass-Through Requirements," "Pass-Through Agreements With Taxing Agencies," "PROJECT AREA NO. 1—Pass-Through Agreements," "PROJECT AREA NO. 2—Pass-Through Agreements" and "PROJECT AREA NO. 3—Pass-Through Agreements" for further discussion of such obligations.

Section 33676 Payments. The Agency is not required to make any payments pursuant to Section 33676 of the Law.

Litigation Challenging Residual Redevelopment Property Tax Trust Fund Dispersals. In January 2014, the City and the cities of Chula Vista, El Cajon, Escondido, Poway, San Diego and Vista filed a lawsuit against the County Auditor-Controller, also naming the taxing entities within their respective jurisdictions as real parties in interest. This matter (Sacramento County Superior Court Case Number 34-2014-80001723), challenges the manner in which the County Auditor-Controller calculates the residual balance distributions payable from the Redevelopment Property Tax Trust Fund to local taxing entities under the final step in the "waterfall" distribution scheme described in Section 34183(a) of the Law. See the caption "RISK FACTORS AND LIMITATIONS ON PLEDGED TAX REVENUES—Recognized Obligation Payment Schedule." The City and the other plaintiffs contend that in such final step, the County Auditor-Controller calculates what is known as the "AB 8 shares," as Assembly Bill 8 ("AB 8") locked in the proportion of the general 1% *ad valorem* property tax rate to which each taxing entity is entitled, without regard to pass-through payments that the taxing entity otherwise receives. The City and the other plaintiffs assert that Sections 34183 and 34188 of the Law require that those payments be taken into account, and that by not doing so each taxing entity is improperly receiving its full pass-through payment as well as its full AB 8 share in the final distribution step. The revised distribution approach would reduce the Redevelopment Property Tax Trust Fund distribution to the San Marcos Fire Protection District, which is one of the affected taxing entities in the City, but it would increase the resulting distribution to the City itself by a larger amount, for a net gain of tax increment revenues to the City. The trial court issued its ruling on this matter on May 26, 2015, granting a petition for writ of mandate and finding in favor of the City's and the other plaintiffs' suggested formula for calculation of distributions of Section 34183(a)(4) residual amounts, imposing a cap on the residual amount that each taxing entity can receive in an amount proportionate to its share of property tax revenue in the applicable tax area, and requiring that the calculation of a taxing entity's residual share take into consideration the property tax available in the Redevelopment Property Tax Trust Fund after deducting only the amount of any distributions under Section 34183(a)(2) and (3) of the Law. The court's ruling exceeded the relief requested by the City and the other plaintiffs, and directed the County Auditor-Controller to correct all past Section 34183(a)(4) calculations from February 1, 2012 forward, and to distribute funds to each such taxing entity which received an amount less than the amount it would have received under the required formula. The County Auditor-Controller has not advised whether it will appeal the ruling. The Agency does not believe that the ultimate outcome of the litigation will have any impact on the availability of Pledged Tax Revenues.

Recognized Obligation Payment Schedule

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

On and after July 1, 2016, the oversight board's functions will be assumed by a county oversight board established pursuant to Section 34179(j) of Dissolution Act. In addition, the Governor has proposed legislation: (i) to require the preparation of a Recognized Obligation Payment Schedule process once a year beginning January 1, 2016 (rather than twice a year under current law); and (ii) to establish an optional "Last and Final" Recognized Obligation Payment Schedule process beginning in September 2015. This procedure will be available only to successor agencies that have a Finding of Completion and DOF concurrence as to the items that qualify for payment, among other conditions. The Last and Final Recognized Obligation Payment Schedule will be binding on all parties and the successor agency will no longer submit a Recognized Obligation Payment Schedule. The county auditor-controller will remit the authorized funds to the successor agency in accordance with the approved Last and Final Recognized Obligation Payment Schedule until each remaining enforceable obligation has been fully paid; and (iii) to clarify that former tax increment caps and plan limits do not apply for the purposes of paying approved enforceable obligations.

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

The Dissolution Act provides that, commencing on the date that the first Recognized Obligation Payment Schedule is valid, only those payments listed in the Recognized Obligation Payment Schedule may be made by the Agency from the funds specified in the Recognized Obligation Payment Schedule.

The Recognized Obligation Payment Schedule must be submitted by the Agency, after approval by the oversight board, to the County Administrative Officer, the County Auditor-Controller, the DOF and the

State Controller by 90 days before the date of the next January 2 or June 1 property tax distribution. If the Agency does not submit an oversight board-approved Recognized Obligation Payment Schedule by such deadlines, the City will be subject to a civil penalty equal to $10,000 per day for every day that the schedule is not submitted. Additionally, the Agency's administrative cost allowance is reduced by 25% if the Agency does not submit an oversight board-approved Recognized Obligation Payment Schedule by the 80th day before the date of the next January 2 or June 1 property tax distribution, as applicable, with respect to the Recognized Obligation Payment Schedule for subsequent six-month periods. For additional information regarding procedures under the Dissolution Act relating to late Recognized Obligation Payment Schedules and implications thereof on the Bonds, see the caption "RISK FACTORS AND LIMITATIONS ON PLEDGED TAX REVENUES—Recognized Obligation Payment Schedule."

The Dissolution Act requires the DOF to make a determination of the enforceable obligations and the amounts and funding sources of the enforceable obligations no later than 45 days after the Recognized Obligation Payment Schedule is submitted. Within five business days of the determination by the DOF, the Agency may request additional review by the DOF and an opportunity to meet and confer on disputed items, if any. The DOF will notify the Agency and the County Auditor-Controller as to the outcome of its review at least 15 days before the January 2 or June 1 date of property tax distribution, as applicable. Additionally, the County Auditor-Controller may review a submitted Recognized Obligation Payment Schedule and object to the inclusion of any items that are not demonstrated to be enforceable obligations and may object to the funding source proposed for any items, provided that the County Auditor-Controller must provide notice of any such objections to the Agency, the Oversight Board and the DOF at least 60 days prior to the January 2 or June 1 date of property tax distribution, as applicable.

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

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

Pursuant to the Indenture, the Agency has covenanted to comply with all requirements of the Law to ensure the allocation and payment to it of the Pledged Tax Revenues, including without limitation the timely filing of any necessary statements of indebtedness with appropriate officials of the County and (in the case of supplemental revenues and other amounts payable by the State) appropriate officials of the State. The Agency may not enter into any agreement with the County or any other governmental unit which would have the effect of reducing the amount of Pledged Tax Revenues available to the Agency for payment of the Bonds. The Agency may not undertake proceedings for amendment of the Redevelopment Plans or any one or more of the Redevelopment Plans if such amendment will result in reduced payments to one or more taxing entities pursuant to Sections 33607.5 and 33607.7 of the Law unless the Agency first obtains a written opinion of an Independent Redevelopment Consultant that such payments will not adversely impair the Agency's ability to pay the 2015 Bonds and all Parity Debt. Nothing in the Indenture is intended or will be construed in any way to prohibit or impose any limitations on the entering into by the Agency of any such agreement, amendment or supplement which by its term is subordinate to the payment of the 2015 Bonds and all Parity Debt.

The Agency has also covenanted in the Indenture to comply with all of the requirements of the Law and the Dissolution Act. Without limiting the generality of the foregoing, the Agency has covenanted and agreed to file all required statements and hold all public hearings required under the Dissolution Act to assure compliance by the Agency with its covenants under the Indenture. Further, it will take all actions required under the Dissolution Act to include scheduled debt service on the 2015 Bonds and any Parity Debt, as well as any amount required under the Indenture to replenish the Reserve Accounts of the Debt Service Fund, in Recognized Obligation Payment Schedules for each six-month period so as to enable the County Auditor-Controller to distribute from the Redevelopment Property Tax Trust Fund to the Agency's Redevelopment Obligation Retirement Fund on each January 2 and June 1 amounts required for the Agency to pay principal of, and interest on, the Bonds coming due in the respective six-month period. Such actions will include, without limitation, placing on the periodic Recognized Obligation Payment Schedule for approval by the oversight board, the County Auditor-Controller and the DOF, to the extent necessary, the amounts to be held by the Agency as a reserve until the next six-month period, as contemplated by paragraph (1)(A) of subdivision (d) of Section 34171 of the Dissolution Act, that are necessary to comply with the Indenture and to provide for the payment of principal and interest under the Indenture when the next property tax allocation is projected to be insufficient to pay all obligations due under the Indenture for the next payment due thereunder and hereunder in the following six-month period.

See the caption "—Tax Increment Financing" for a discussion of certain litigation that could affect the obligations set forth on the Agency's Recognized Obligation Payment Schedules.

Senior Obligations

The Housing Bonds, which are currently outstanding in the aggregate principal amount of $49,440,000, are payable from Pledged Tax Revenues on a senior basis to the 2015 Bonds.

The Agency has covenanted not to issue additional obligations payable from Pledged Tax Revenues on a senior basis to the 2015 Bonds while the 2015 Bonds are outstanding. See the caption "—Additional Indebtedness—No Senior Debt."

Statutory Pass-Through Requirements

In 1993, the California Legislature enacted Assembly Bill 1290 ("AB 1290" or the "Tax Sharing Statutes") which contained several significant changes in the Law. Among the changes made by AB 1290 was a provision which limits the period of time for incurring and repaying of loans, advances and indebtedness which are payable from tax increment revenues. In general, a redevelopment plan may terminate not more than 40 years following the date of original adoption, and loans, advances and indebtedness may be repaid during a period extending not more than 10 years following the date of termination of the redevelopment plan. See the caption "THE REDEVELOPMENT PLANS—Financial Limitations."

Under AB 1290, tax increment revenues received by the Agency are reduced pursuant to certain statutory pass-throughs, including payments to other taxing agencies of a portion of tax increment revenues as a result of plan adoptions or amendments to redevelopment plans occurring after 1993 ("AB 1290 Payments"), including redevelopment plans for new project areas.

As discussed in detail under the caption "—Tax Increment Financing—Tax Sharing," the Dissolution Act requires the County Auditor-Controller to distribute AB 1290 Payments to other taxing agencies before amounts that constitute Pledged Tax Revenues are deposited in the Agency's Redevelopment Obligation Retirement Fund unless AB 1290 Payments have been subordinated or the Agency has insufficient funds to meet its enforceable obligations.

The Agency has not undertaken the requisite procedures to obtain such subordination of the Statutory Pass-Through Amounts and, therefore, Statutory Pass-Through Amounts are not subordinate to the Bonds. See the caption "THE REDEVELOPMENT PLANS."

Pass-Through Agreements with Taxing Agencies

Pursuant to Section 33401(b) of the Law, redevelopment agencies were authorized to enter into agreements to pay tax increment revenues to any taxing agency that has territory located within a redevelopment project area in an amount which, in the agency's determination, is appropriate to alleviate any financial burden or detriment caused by a redevelopment project. These agreements normally provided for a pass-through of tax increment revenues directly to the affected taxing agency and, therefore, are commonly referred to as "pass-through" agreements.

As discussed in detail under the caption "—Tax Increment Financing—Tax Sharing," the Dissolution Act requires the County Auditor-Controller to distribute payments under the Pass-Through Agreements to other taxing agencies before amounts that constitute Pledged Tax Revenues are deposited in the Agency's Redevelopment Obligation Retirement Fund unless such payments have been subordinated and the Agency has insufficient funds to meet its enforceable obligations.

The Agency has a number of pass-through agreements with other taxing agencies. Certain of the Pass-Through Agreements have not been subordinated and constitute Senior Obligations. See the captions "PROJECT AREA NO. 1—Pass-Through Agreements," "PROJECT AREA NO. 2—Pass-Through Agreements" and "PROJECT AREA NO. 3—Pass-Through Agreements."

Section 33676 Payments

Former Section 33676 of the Law used to allow taxing entities to elect to claim for themselves (and thus exclude from tax increment revenues available to a redevelopment agency) the portion of tax increment revenues attributable to inflationary growth as determined under Section 110.1(f) of the Revenue and Taxation Code. School districts and community college districts were directed by Section 33676 to make such election pursuant to a specific procedure prior to adoption of any redevelopment plan or amendment, unless a tax sharing agreement existed between the redevelopment agency and the taxing entity. Section 33676 has been the subject of amendments both before and after 1986 but was in substantially the same form between 1984 and 1993. By Resolution 8059, adopted on April 9, 1985, The Metropolitan Water District of Southern California ("MWD") elected, pursuant to Section 33676, to be allocated all of the tax increment revenues allocated to Project Area No. 2 pursuant to Section 33670(b) of the Law attributable to any increases in MWD's tax rates which occur after Fiscal Year 1985-86. Notwithstanding the foregoing, the County Auditor-Controller has determined that MWD is no longer entitled to receive Section 33676 payments.

Section 33676 payments may be required even in the absence of an affirmative election by the taxing agency. See the caption "RISK FACTORS AND LIMITATIONS ON PLEDGED TAX REVENUES—Santa Ana Unified School District Case" for a further discussion of Section 33676.

Developer Agreements

The Agency has entered into two owner participation agreements and disposition and development agreements (each, an "OPA-DDA") with third parties other than the City which call for significant payments by the Agency. The Agency has not pledged tax increment revenues to the payment of the OPA-DDAs and, to the extent that payments are made from tax increment revenues, such payments are subordinate to debt service on the 2015 Bonds. See Appendix B.

Additional Indebtedness

No Additional Senior Debt. The Agency has covenanted in the Indenture that so long as any of the 2015 Bonds remain Outstanding, the Agency will not issue any bonds, notes or other obligations which are otherwise secured on a basis which is senior to the pledge and lien which secures the 2015 Bonds. The Agency has also covenanted that it will not issue any bonds, notes or other obligations, enter into any agreement or otherwise incur any indebtedness, which is in any case payable from all or any part of the Pledged Tax Revenues, excepting only the 2015 Bonds and Parity Debt, any Subordinate Debt and any obligations entered into pursuant to the Indenture to maintain Pledged Tax Revenues.

Existing Parity Debt. Upon the refunding of the Refunded Obligations described under the caption "REFUNDING PLAN," the Agency will have no additional obligations payable from Pledged Tax Revenues on a parity with the 2015 Bonds.

Additional Parity Debt. In addition to the 2015 Bonds, the Agency may issue or incur additional Parity Debt in such principal amount as determined by the Agency for purposes of refunding any existing debt of the Agency so long as Section 34177.5(a) of the Law has been satisfied, and subject to the following specific conditions that have been made conditions precedent to the issuance and delivery of such Parity Debt issued under the Indenture:

(a) No Event of Default will have occurred and be continuing, and the Agency will otherwise be in compliance with all covenants set forth in the Indenture.

(b) The Agency funds a reserve account relating to such Parity Debt in an amount equal to the Reserve Requirement; and

(c) The Agency delivers to the Trustee a Written Certificate of the Agency certifying that the conditions precedent to the issuance of such Parity Debt set forth above have been satisfied.

Issuance of Subordinate Debt. The Agency may issue or incur Subordinate Debt (as such term is defined below) in such principal amount as determined by the Agency. Such Subordinate Debt may be payable from any assets or property of the Agency, including Pledged Tax Revenues on a subordinate basis to the payment of debt service on the 2015 Bonds and any Parity Debt.

The term "Subordinate Debt" means any bonds, notes, loans, advances or other indebtedness issued or incurred by the Agency in accordance with the requirements of the Indenture, which are either: (a) payable from, but not secured by a pledge of or lien upon, the Pledged Tax Revenues; or (b) secured by a pledge of or lien upon the Pledged Tax Revenues which is subordinate to the pledge of and lien upon the Pledged Tax Revenues under the Indenture for the security of the Bonds.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

THE AGENCY

General

The Former Agency was established pursuant to the Law and was activated by Ordinance No. 73-266, adopted by the City Council on August 28, 1973. On June 29, 2011, AB X1 26 was enacted as Chapter 5, Statutes of 2011, together with a companion bill, AB X1 27. A lawsuit entitled *California Redevelopment Association, et al. v. Matosantos, et al.*, was brought in the State Supreme Court challenging the constitutionality of AB X1 26 and AB X1 27. In a published decision (53 Cal. 4th 231 (December 29, 2011)), the State Supreme Court largely upheld AB X1 26, invalidated AB X1 27, and held that AB X1 26 may be severed from AB X1 27 and enforced independently. As a result of AB X1 26 and the decision of the State Supreme Court, as of February 1, 2012, all redevelopment agencies in the State, including the Former Agency, were dissolved, and successor agencies were designated as successor entities to the former redevelopment agencies to expeditiously wind down the affairs of the former redevelopment agencies.

On January 10, 2012, pursuant to Resolution No. 2012-7607 and Section 34173 of the Dissolution Act, the City Council of the City elected to serve as the successor agency to the Former Agency. Subdivision (g) of Section 34173 of the Dissolution Act, added by AB 1484, expressly affirms that the Agency is a separate public entity from the City, that the two entities shall not merge and that the liabilities of the Former Agency will not be transferred to the City nor will the assets of the Former Agency become assets of the City.

The Agency is governed by a five-member Board of Directors (the "Board"), which consists of the Mayor and members of the City Council of the City. The Mayor acts as the Chair of the Board, the City Manager as its executive director, the City Clerk as its secretary and the Finance Director of the City its chief financial officer.

Agency Members

The members of the Agency Board serve by virtue of their election to the City Council. Members of the City Council are elected at large for four-year overlapping terms. The current members of the City Council are as follows:

Name	***Position***	***Term Expires***
Jim Desmond	Mayor	2018
Rebecca Jones	Vice Mayor	2016
Chris Orlando	Council Member	2018
Kristal Jabara	Council Member	2018
Sharon Jenkins	Council Member	2016

By agreement, the City provides all staff and the administrative services to the Agency. Jack Griffin is the City Manager of the City and Executive Director of the Agency. Laura Rocha serves as the Agency's Finance Director.

Helen Holmes Peak is the City Attorney and Agency Counsel. The Agency Secretary, Phil Scollick, is the City Clerk of the City. All other staff and resources of the City are available to serve the Agency as required.

The Agency retains the firm of Fieldman Rolapp & Associates, Inc., Irvine, California, as independent financial advisor. The Agency also retains its own architectural, engineering, real estate, and relocation consultants from time to time.

Agency Powers

All powers of the Agency are vested in its five Board members, who are elected members of the City Council. Pursuant to the Dissolution Act, the Agency is a separate public body from the City and successor to the organizational status of the Former Agency, but without any legal authority to participate in redevelopment activities except to complete any work related to approved enforceable obligations. The Agency is tasked with expeditiously winding down the affairs of the Former Agency pursuant to the procedures and provisions of the Dissolution Act. Under the Dissolution Act, many Agency actions are subject to approval by an oversight board, as well as review by the DOF. The State has strict laws regarding public meetings (known as the Ralph M. Brown Act) which generally make all Agency and oversight board meetings open to the public in a similar manner as City Council meetings.

Previously, Section 33675 of the Law required the Former Agency to file not later than the first day of October of each year with the County Auditor-Controller of a statement of indebtedness certified by the chief fiscal officer of the Former Agency for each redevelopment plan which provides for the allocation of taxes. The statement of indebtedness was required to contain the date on which the bonds were delivered, the principal amount, term, purposes and interest rate of the bonds and the outstanding balance and amount due on the bonds. Similar information was required to be given for each loan, advance or indebtedness that the Former Agency had incurred or entered into which is payable from tax increment. Section 33675 also provided that payments of tax increment revenues from the County Auditor-Controller to the Former Agency could not exceed the amounts shown on the Former Agency's statement of indebtedness.

The Dissolution Act eliminates this requirement and provides that, commencing on the date that the first Recognized Obligation Payment Schedule is valid thereunder, the Recognized Obligation Payment Schedule supersedes the statement of indebtedness previously required under the Law, and that, commencing on such date, the statement of indebtedness will no longer be prepared nor have any effect under the Law. See the caption "SECURITY FOR THE 2015 BONDS—Recognized Obligation Payment Schedule."

THE REDEVELOPMENT PLANS

General

In 1973, the City Council established the Former Agency and initiated efforts for major urban revitalization. By Ordinance No. 83-604 on July 12, 1983, the City Council established the Agency's first redevelopment plan, for Project Area No. 1, which consisted of approximately 2,356 acres. The Redevelopment Plan for Project Area No. 1 was subsequently amended by: (i) Ordinance No. 93-951 on July 13, 1993, which, among other things increased the tax increment limit and the indebtedness limit for Project Area No. 1; (ii) Ordinance No. 94-972 on December 20, 1994; (iii) Ordinance No. 2003-1208, on November 18, 2003, which extended the effectiveness of the Redevelopment Plan for Project Area No. 1 to July 12, 2024 and extended the time limit for collection of tax increment revenues to July 12, 2034; and (iv) Ordinance No. 2003-1211 on November 18, 2003, which eliminated the time limit to incur debt.

By Ordinance No. 85-662 on July 19, 1985, the City Council established the Agency's second redevelopment plan, for Project Area No. 2, which consisted of approximately 1,777 acres. The Redevelopment Plan for Project Area No. 2 was subsequently amended by: (i) Ordinance No. 86-684 on June 24, 1986; (ii) Ordinance No. 94-973 on December 20, 1994; (iii) Ordinance No. 2003-1209 on November 18, 2003, which extended the effectiveness of the Redevelopment Plan for Project Area No. 2 to July 19, 2026 and extended the time limit for collection of tax increment revenues to July 19, 2036; and (iv) Ordinance No. 2005-1250 on June 14, 2005, which eliminated the time limit to incur debt.

By Ordinance No. 89-820 on July 11, 1989, the City Council established the Agency's third redevelopment plan, for Project Area No. 3, which consisted of approximately 6,301 acres. The Redevelopment Plan for Project Area No. 3 was subsequently amended by: (i) Ordinance No. 94-974 on

December 20, 1994; (ii) Ordinance No. 2003-1210 on November 18, 2003, which extended the effectiveness of the Redevelopment Plan for Project Area No. 3 to July 11, 2030 and extended the time limit for collection of tax increment revenues to July 11, 2040; and (iii) Ordinance No. 2009-1317 on April 14, 2009, which eliminated the time limit to incur debt.

The Redevelopment Plans describe the boundaries of each of the Project Areas, contain a general statement of the objectives of each of the Project Areas, land use, layout of principal streets, building intensities and standards, and other criteria proposed as the basis for redevelopment of each of the Project Areas. The Redevelopment Plans also describe how the Redevelopment Plans effectuate the purposes of the Law and how the proposed redevelopment conforms to the General Plan of the City, and describe the impact of the Redevelopment Plans upon residents thereof and upon the surrounding neighborhood.

Financial Limitations

The Redevelopment Plan for Project Area No. 1 provides that the aggregate amount of tax increment revenues which may be divided and allocated to the Agency may not exceed approximately $945,000,000 as of calendar year 2014 (increased or decreased annually according to the Consumer Price Index). Based on Agency records, the Agency has received a cumulative total of approximately $205,000,000 of tax increment revenues from Project Area No. 1 through Fiscal Year 2013-14.

The Redevelopment Plan for Project Area No. 2 provides that the aggregate amount of tax increment revenues which may be divided and allocated to the Agency may not exceed approximately $437,000,000 as of calendar year 2014 (increased or decreased annually according to the Consumer Price Index). Based on Agency records, the Agency has received a cumulative total of approximately $104,000,000 of tax increment revenues from Project Area No. 2 through Fiscal Year 2013-14.

The Redevelopment Plan for Project Area No. 3 provides that the aggregate annual (not cumulative) amount of tax increment revenues which may be divided and allocated to the Agency each year may not exceed approximately $92,000,000 as of calendar year 2014 (increased or decreased annually according to the Consumer Price Index). Based on Agency records, the Agency received approximately $25,000,000 of tax increment revenues from Project Area No. 3 in Fiscal Year 2013-14.

Amounts paid by the County Auditor-Controller to other Taxing Agencies, as described below under the captions "PROJECT AREA NO. 1—Pass-Through Agreements," "PROJECT AREA NO. 2—Pass-Through Agreements" and "PROJECT AREA NO. 3—Pass-Through Agreements," are not included for purposes of the limitation. In addition, the Redevelopment Plans provide that the total outstanding principal of bonds payable from such tax increment revenues may not at any time exceed the amounts listed for each Project Area in the table below, which amounts are increased or decreased annually according to the Consumer Price Index. The Agency represents that the issuance of the 2015 Bonds will not cause the Agency to exceed the bonded debt limits for any of the Project Areas. See the caption "RISK FACTORS AND LIMITATIONS ON PLEDGED TAX REVENUES—Educational Revenue Augmentation Fund; State Budget."

The expiration date of the components of the Redevelopment Plans and the final date to receive tax increment revenues from each component of the Project Areas are set forth in the following table. In addition, in connection with the shift of certain tax increment revenues, SB 1045 allowed the Agency to extend the effective date of the Redevelopment Plans, and the date to receive tax increment revenues, by one year for each year of the recognized shift of tax increment revenues from redevelopment agencies to school districts or other governmental entities. See the caption "RISK FACTORS AND LIMITATIONS ON PLEDGED TAX REVENUES—State Budget."

TABLE 1
SUCCESSOR AGENCY TO THE SAN MARCOS REDEVELOPMENT AGENCY
PROJECT AREA FINANCIAL LIMITATIONS

TIME LIMITS	PROJECT AREA NO. 1	PROJECT AREA NO. 2	PROJECT AREA NO. 3
Incur Debt	None	None	None
Plan Effectiveness	July 12, 2024	July 19, 2026	July 11, 2030
Increment Collection	July 12, 2034	July 19, 2036	July 11, 2040
FINANCIAL LIMITS			
Outstanding Bonded Debt(1)(2)	$239,000,000	$218,000,000	$185,000,000
Tax Increment(1)(3)	$945,000,000	$437,000,000	$ 92,000,000(4)

(1) As of calendar year 2014, rounded to nearest million dollars. Amounts increased or decreased annually according to the Consumer Price Index in or about December of each year.
(2) The Agency represents that the issuance of the 2015 Bonds will not cause the Agency to exceed the bonded debt limits for any of the Project Areas.
(3) Excludes Pass-Through Agreements and Statutory Pass-Through Amounts.
(4) Project Area No. 3's limit is annual (not cumulative).
Source: Agency; Rosenow Spevacek Group Inc.

As shown above, the time limits to receive tax increment revenues will elapse for Project Area Nos. 1 and 2 in Fiscal Years 2034-35 and 2036-37, respectively, which is prior to the maturity of the 2015 Bonds. See the caption "RISK FACTORS AND LIMITATIONS ON PLEDGED TAX REVENUES—State Budget Issues."

See the caption "RISK FACTORS AND LIMITATIONS ON PLEDGED TAX REVENUES—Reduction in Taxable Value; Plan Limitations; Shortfall in Tax Revenue Projections" for a discussion of certain other matters which limit Pledged Tax Revenues or impact the use thereof.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

Largest Taxpayers

Set forth below are the ten largest secured and unsecured taxpayers within the Project Areas as of Fiscal Year 2014-15.

TABLE 2
SUCCESSOR AGENCY TO THE SAN MARCOS REDEVELOPMENT AGENCY
PROJECT AREA NOS. 1, 2 AND 3
TEN LARGEST TAXPAYERS
FISCAL YEAR 2014-15 TAX ROLL

	Taxpayer	*Number of Parcels*	*Land Use(s)*	*Assessed Value*[1]	*% of Total Assessed Value*
1	World Premier Investments[2]	27	Commercial	$ 141,170,150	2.0%
2	Willmark Communities Inc.	2	Residential	90,403,601	1.3
3	Hunter Industries Inc.[3]	10	Industrial / Commercial	88,327,689	1.2
4	Urban Villages San Marcos LLC[4]	63	Residential / Industrial	87,004,913	1.2
5	Ralphs Grocery Co	1	Commercial	36,513,433	0.5
6	Costco Wholesale Corporation[5]	3	Commercial	33,714,111	0.5
7	Weingarten Realty Investors[6]	11	Commercial	30,849,890	0.4
8	HomeFed Corporation[7]	94	Residential / Commercial	30,234,951	0.4
9	University of St. Augustine for Health Services	2	Commercial	29,609,596	0.4
10	Ryland Homes of California Inc.[8]	70	Residential / Commercial	28,950,401	0.4
	Top 10 Taxpayer Total	283		$ 596,778,735	8.3%
	Total Assessed Value for Project Areas			$7,194,818,359	

(1) The assessed values represented above are net of all exemptions except the $7,000 homeowner's exemption.
(2) This taxpayer owns shopping centers, primarily in Project Area No. 1. Includes entities that are believed to be affiliated, as described in Footnote 3 to Exhibit 7A in the Fiscal Consultant Report set forth in Appendix B.
(3) Hunter Industries Inc. has been assessed approximately $44 million on the County's Fiscal Year 2014-15 unsecured roll. Includes entities that are believed to be affiliated, as described in Footnote 4 to Exhibit 7A in the Fiscal Consultant Report set forth in Appendix B.
(4) Includes entities that are believed to be affiliated, as described in Footnote 5 to Exhibit 7A in the Fiscal Consultant Report set forth in Appendix B.
(5) This taxpayer has a pending assessment appeal seeking a cumulative reduction of approximately $5.9 million. See the caption "—Assessment Appeals." Includes entities that are believed to be affiliated, as described in Footnote 6 to Exhibit 7A in the Fiscal Consultant Report set forth in Appendix B.
(6) Includes entities that are believed to be affiliated, as described in Footnote 7 to Exhibit 7A in the Fiscal Consultant Report set forth in Appendix B.
(7) Includes entities that are believed to be affiliated, as described in Footnote 8 to Exhibit 7A in the Fiscal Consultant Report set forth in Appendix B.
(8) Includes entities that are believed to be affiliated, as described in Footnote 9 to Exhibit 7A in the Fiscal Consultant Report set forth in Appendix B.

Source: Rosenow Spevacek Group Inc.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

Secured Assessed Value by Land Use Category

The following table summarizes the Fiscal Year 2014-15 secured assessed value by land use category for the Project Areas.

TABLE 3
SUCCESSOR AGENCY TO THE SAN MARCOS REDEVELOPMENT AGENCY
PROJECT AREA NOS. 1, 2 AND 3
SECURED ASSESSED VALUE BY LAND USE CATEGORY
FISCAL YEAR 2014-15

Land Use	*Number of Parcels*	*Secured Assessed Value*[1]	*% of Value*
Residential	14,018	$ 4,818,338,071	69.82%
Commercial	375	1,045,123,503	15.14
Industrial	593	726,154,961	10.52
Vacant	653	199,324,414	2.89
Office	65	44,174,608	0.64
Institutional	29	42,943,803	0.62
Agricultural	29	11,539,490	0.17
Miscellaneous[2]	365	13,561,497	0.20
Totals	16,127	$ 6,901,160,347	100.00%

(1) The secured assessed valuations represented above are net of all other exemptions.
(2) Includes open space, easement parcels and undevelopable slopes, primarily in Project Area No. 3.
Source: Rosenow Spevacek Group Inc.

Assessment Appeals

The following table summarizes assessment appeals for the Project Areas for the current and four prior Fiscal Years. See the caption "RISK FACTORS AND LIMITATIONS ON TAX REVENUES—Assessment Appeals."

See Exhibits 9B, 9C and 9D, respectively, in the Fiscal Consultant Report set forth in Appendix B for an individual assessment appeal summary for each of Project Area Nos. 1, 2 and 3.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

TABLE 4
SUCCESSOR AGENCY TO THE SAN MARCOS REDEVELOPMENT AGENCY
PROJECT AREA NOS. 1, 2 AND 3
ASSESSMENT APPEAL HISTORY[(1)]

Fiscal Year	*Stipulated/ Reduced*	*Withdrawn/ Denied/ No Change*	*Pending*	*Total*	*Assessed Valuation of All Appeals*	*% of Project Area*	*Requested Reductions*[(2)]	*% of Project Area*	*Granted Reductions*[(3)]	*% of Project Area*	*Average Reduction*	*Pending Reductions*[(4)]	*% of Project Area*	*Total Project Area Value*
2010-11	176	152	2	330	$755,490,578	11.9%	$ 185,733,734	2.9%	$ 85,847,353	1.4%	$ 487,769	$ 4,337,320	0.1%	$6,323,035,498
2011-12	204	161	2	367	555,738,690	8.7	110,057,848	1.7	49,788,475	0.8	244,061	4,663,754	0.1	6,371,689,484
2012-13	126	146	2	274	394,727,832	6.2	33,398,435	0.5	15,948,486	0.3	126,575	6,779,282	0.1	6,356,206,713
2013-14	27	93	11	131	320,888,520	4.9	16,219,265	0.2	6,954,612	0.1	257,578	56,181,316	0.8	6,610,604,725
2014-15	1	9	99	109	210,375,312	2.9	215,000	0.0	15,000	0.0	15,000	122,025,162	1.7	7,194,818,359
Totals	534	561	116	1,211			$ 345,624,282		$ 158,553,926		296,917	$ 193,986,834		

Historical Rate of Stipulated/Reduced Appeals	49%
Granted Reduction as a Percentage of Requested Reduction[(5)]	46%

(1) As of March 24, 2015.
(2) Reflects total requested reductions for all stipulated/reduced appeals.
(3) Assumes no reduction in assessed value for those appeals for which the Appeals Board value was $0.
(4) Pending appeals are those appeals that did not display a Final Action Code and for which the Appeals Board value was $0.
(5) Reflects total granted reduction as a percentage of total requested reduction for all stipulated/reduced parcels.

Sources: San Diego Assessor's Office & San Diego County Auditor-Controller – Property Tax Services, Community Redevelopment Assessed Valuations, July 5, 2014.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

PROJECT AREA NO. 1

General

The City Council adopted an ordinance approving the Redevelopment Plan for Project Area No. 1 on July 12, 1983. Project Area No. 1 encompasses 2,356 acres of the central business core of the City. Project Area No. 1 is generally bounded by Mission Road, Richmar Avenue, Rock Springs Road and Knob Hill Road to the north, Discovery Street and Barham Drive to the south, Pacific Street to the west and the San Marcos-Escondido corporate limits to the east.

Approximately 42% of the assessed valuation originating from Project Area No. 1 is derived from commercial uses, approximately 27% of the assessed valuation originating from Project Area No. 1 is derived from industrial uses, approximately 22% of the assessed valuation originating from Project Area No. 1 is derived from residential uses and approximately 9% of the assessed valuation originating from Project Area No. 1 is derived from other uses. See the caption "—Secured Assessed Value by Land Use Category."

Pass-Through Agreements

Definitions of terms used in the summary descriptions of the Pass-Through Agreements for each of the Project Areas are as follows:

<u>Inflationary 2% Revenue</u>: Tax increment revenue attributable to annual increases not to exceed 2% in the valuation of real property pursuant to the Section 110.1(f) of the Revenue and Taxation Code of the State. The base year used to calculate the Inflationary 2% Revenue includes the local secured value only. It does not include state-assessed secured or unsecured value.

<u>Special District Tax Revenues</u>: Tax increment revenue attributable to application of "override rates" or "voter approved or bonded indebtedness tax rates" pursuant to Section 1(b) and Section 4 of Article XIIIA of the California Constitution. Because the revenue projections herein do not assume a voter-approved indebtedness override rate, they do not include payments of Special District Tax Revenues to any taxing entities. See Appendix B.

<u>Trigger Year</u>: Fiscal Year 2005-06, which was the Fiscal Year in which the cumulative amount of Project Area No. 1 tax increment revenue exceeded $100,000,000.

Description of Pass-Through Agreements. The following is the only Pass-Through Agreement that is payable on a senior basis to the 2015 Bonds and Parity Debt that is applicable to Project Area No. 1:

Palomar Community College District. Pursuant to an Agreement regarding the Sub-Leasing of Facilities between the City of San Marcos, San Marcos Redevelopment Agency and Palomar Community College at the San Marcos Public Safety Center and an Amended and Restated Agreement regarding Redevelopment Project Areas 1, 2 and 3, dated as of December 12, 2000 (the "PCCD Agreement"), by and among Palomar Community College District ("PCCD"), the City and the Former Agency, PCCD is entitled to receive its Special District Tax Revenues after deduction of a Low and Moderate Income Housing Fund allocation of 22%. Since the Trigger Year, PCCD has also been entitled to receive 50% of its share of tax increment revenues after deduction of: (i) a Low and Moderate Income Housing Fund allocation of 22%; and (ii) 50% of the share of tax increment revenues generated by increases in property values which are incident to or arising from redevelopment activities prior to July 1, 2000, as evidenced by documents on file with the City or the Agency.

No Subordination to Bonded Debt. The above-described Project Area No. 1 Pass-Through Agreement does not include provisions which gave the Former Agency the unrestricted right to issue bonds and pledge tax revenue (including, without limitation, each taxing entity's portion), while certain other

Pass-Through Agreements that are described in Appendix B do include such subordination provisions. However, pursuant to the Dissolution Act, pass-through payments are no longer treated by the County Auditor-Controller and the DOF as subordinate to bonded indebtedness unless the Agency reports that there are insufficient funds to pay bonded debt service.

If an insufficiency exists, the Dissolution Act states that the Agency must notify the County Auditor-Controller on the December 1 and May 1 prior to each six-month Recognized Obligation Payment Schedule period. The County Auditor-Controller must then notify the State Controller's Office and the DOF no later than 10 days from the date of the Agency's report of the insufficiency. Once the County Auditor-Controller verifies that an insufficiency exists, the amount of the deficiency will be deducted from the amount remaining to be disbursed to the taxing entities and, if needed, any funds that are to be disbursed to the successor agency for the administrative cost allowance. See the caption "SECURITY FOR THE 2015 BONDS—Tax Increment Financing—Tax Sharing."

The projections of tax increment revenues set forth herein do not include any future subordination of pass-through payments under the above-described Pass-Through Agreement. See Appendix B.

Historic Assessed Valuations

The following table shows historic assessed valuations of the Agency for Project Area No. 1 for the current and four prior Fiscal Years. Although the economic slowdown in recent years resulted in a reduction in assessed values in Fiscal Year 2010-11, assessed values have increased each year since Fiscal Year 2010-11.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

TABLE 5
SUCCESSOR AGENCY TO THE SAN MARCOS REDEVELOPMENT AGENCY
PROJECT AREA NO. 1
SCHEDULE OF HISTORICAL ASSESSED VALUATIONS

	Fiscal Year 2010-11	***% Change***	***Fiscal Year 2011-12***	***% Change***	***Fiscal Year 2012-13***	***% Change***	***Fiscal Year 2013-14***	***% Change***	***Fiscal Year 2014-15***	***% Change***
Secured	$ 1,564,620,181	(2.68)%	$ 1,568,680,278	0.26%	$ 1,594,582,953	1.65%	$ 1,650,019,754	3.48%	$ 1,695,129,625	2.73%
State Utility	-		-		-		-		-	
Unsecured	185,696,335	0.54	187,508,047	0.98	187,456,360	(0.03)	187,640,865	0.10	179,115,606	(4.54)
Total Assessed Value[1]	1,750,316,516	(2.35)	1,756,188,325	0.34	1,782,039,313	1.47	1,837,660,619	3.12	1,874,245,231	1.99
Less: Base Year	(223,970,420)		(223,970,420)		(223,970,420)		(223,970,420)		(223,970,420)	
Incremental Assessed Value	$ 1,526,346,096	(2.69)%	$ 1,532,217,905	0.38%	$ 1,558,068,893	1.69%	$ 1,613,690,199	3.57%	$ 1,650,274,811	2.27%

(1) Assessed valuations for secured property are net of non-homeowner's exemptions and include public utility values.
Source: Rosenow Spevacek Group Inc.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

Largest Taxpayers

Set forth below are the ten largest secured and unsecured taxpayers within Project Area No. 1 as of Fiscal Year 2014-15.

TABLE 6
SUCCESSOR AGENCY TO THE SAN MARCOS REDEVELOPMENT AGENCY
PROJECT AREA NO. 1
TEN LARGEST TAXPAYERS
FISCAL YEAR 2014-15 TAX ROLL

	Taxpayer	*Number of Parcels*	*Land Use(s)*	*Assessed Value*[1]	*% of Total Assessed Value*
1	World Premier Investments[2]	27	Commercial	$ 141,170,150	7.5%
2	Urban Villages San Marcos LLC[3]	31	Residential / Industrial	54,588,224	2.9
3	Costco Wholesale Corporation[4][5]	3	Commercial	33,714,111	1.8
4	MG Properties Group	1	Residential	28,688,377	1.5
5	BLC of California – San Marcos LP[4][6]	2	Commercial	27,288,260	1.5
6	Avalon Communities, Inc.	1	Residential	27,262,026	1.5
7	Edwards Theatres, Inc.	1	Commercial	25,474,011	1.4
8	Autumn Terraces, LLC	3	Residential / Commercial	25,083,225	1.3
9	Lost Continent, LP	1	Commercial	24,549,438	1.3
10	R&V Management Corporation[7]	4	Residential / Commercial	24,023,903	1.3
	Top 10 Taxpayer Total	74		$ 411,841,725	22.0%
	Total Project Area Assessed Value			$ 1,874,245,231	

(1) The assessed values represented above are net of all exemptions except the $7,000 homeowner's exemption.
(2) This taxpayer owns shopping centers. Includes entities that are believed to be affiliated, as described in Footnote 3 to Exhibit 7B in the Fiscal Consultant Report set forth in Appendix B.
(3) Includes entities that are believed to be affiliated, as described in Footnote 4 to Exhibit 7B in the Fiscal Consultant Report set forth in Appendix B.
(4) These taxpayers have pending assessment appeals seeking a cumulative reduction of approximately $19.4 million. See the caption "THE REDEVELOPMENT PLANS—Assessment Appeals."
(5) Includes entities that are believed to be affiliated, as described in Footnote 5 to Exhibit 7B in the Fiscal Consultant Report set forth in Appendix B.
(6) Includes entities that are believed to be affiliated, as described in Footnote 6 to Exhibit 7B in the Fiscal Consultant Report set forth in Appendix B.
(7) Includes entities that are believed to be affiliated, as described in Footnote 7 to Exhibit 7B in the Fiscal Consultant Report set forth in Appendix B.

Source: Rosenow Spevacek Group Inc.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

Secured Assessed Value by Land Use Category

The following table summarizes the Fiscal Year 2014-15 secured assessed value by land use category for Project Area No. 1.

TABLE 7
SUCCESSOR AGENCY TO THE SAN MARCOS REDEVELOPMENT AGENCY
PROJECT AREA NO. 1
SECURED ASSESSED VALUE BY LAND USE CATEGORY

Land Use	*Number of Parcels*	*Secured Assessed Value*[1]	*% of Value*
Residential	1,356	$ 374,668,820	22.10%
Commercial	218	720,287,966	42.49
Industrial	366	465,514,371	27.46
Vacant	160	47,438,465	2.80
Office	48	33,408,191	1.97
Institutional	15	38,137,817	2.25
Agricultural	3	3,330,000	0.20
Miscellaneous	12	12,343,995	0.73
Totals	2,178	$ 1,695,129,625	100.00%

(1) The secured assessed valuations represented above are net of all other exemptions.
Source: Rosenow Spevacek Group Inc.

Projected Taxable Valuation and Projected Pledged Tax Revenues

The following table shows the projected Pledged Tax Revenues for Project Area No. 1 through Fiscal Year 2033-34, assuming growth of 1.998%, 1.00% and 1.00% in assessed valuations in Fiscal Years 2015-16, 2016-17 and 2017-18, respectively, and growth of 2.00% per annum thereafter. The projected Pledged Tax Revenues also reflect transfers of ownership that occurred between January 2014 and March 2015 and sales and new construction activity (based on final building permits) as of March 31, 2015, which is assumed to affect assessed valuations for Fiscal Years 2015-16 and 2016-17.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

TABLE 8
SUCCESSOR AGENCY TO THE SAN MARCOS REDEVELOPMENT AGENCY
PROJECT AREA NO. 1
PLEDGED TAX REVENUE PROJECTIONS

							Senior Pass-Through Payments			
Fiscal Year	*Assessed Valuation*	*Sales and Construction Assessed Valuation*[1]	*Estimated Tax Increment Revenues*	*Unitary Utility Revenue*	*Total Gross Revenue*	*County Administrative Fees*	*Senior Statutory Pass-Through Amounts*	*Senior Negotiated Pass-Through Agreements*	*Total Statutory and Negotiated Senior Pass-Through Payments*	*Total Revenue Net of Administrative Fees and Pass-Through Payments*[2]
Base Year	$ 223,970,420	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
2014-15	1,874,245,231	-	16,502,748	212,833	16,715,581	219,252	106,597	382,387	488,984	16,007,345
2015-16	1,911,692,651	72,903,300	17,606,255	212,833	17,819,088	233,913	116,201	410,964	527,165	17,058,010
2016-17	2,004,441,910	26,834,874	18,073,064	212,833	18,285,897	240,115	139,990	423,052	563,042	17,482,739
2017-18	2,051,589,552	-	18,276,191	212,833	18,489,024	242,814	152,082	428,313	580,395	17,665,816
2018-19	2,092,621,343	-	18,686,509	212,833	18,899,342	248,265	162,606	438,938	601,544	18,049,533
2019-20	2,134,473,770	-	19,105,033	212,833	19,317,867	253,826	173,341	449,776	623,117	18,440,924
2020-21	2,177,163,245	-	19,531,928	212,833	19,744,761	259,497	184,290	460,831	645,121	18,840,143
2021-22	2,220,706,510	-	19,967,361	212,833	20,180,194	265,282	195,458	472,107	667,565	19,247,347
2022-23	2,265,120,640	-	20,411,502	212,833	20,624,335	271,183	206,849	483,609	690,458	19,662,694
2023-24	2,310,423,053	-	20,864,526	212,833	21,077,359	277,202	218,469	495,340	713,809	20,086,349
2024-25	2,356,631,514	-	21,326,611	212,833	21,539,444	283,341	230,320	507,306	737,627	20,518,476
2025-26	2,403,764,145	-	21,797,937	212,833	22,010,770	289,603	242,409	519,512	761,921	20,959,247
2026-27	2,451,839,428	-	22,278,690	212,833	22,491,523	295,990	254,739	531,961	786,701	21,408,832
2027-28	2,500,876,216	-	22,769,058	212,833	22,981,891	302,505	267,317	544,660	811,976	21,867,410
2028-29	2,550,893,740	-	23,269,233	212,833	23,482,066	309,150	280,145	557,612	837,758	22,335,158
2029-30	2,601,911,615	-	23,779,412	212,833	23,992,245	315,928	293,230	570,824	864,054	22,812,262
2030-31	2,653,949,848	-	24,299,794	212,833	24,512,627	322,842	306,577	584,300	890,877	23,298,908
2031-32	2,707,028,844	-	24,830,584	212,833	25,043,417	329,894	320,191	598,045	918,236	23,795,287
2032-33	2,761,169,421	-	25,371,990	212,833	25,584,823	337,087	334,077	612,065	946,143	24,301,593
2033-34	2,816,392,810	-	25,924,224	212,833	26,137,057	344,424	348,241	626,366	974,607	24,818,026

(1) See Exhibits 5A and 6A in Appendix B for further information with respect to recent sales and pending developments in Project Area No. 1.
(2) Certain net revenue amounts may not equal gross tax increment revenues less County administrative fees and pass-through amounts due to rounding.
Source: Rosenow Spevacek Group Inc.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

PROJECT AREA NO. 2

General

The City Council adopted an ordinance approving the Redevelopment Plan for the Project Area No. 2 on July 19, 1985. Project Area No. 2 encompasses five non-contiguous subareas totaling 1,777 acres in west, central and south San Marcos.

Approximately 65% of the assessed valuation originating from Project Area No. 2 is derived from residential uses, approximately 21% of the assessed valuation originating from Project Area No. 2 is derived from commercial uses, approximately 8% of the assessed valuation originating from Project Area No. 2 is derived from industrial uses and approximately 6% of the assessed valuation originating from Project Area No. 2 is derived from other uses. Project Area No. 2 also includes a portion of a large regional landfill (closed), public streets and other public facilities, including California State University at San Marcos. See the caption "—Secured Assessed Value by Land Use Category."

Pass-Through Agreements

Description of Pass-Through Agreements. The following are the only Pass-Through Agreements that are payable on a senior basis to the 2015 Bonds and Parity Debt that are applicable to Project Area No. 2. Capitalized terms used in this caption and not defined have the meanings set forth under the caption "—Project Area No. 1—Pass-Through Agreements."

County Office of Education. Pursuant to an Agreement for Cooperation, dated as of July 25, 1989 (the "SDCOE Agreement"), by and among the San Diego County Office of Education ("SDCOE"), the City and the Former Agency, SDCOE is entitled to receive its 3.0% share of the Inflationary 2% Revenue after deduction of a Low and Moderate Income Housing Fund allocation of 20%.

County of San Diego. Pursuant to an Amended Agreement for Cooperation, dated as of April 10, 1990, by and among the County, the City and the Former Agency, the County is entitled to receive its Special District Tax Revenues and its 28.8% share of the Inflationary 2% Revenue. The Amended Agreement for Cooperation also provides for the County to receive its total share of tax increment revenues (after deduction of the Low and Moderate Income Housing Fund allocation of 20%) once the Agency and the Former Agency received a total of $28,507,697. By negotiation between the Agency and the County, the County has been receiving its total share of tax increment revenues (after deduction of the Low and Moderate Income Housing Fund allocation of 20%) since 2014.

Olivenhain Municipal Water District. Pursuant to an Agreement for Cooperation, dated as of August 13, 1985, by and among Olivenhain Municipal Water District ("OMWD"), the City and the Former Agency, OMWD is entitled to receive its 0.01% share of tax increment revenues after deduction of: (i) a Low and Moderate Income Housing Fund allocation of 22%; and (ii) tax increment revenues generated by increases in property value which are incident to or arising from projects for which the Former Agency entered into owner participation agreements or disposition and development agreements.

Palomar Community College District. Pursuant to the PCCD Agreement and an Agreement for Cooperation, dated May 28, 1985, by and among PCCD, the City and the Former Agency, PCCD is entitled to receive its Special District Tax Revenues and its 6.64% portion of the Inflationary 2% Revenue after deduction of: (i) a Low and Moderate Income Housing Fund allocation of 22%; and (ii) revenues generated by projects for which the Former Agency entered into owner participation agreements or disposition and development agreements.

San Marcos Fire Protection District. Pursuant to an Agreement for Cooperation, dated as of May 14, 1985, by and among the San Marcos Fire Protection District ("SMPFD"), the City and the Former

Agency, SMPFD is entitled to receive its 6.73% share of tax increment revenues after deduction of: (i) a Low and Moderate Income Housing Fund allocation of 22%; and (ii) revenues generated by projects for which the Former Agency entered into owner participation agreements or disposition and development agreements.

Vallecitos Water District. Pursuant to an Agreement for Cooperation, dated as of May 14, 1985, by and among San Marcos County Water District (now Vallecitos Water District ("VWD")), the City and the Former Agency, VWD is entitled to receive its 3.29% share of tax increment revenues after deduction of: (i) a Low and Moderate Income Housing Fund allocation of 22%; and (ii) tax increment revenues generated by increases in property value which are incident to or arising from redevelopment activities, as evidenced by documents on file with the City or the Agency.

No Subordination to Bonded Debt. The above-described Project Area No. 2 Pass-Through Agreements do not include provisions which gave the Former Agency the unrestricted right to issue bonds and pledge tax revenue (including, without limitation, each taxing entity's portion), while certain other Pass-Through Agreements that are described in Appendix B do include such subordination provisions. However, pursuant to the Dissolution Act, pass-through payments are no longer treated by the County Auditor-Controller and the DOF as subordinate to bonded indebtedness unless the Agency reports that there are insufficient funds to pay bonded debt service.

If an insufficiency exists, the Dissolution Act states that the Agency must notify the County Auditor-Controller on the December 1 and May 1 prior to each six-month Recognized Obligation Payment Schedule period. The County Auditor-Controller must then notify the State Controller's Office and the DOF no later than 10 days from the date of the Agency's report of the insufficiency. Once the County Auditor-Controller verifies that an insufficiency exists, the amount of the deficiency will be deducted from the amount remaining to be disbursed to the taxing entities and, if needed, any funds that are to be disbursed to the successor agency for the administrative cost allowance. See the caption "SECURITY FOR THE 2015 BONDS—Tax Increment Financing—Tax Sharing."

The projections of tax increment revenues set forth herein do not include any future subordination of pass-through payments under the above-described Pass-Through Agreements. See Appendix B.

Historic Assessed Valuations

The following table shows historic assessed valuations of the Agency for Project Area No. 2 for the current and four prior Fiscal Years. Although the economic slowdown in recent years resulted in a reduction in assessed values beginning in Fiscal Year 2008-09 through Fiscal Year 2012-13, assessed values have increased each year since Fiscal Year 2012-13.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

TABLE 9
SUCCESSOR AGENCY TO THE SAN MARCOS REDEVELOPMENT AGENCY
PROJECT AREA NO. 2
SCHEDULE OF HISTORICAL ASSESSED VALUATIONS

	Fiscal Year 2010-11	***% Change***	***Fiscal Year 2011-12***	***% Change***	***Fiscal Year 2012-13***	***% Change***	***Fiscal Year 2013-14***	***% Change***	***Fiscal Year 2014-15***	***% Change***
Secured	$ 1,117,153,585	(0.70)%	$ 1,108,666,155	(0.76)%	$ 1,073,652,934	(3.16)%	$ 1,116,783,433	4.02%	$ 1,191,585,130	6.70%
State Utility	-		-		-		-		-	
Unsecured	40,502,847	(1.14)	39,065,654	(3.55)	37,281,663	(4.57)	35,807,511	(3.95)	38,734,183	8.17
Total Assessed Value[1]	1,157,656,432	(0.71)	1,147,731,809	(0.86)	1,110,934,597	(3.21)	1,152,590,944	3.75	1,230,319,313	6.74
Less: Base Year	(133,367,243)		(133,367,243)		(133,367,243)		(133,367,243)		(133,367,243)	
Incremental Assessed Value	$ 1,024,289,189	(0.80)%	$ 1,014,364,566	(0.97)%	$ 977,567,354	(3.63)%	$ 1,019,223,701	4.26%	$ 1,096,952,070	7.63%

[1] Assessed valuations for secured property are net of non-homeowner's exemptions and include public utility values.
Source: Rosenow Spevacek Group Inc.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

Largest Taxpayers

Set forth below are the ten largest secured and unsecured taxpayers within Project Area No. 2 as of Fiscal Year 2014-15.

TABLE 10
SUCCESSOR AGENCY TO THE SAN MARCOS REDEVELOPMENT AGENCY
PROJECT AREA. NO. 2
TEN LARGEST TAXPAYERS
FISCAL YEAR 2014-15 TAX ROLL

	Taxpayer	*Number of Parcels*	*Land Use(s)*	*Assessed Value*[1]	*% of Total Assessed Value*
1	Willmark Communities Inc.	2	Residential	$ 90,403,601	7.4%
2	Ralphs Grocery Co.	1	Commercial	36,513,433	3.0
3	Urban Villages San Marcos LLC[2]	32	Residential	32,416,689	2.6
4	Weingarten Realty Investors[3]	11	Commercial	30,849,890	2.5
5	University of St. Augustine for Health Services	2	Commercial	29,609,596	2.4
6	Providence Royal Oaks San Marcos, LLC	1	Residential	18,915,150	1.5
7	San Marcos Village, LLC	11	Commercial	14,006,536	1.1
8	NAPP Systems, Inc.	1	Industrial	13,851,143	1.1
9	Supervalu, Inc.	1	Commercial	11,250,848	0.9
10	JFW Investments, LP	1	Commercial	10,000,000	0.8
	Top 10 Taxpayer Total	63		$ 287,816,886	23.4%
	Total Project Area Assessed Value			$1,230,319,313	

(1) The assessed values represented above are net of all exemptions except the $7,000 homeowner’s exemption.
(2) Includes entities that are believed to be affiliated, as described in Footnote 3 to Exhibit 7C in the Fiscal Consultant Report set forth in Appendix B.
(3) Includes entities that are believed to be affiliated, as described in Footnote 4 to Exhibit 7C in the Fiscal Consultant Report set forth in Appendix B.
Source: Rosenow Spevacek Group Inc.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

Secured Assessed Value by Land Use Category

The following table summarizes the Fiscal Year 2014-15 secured assessed value by land use category for Project Area No. 2.

TABLE 11
SUCCESSOR AGENCY TO THE SAN MARCOS REDEVELOPMENT AGENCY
PROJECT AREA NO. 2
SECURED ASSESSED VALUE BY LAND USE CATEGORY

Land Use	*Number of Parcels*	*Secured Assessed Value*[1]	*% of Value*
Residential	1,949	$ 773,990,744	64.95%
Commercial	122	246,354,847	20.67
Industrial	133	100,019,778	8.39
Vacant	85	53,618,261	4.50
Office	17	10,766,417	0.90
Institutional	6	2,282,995	0.19
Agricultural	3	3,863,546	0.32
Miscellaneous	65	688,542	0.06
Totals	2,380	$ 1,191,585,130	100.00%

(1) The secured assessed valuations represented above are net of all other exemptions.
Source: Rosenow Spevacek Group Inc.

Projected Taxable Valuation and Projected Pledged Tax Revenues

The following table shows the projected Pledged Tax Revenues for Project Area No. 2 through Fiscal Year 2035-36, assuming growth of 1.998%, 1.00% and 1.00% in assessed valuations in Fiscal Years 2015-16, 2016-17 and 2017-18, respectively, and growth of 2.00% per annum thereafter. The projected Pledged Tax Revenues also reflect transfers of ownership that occurred between January 2014 and March 2015.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

TABLE 12
SUCCESSOR AGENCY TO THE SAN MARCOS REDEVELOPMENT AGENCY
PROJECT AREA NO. 2
PLEDGED TAX REVENUE PROJECTIONS

							Senior Pass-Through Payments			
Fiscal Year	*Assessed Valuation*	*Sales Assessed Valuation*[1]	*Estimated Tax Increment Revenues*	*Unitary Utility Revenue*	*Total Gross Revenue*	*County Administrative Fees*	*Senior Statutory Pass-Through Amounts*	*Senior Negotiated Pass-Through Agreements*	*Total Statutory and Negotiated Senior Pass-Through Payments*	*Total Revenue Net of Administrative Fees and Pass-Through Payments*[2]
Base Year	$ 133,367,243	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
2014-15	1,230,319,313	-	10,969,521	93,042	11,062,563	152,750	6,786	3,261,963	3,268,749	7,641,063
2015-16	1,254,901,093	14,673,116	11,362,070	93,042	11,455,112	158,216	7,667	3,386,301	3,393,968	7,902,928
2016-17	1,282,269,951	2,050,546	11,509,533	93,042	11,602,575	160,270	9,451	3,437,180	3,446,631	7,995,674
2017-18	1,297,163,702	-	11,637,965	93,042	11,731,007	162,058	10,421	3,482,293	3,492,714	8,076,234
2018-19	1,323,106,976	-	11,897,397	93,042	11,990,439	165,671	12,112	3,567,948	3,580,060	8,244,709
2019-20	1,349,569,115	-	12,162,019	93,042	12,255,061	169,356	13,837	3,655,315	3,669,152	8,416,553
2020-21	1,376,560,498	-	12,431,933	93,042	12,524,975	173,114	15,596	3,744,430	3,760,027	8,591,834
2021-22	1,404,091,708	-	12,707,245	93,042	12,800,287	176,948	17,391	3,835,328	3,852,718	8,770,621
2022-23	1,432,173,542	-	12,988,063	93,042	13,081,105	180,858	19,221	3,928,043	3,947,264	8,952,983
2023-24	1,460,817,013	-	13,274,498	93,042	13,367,540	184,847	21,088	4,022,613	4,043,700	9,138,993
2024-25	1,490,033,353	-	13,566,661	93,042	13,659,703	188,915	22,992	4,119,074	4,142,065	9,328,722
2025-26	1,519,834,020	-	13,864,668	93,042	13,957,710	193,065	24,934	4,217,464	4,242,398	9,522,247
2026-27	1,550,230,700	-	14,168,635	93,042	14,261,677	197,298	26,915	4,317,822	4,344,737	9,719,642
2027-28	1,581,235,314	-	14,478,681	93,042	14,571,723	201,615	28,936	4,420,187	4,449,123	9,920,985
2028-29	1,612,860,021	-	14,794,928	93,042	14,887,970	206,019	30,997	4,524,600	4,555,597	10,126,354
2029-30	1,645,117,221	-	15,117,500	93,042	15,210,542	210,511	33,099	4,631,100	4,664,200	10,335,831
2030-31	1,678,019,566	-	15,446,523	93,042	15,539,565	215,092	35,244	4,739,731	4,774,975	10,549,498
2031-32	1,711,579,957	-	15,782,127	93,042	15,875,169	219,766	37,431	4,850,535	4,887,966	10,767,438
2032-33	1,745,811,556	-	16,124,443	93,042	16,217,485	224,532	39,662	4,963,554	5,003,216	10,989,737
2033-34	1,780,727,787	-	16,473,605	93,042	16,566,648	229,394	41,938	5,078,834	5,120,772	11,216,481
2034-35	1,816,342,343	-	16,829,751	93,042	16,922,793	234,354	44,259	5,196,419	5,240,678	11,447,761
2035-36	1,852,669,190	-	17,193,019	93,042	17,286,062	239,412	46,627	5,316,356	5,362,983	11,683,666

(1) See Exhibit 5B in Appendix B for further information with respect to recent sales in Project Area No. 2.
(2) Certain net revenue amounts may not equal gross tax increment revenues less County administrative fees and pass-through amounts due to rounding.
Source: Rosenow Spevacek Group Inc.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

PROJECT AREA NO. 3

General

The City Council adopted an ordinance approving the Redevelopment Plan for Project Area No. 3 on July 11, 1989. Project Area No. 3 encompasses approximately 6,301 acres. Project Area No. 3 is generally bounded by South Santa Fe Avenue, Discovery Street and Barham Drive to the north, the City's incorporated limits to the south and the City's incorporated limits to the east and west.

Approximately 91% of the assessed valuation originating from Project Area No. 3 is derived from residential uses, approximately 4% of the assessed valuation originating from Project Area No. 3 is derived from industrial uses, approximately 2% of the assessed valuation originating from Project Area No. 3 is derived from commercial uses and approximately 3% of the assessed valuation originating from Project Area No. 3 is derived from other uses. See the caption "—Secured Assessed Value by Land Use Category."

Pass-Through Agreements

Description of Pass-Through Agreements. The following are the only Pass-Through Agreements that are payable on a senior basis to the 2015 Bonds and Parity Debt that are applicable to Project Area No. 3. Capitalized terms used in this caption and not defined have the meanings set forth under the caption "—Project Area No. 1—Pass-Through Agreements."

County Office of Education. Pursuant to the SDCOE Agreement, SDCOE is entitled to receive its 2.93% share of the Inflationary 2% Revenue after deduction of a Low and Moderate Income Housing Fund allocation of 20%.

County of San Diego. Pursuant to an Amended Agreement for Cooperation, dated as of April 13, 1990, by and among the County, the City and the Former Agency, and a Settlement Agreement and Mutual Release of Claims, dated as of July 8, 1998, by and among the County, the City and the Former Agency, the County is entitled to receive the following separate streams of pass-through payments that accrue to the County of San Diego (General Fund and County Library Fund) from Project Area No. 3:

1. The County's 29.95% share of the Inflationary 2% Revenue.

2. Any County Special District Tax Revenues.

3. 15% of the County's 29.95% share of an agreed upon tax increment schedule ("Forecast Revenue") less the Inflationary 2% Revenue through the earlier of: (a) the 30th year of the Redevelopment Plan for Project Area No. 3; or (b) until the Agency and Former Agency have received a total of $88,000,000 of the County's share of tax increment revenue (including its share of a Low and Moderate Income Housing Fund allocation of 20% and revenue to be used for mutually beneficial projects as outlined in the agreement). After the earlier of (a) or (b) occur, the County will receive 100% of its portion of revenue.

Until the earlier of (a) or (b) occur, the Agency must also pay the County's share of tax increment revenue above the Forecast Revenue. According to the Fiscal Consultant's records, the Agency and the Former Agency retained approximately $40 million of the County's share through Fiscal Year 2013-14. Based on the growth rates assumed in the Pledged Tax Revenue projections herein, the Fiscal Consultant does not expect the $88,000,000 threshold to be reached by the 30th year of the Redevelopment Plan for Project Area No. 3 (Fiscal Year 2018-19). Therefore, pass-through payments based on "Forecast Revenue" are applied through Fiscal Year 2018-19. All payments to the County are be calculated after deduction of a Low and Moderate Income Housing Fund allocation of 24.7%.

North County Cemetery District. Pursuant to an Agreement for Cooperation, dated as of March 13, 1990, by and among North County Cemetery District ("NCCD"), the City and the Former Agency, NCCD is entitled to receive its 0.19% share of tax increment revenues in excess of that attributable to the first 3% annual increase in valuation of real property.

Palomar Community College District. Pursuant to the PCCD Agreement, an Agreement for Cooperation, dated as of February 13, 1991, by and among PCCD, the City and the Former Agency, and an Agreement for Cooperation, dated as of June 13, 1989, by and among PCCD, the City and the Former Agency, PCCD is entitled to receive: (i) its Special District Tax Revenues; (ii) its 6.64% share of the Inflationary 2% Revenue (after deduction of a Low and Moderate Income Housing Fund allocation of 24.7%); and (iii) 50% of PCCD's share of tax increment revenues after deduction of: (1) 50% of tax increment revenues generated by increases in property value which are incident to or arising from projects for which the Former Agency entered into owner participation agreements or disposition and development agreements; and (2) a Low and Moderate Income Housing Fund allocation of 24.7%.

San Marcos Fire Protection District. Pursuant to an Agreement for Cooperation, dated as of June 13, 1989, by and among SMFPD, the City and the Former Agency, SMPFD is entitled to receive its 6.43% share of tax increment revenues, except for tax increment revenues generated by increases in property value which are incident to or arising from redevelopment activities, as evidenced by executed owner participation agreements or disposition and development agreements.

Vallecitos Water District. Pursuant to an Agreement for Cooperation, dated as of June 13, 1989, by and among VWD, the City and the Former Agency, VWD is entitled to receive its 2.77% share of tax increment revenues, except for tax increment revenues generated by increases in property value which are incident to or arising from redevelopment activities, as evidenced by executed owner participation agreements or disposition and development agreements.

No Subordination to Bonded Debt. The above-described Project Area No. 3 Pass-Through Agreements do not include provisions which gave the Former Agency the unrestricted right to issue bonds and pledge tax revenue (including, without limitation, each taxing entity's portion), while certain other Pass-Through Agreements that are described in Appendix B do include such subordination provisions. However, pursuant to the Dissolution Act, pass-through payments are no longer treated by the County Auditor-Controller and the DOF as subordinate to bonded indebtedness unless the Agency reports that there are insufficient funds to pay bonded debt service.

If an insufficiency exists, the Dissolution Act states that the Agency must notify the County Auditor-Controller on the December 1 and May 1 prior to each six-month Recognized Obligation Payment Schedule period. The County Auditor-Controller must then notify the State Controller's Office and the DOF no later than 10 days from the date of the Agency's report of the insufficiency. Once the County Auditor-Controller verifies that an insufficiency exists, the amount of the deficiency will be deducted from the amount remaining to be disbursed to the taxing entities and, if needed, any funds that are to be disbursed to the successor agency for the administrative cost allowance. See the caption "SECURITY FOR THE 2015 BONDS—Tax Increment Financing—Tax Sharing."

The projections of tax increment revenues set forth herein do not include any future subordination of pass-through payments. See Appendix B.

Historic Assessed Valuations

The following table shows historic assessed valuations of the Agency for Project Area No. 3 for the current and four prior Fiscal Years and current estimates for Fiscal Year 2014-15. Although the economic slowdown in recent years resulted in a reduction in assessed values beginning in Fiscal Year 2008-09 through Fiscal Year 2012-13, assessed values have increased each year since Fiscal Year 2012-13.

TABLE 13
SUCCESSOR AGENCY TO THE SAN MARCOS REDEVELOPMENT AGENCY
PROJECT AREA NO. 3
SCHEDULE OF HISTORICAL TAX INCREMENTS

	Fiscal Year 2010-11	*% Change*	*Fiscal Year 2011-12*	*% Change*	*Fiscal Year 2012-13*	*% Change*	*Fiscal Year 2013-14*	*% Change*	*Fiscal Year 2014-15*	*% Change*
Secured	$ 3,332,723,826	(1.48)%	$ 3,384,326,078	1.55%	$ 3,380,679,637	(0.11)%	$ 3,548,663,162	4.97%	$ 4,014,445,592	13.13%
State Utility	-		-		-		-		-	
Unsecured	82,338,724	(0.56)	83,443,272	1.34	82,553,166	(1.07)	71,690,000	(13.16)	75,808,223	5.74
Total Assessed Value[1]	3,415,062,550	(1.46)	3,467,769,350	1.54	3,463,232,803	(0.13)	3,620,353,162	4.54	4,090,253,815	12.98
Less: Base Year	(361,417,171)		(361,417,171)		(361,417,171)		(361,417,171)		(361,417,171)	
Incremental Assessed Value	$ 3,053,645,379	(1.63)%	$ 3,106,352,179	1.73%	$ 3,101,815,632	(0.15)%	$ 3,258,935,991	5.07%	$ 3,728,836,644	14.42%

[1] Assessed valuations for secured property are net of non-homeowner's exemptions and include public utility values.
Source: Rosenow Spevacek Group Inc.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

Largest Taxpayers

Set forth below are the ten largest secured and unsecured taxpayers within Project Area No. 3 as of Fiscal Year 2014-15.

TABLE 14
SUCCESSOR AGENCY TO THE SAN MARCOS REDEVELOPMENT AGENCY
PROJECT AREA. NO. 3
TEN LARGEST TAXPAYERS
FISCAL YEAR 2014-15 TAX ROLL

	Taxpayer	*Number of Parcels*	*Land Use(s)*	*Assessed Value*(1)	*% of Total Assessed Value*
1	Hunter Industries(2)	10	Industrial / Commercial	$ 88,327,689	2.2%
2	HomeFed Corporation(3)	94	Residential / Commercial	30,234,951	0.7
3	Ryland Homes of California, Inc.(4)	70	Residential / Commercial	28,950,401	0.7
4	Wood Partners	1	Residential	21,268,670	0.5
5	Supervalu, Inc.(5)	1	Commercial	17,077,180	0.4
6	Northwoods Apartment Homes, LP	2	Residential	16,968,030	0.4
7	830 RSF Road LLC	1	Residential	16,826,062	0.4
8	D R Horton Holding Company(6)	41	Residential	16,554,726	0.4
9	Richmond American Homes, Inc.(7)	44	Residential	15,600,000	0.4
10	George McElroy & Associates, Inc.	1	Residential	14,161,161	0.3
	Top 10 Taxpayer Total	265		$ 265,968,870	6.5%
	Total Project Area Assessed Value			$4,090,253,815	

(1) The assessed values represented above are net of all exemptions except the $7,000 homeowner's exemption.

(2) Hunter Industries Inc. has been assessed approximately $44 million on the County's Fiscal Year 2014-15 unsecured roll. Includes entities that are believed to be affiliated, as described in Footnote 3 to Exhibit 7D in the Fiscal Consultant Report set forth in Appendix B.

(3) Includes entities that are believed to be affiliated, as described in Footnote 4 to Exhibit 7D in the Fiscal Consultant Report set forth in Appendix B.

(4) Includes entities that are believed to be affiliated, as described in Footnote 5 to Exhibit 7D in the Fiscal Consultant Report set forth in Appendix B.

(5) This taxpayer has a pending assessment appeal seeking a cumulative reduction of approximately $4.3 million. See the caption "THE REDEVELOPMENT PLANS—Assessment Appeals."

(6) Includes entities that are believed to be affiliated, as described in Footnote 6 to Exhibit 7D in the Fiscal Consultant Report set forth in Appendix B.

(7) Includes entities that are believed to be affiliated, as described in Footnote 7 to Exhibit 7D in the Fiscal Consultant Report set forth in Appendix B.

Source: Rosenow Spevacek Group Inc.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

Secured Assessed Value by Land Use Category

The following table summarizes the Fiscal Year 2014-15 secured assessed value by land use category for Project Area No. 3.

TABLE 15
SUCCESSOR AGENCY TO THE SAN MARCOS REDEVELOPMENT AGENCY
PROJECT AREA NO. 3
SECURED ASSESSED VALUE BY LAND USE CATEGORY

Land Use	*Number of Parcels*	*Secured Assessed Value*[1]	*% of Value*
Residential	10,713	$ 3,669,678,507	91.41%
Commercial	35	78,480,690	1.95
Industrial	94	160,620,812	4.00
Vacant	408	98,267,688	2.45
Office	-	-	0.00
Institutional	8	2,522,991	0.06
Agricultural	23	4,345,944	0.11
Miscellaneous[2]	288	528,960	0.01
Totals	11,569	$ 4,014,445,592	100.00%

(1) The secured assessed valuations represented above are net of all other exemptions.
(2) Includes open space, easement parcels and undevelopable slopes.
Source: Rosenow Spevacek Group Inc.

Projected Taxable Valuation and Projected Pledge Tax Revenues

The following table shows the projected Pledged Tax Revenues for Project Area No. 3 through Fiscal Year 2037-38, assuming growth of 1.998%, 1.00% and 1.00% in assessed valuations in Fiscal Years 2015-16, 2016-17 and 2017-18, respectively, and growth of 2.00% per annum thereafter. The projected Pledged Tax Revenues also reflect transfers of ownership that occurred between January 2014 and March 2015 and sales and new construction activity (based on final building permits) as of March 31, 2015, which is assumed to affect assessed valuations for Fiscal Years 2015-16 and 2016-17.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

TABLE 16
SUCCESSOR AGENCY TO THE SAN MARCOS REDEVELOPMENT AGENCY
PROJECT AREA NO. 3
PLEDGED TAX REVENUE PROJECTIONS

							Senior Pass-Through Payments			
Fiscal Year	***Assessed Valuation***	***Sales and Construction Assessed Valuation***[(1)]	***Estimated Tax Increment Revenues***	***Unitary Utility Revenue***	***Total Gross Revenue***	***County Administrative Fees***	***Senior Statutory Pass-Through Amounts***	***Senior Negotiated Pass-Through Agreements***	***Total Statutory and Negotiated Senior Pass-Through Payments***	***Total Revenue Net of Administrative Fees and Pass-Through Payments***[(2)]
Base Year	$ 361,417,171	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
2014-15	4,090,253,815	-	37,288,366	276,023	37,564,389	464,811	19,997	8,118,854	8,138,850	28,960,728
2015-16	4,171,977,086	168,888,531	39,794,484	276,023	40,070,507	496,050	22,613	8,708,645	8,731,258	30,843,199
2016-17	4,384,274,273	25,631,582	40,484,887	276,023	40,760,910	504,656	29,410	8,653,046	8,682,456	31,573,798
2017-18	4,454,004,914	-	40,925,877	276,023	41,201,900	510,153	31,642	8,497,939	8,529,581	32,162,166
2018-19	4,543,085,013	-	41,816,678	276,023	42,092,701	521,257	34,494	8,484,390	8,518,884	33,052,560
2019-20	4,633,946,713	-	42,725,295	276,023	43,001,318	532,584	39,846	13,362,217	13,402,063	29,066,671
2020-21	4,726,625,647	-	43,652,085	276,023	43,928,108	544,136	45,306	13,689,962	13,735,268	29,648,703
2021-22	4,821,158,160	-	44,597,410	276,023	44,873,433	555,920	50,874	14,024,262	14,075,137	30,242,376
2022-23	4,917,581,323	-	45,561,642	276,023	45,837,664	567,940	56,554	14,365,248	14,421,803	30,847,922
2023-24	5,015,932,950	-	46,545,158	276,023	46,821,181	580,199	62,348	14,713,054	14,775,402	31,465,579
2024-25	5,116,251,609	-	47,548,344	276,023	47,824,367	592,704	68,258	15,067,816	15,136,073	32,095,590
2025-26	5,218,576,641	-	48,571,595	276,023	48,847,618	605,460	74,285	15,429,673	15,503,958	32,738,200
2026-27	5,322,948,174	-	49,615,310	276,023	49,891,333	618,470	80,434	15,798,767	15,879,200	33,393,663
2027-28	5,429,407,137	-	50,679,900	276,023	50,955,922	631,740	86,705	16,175,243	16,261,948	34,062,235
2028-29	5,537,995,280	-	51,765,781	276,023	52,041,804	645,276	93,101	16,559,248	16,652,350	34,744,178
2029-30	5,648,755,186	-	52,873,380	276,023	53,149,403	659,083	99,626	16,950,934	17,050,560	35,439,760
2030-31	5,761,730,289	-	54,003,131	276,023	54,279,154	673,165	106,281	17,350,453	17,456,734	36,149,254
2031-32	5,876,964,895	-	55,155,477	276,023	55,431,500	687,530	113,069	17,757,963	17,871,032	36,872,938
2032-33	5,994,504,193	-	56,330,870	276,023	56,606,893	702,181	119,993	18,173,623	18,293,616	37,611,096
2033-34	6,114,394,277	-	57,529,771	276,023	57,805,794	717,126	127,056	18,597,596	18,724,652	38,364,016
2034-35	6,236,682,162	-	58,752,650	276,023	59,028,673	732,369	134,259	19,030,049	19,164,308	39,131,995
2035-36	6,361,415,806	-	59,999,986	276,023	60,276,009	747,918	141,607	19,471,150	19,612,757	39,915,334
2036-37	6,488,644,122	-	61,272,270	276,023	61,548,292	763,777	149,102	19,921,074	20,070,176	40,714,339
2037-38	6,618,417,004	-	62,569,998	276,023	62,846,021	779,954	156,746	20,379,996	20,536,743	41,529,325

(1) See Exhibits 5C and 6C in Appendix B for further information with respect to recent sales and pending developments in Project Area No. 3.
(2) Certain net revenue amounts may not equal gross tax increment revenues less County administrative fees and pass-through amounts due to rounding.
Source: Rosenow Spevacek Group Inc.

PLEDGED TAX REVENUE PROJECTIONS AND DEBT SERVICE COVERAGE

The Agency has retained Rosenow Spevacek Group Inc. to provide projections of taxable valuation and Pledged Tax Revenues from the Project Areas. The below projections reflect the existing redevelopment plan limitations for the Project Areas described under the caption "THE REDEVELOPMENT PLANS—Financial Limitations" and assume 1.998%, 1.00% and 1.00% annual growth in tax increment revenues in Fiscal Years 2015-16, 2016-17 and 2017-18, respectively, and growth of 2.00% per annum thereafter. At such assumed growth rates, none of the Project Areas are projected to reach their cumulative tax increment limits prior to maturity of the 2015 Bonds. However, the time limits to receive tax increment revenues will elapse for Project Area Nos. 1 and 2 in Fiscal Years 2034-35 and 2036-37, respectively, which is prior to the maturity of the 2015 Bonds. See the caption THE REDEVELOPMENT PLANS—Financial Limitations." The Agency believes that the assumptions (set forth in the footnotes below and in Appendix B) upon which the projections are based are reasonable; however, some assumptions may not materialize and unanticipated events and circumstances may occur. See the caption "RISK FACTORS AND LIMITATIONS ON PLEDGED TAX REVENUES." Therefore, the actual Pledged Tax Revenues received during the forecast period may vary from the projections, and such variations may be material.

The following tables show projected total Pledged Tax Revenues for all of the Project Areas and debt service coverage for the 2015 Bonds, assuming approximately 1.998%, 1.00% and 1.00% annual growth in tax increment revenues in Fiscal Years 2015-16, 2016-17 and 2017-18, respectively, and growth of 2.00% per annum thereafter through the maturity of the 2015 Bonds. The projected Pledged Tax Revenues also reflect transfers of ownership that occurred between January 2014 and March 2015 and sales and new construction activity (based on final building permits) as of March 31, 2015, which is assumed to affect assessed valuations for Fiscal Years 2015-16 and 2016-17.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

TABLE 17
SUCCESSOR AGENCY TO THE SAN MARCOS REDEVELOPMENT AGENCY
PROJECT AREA NOS. 1, 2 AND 3
PLEDGED TAX REVENUE PROJECTIONS

							Senior Pass-Through Payments				
Fiscal Year	***Assessed Valuation***	***Sales and Construction Assessed Valuation***[3]	***Estimated Tax Increment Revenues***	***Unitary Utility Revenue***	***Total Gross Revenue***	***County Administrative Fees***	***Senior Statutory Pass-Through Amounts***	***Senior Negotiated Pass-Through Agreements***	***Total Senior Statutory and Negotiated Pass-Through Payments***	***Housing Bond Debt Service Payments***[4]	***Pledged Tax Revenues***[5]
2014-15	$7,194,818,359	$ -	$64,760,635	$581,898	$ 65,342,533	$ 836,813	$133,379	$11,763,204	$11,896,583	$5,590,963	$47,018,174
2015-16	7,338,570,830	256,464,947	68,762,809	581,898	69,344,707	888,180	146,481	12,505,910	12,652,391	5,591,938	50,212,199
2016-17	7,670,986,135	54,517,002	70,067,483	581,898	70,649,381	905,041	178,850	12,513,279	12,692,129	5,591,175	51,461,036
2017-18	7,802,758,168	-	70,840,033	581,898	71,421,931	915,025	194,146	12,408,544	12,602,690	5,588,369	52,315,847
2018-19	7,958,813,332	-	72,400,585	581,898	72,982,483	935,194	209,213	12,491,276	12,700,488	5,588,213	53,758,589
2019-20	8,117,989,598	-	73,992,348	581,898	74,574,246	955,765	227,024	17,467,309	17,694,333	5,591,638	50,332,510
2020-21	8,280,349,390	-	75,615,946	581,898	76,197,844	976,748	245,192	17,895,224	18,140,415	5,589,300	51,491,380
2021-22	8,445,956,378	-	77,272,015	581,898	77,853,913	998,150	263,723	18,331,697	18,595,420	5,589,750	52,670,593
2022-23	8,614,875,506	-	78,961,207	581,898	79,543,105	1,019,981	282,625	18,776,900	19,059,524	5,590,150	53,873,449
2023-24	8,787,173,016	-	80,684,182	581,898	81,266,080	1,042,248	301,904	19,231,006	19,532,911	5,587,950	55,102,971
2024-25	8,962,916,476	-	82,441,616	581,898	83,023,514	1,064,961	321,570	19,694,195	20,015,765	5,591,950	56,350,838
2025-26	9,142,174,806	-	84,234,200	581,898	84,816,098	1,088,128	341,628	20,166,648	20,508,277	5,590,150	57,629,544
2026-27	9,325,018,302	-	86,062,635	581,898	86,644,533	1,111,758	362,088	20,648,550	21,010,638	5,591,350	58,930,787
2027-28	9,511,518,668	-	87,927,638	581,898	88,509,536	1,135,860	382,957	21,140,090	21,523,047	5,588,375	60,262,254
2028-29	9,701,749,041	-	89,829,942	581,898	90,411,840	1,160,445	404,244	21,641,460	22,045,704	5,591,500	61,614,191
2029-30	9,895,784,022	-	91,770,292	581,898	92,352,190	1,185,522	425,956	22,152,858	22,578,814	5,587,750	63,000,104
2030-31	10,093,699,703	-	93,749,449	581,898	94,331,347	1,211,100	448,102	22,674,484	23,122,587	-	69,997,660
2031-32	10,295,573,697	-	95,768,189	581,898	96,350,087	1,237,189	470,692	23,206,543	23,677,234	-	71,435,663
2032-33	10,501,485,170	-	97,827,303	581,898	98,409,201	1,263,801	493,733	23,749,242	24,242,975	-	72,902,426
2033-34	10,711,514,874	-	99,927,600	581,898	100,509,498	1,290,944	517,235	24,302,796	24,820,031	-	74,398,523
2034-35[1]	8,053,024,505	-	75,582,401	369,065	75,951,466	966,723	178,518	24,226,468	24,404,987	-	50,579,756
2035-36	8,214,084,996	-	77,193,006	369,065	77,562,071	987,330	188,234	24,787,507	24,975,741	-	51,599,000
2036-37[2]	6,488,644,122	-	61,272,270	276,023	61,548,292	763,777	149,102	19,921,074	20,070,176	-	40,714,339
2037-38	6,618,417,004	-	62,569,998	276,023	62,846,021	779,954	156,746	20,379,996	20,536,743	-	41,529,325

(1) Marks first year after expiration of time limit to collect tax increment revenues for Project Area No. 1. See the caption "THE REDEVELOPMENT PLANS—Financial Limitations."

(2) Marks first year after expiration of time limit to collect tax increment revenues for Project Area No. 2. See the caption "THE REDEVELOPMENT PLANS—Financial Limitations."

(3) Sales and construction value shown for Fiscal Year 2016-17 reflects activity through March 31, 2015. Sales and construction during the remainder of 2015 will add to this value. Reflects sales value only for Project Area No. 2.

(4) See the caption "SECURITY FOR THE 2015 BONDS—Senior Obligations." Although these payments are made in April and October of each year and thereby split across different Fiscal Years, the Agency requests the funds to be distributed from the same Fiscal Year, in accordance with the Recognized Obligation Payment Schedule process. See the caption "SECURITY FOR THE 2015 BONDS—Recognized Obligation Payment Schedule." The payments are therefore listed in these projections with the Fiscal Year from which revenues are used for the indicated payments.

(5) Certain net revenue amounts may not equal gross tax increment revenues less County administrative fees, pass-through amounts and Housing Bond payments due to rounding.

Source: Rosenow Spevacek Group Inc.

As discussed under the caption "THE REDEVELOPMENT PLANS—Financial Limitations," the time limits to receive tax increment revenues will elapse for Project Area Nos. 1 and 2 in Fiscal Years 2034-35 and 2036-37, respectively, which is prior to the maturity of the 2015 Bonds. As a result, tax increment revenues from Project Area Nos. 2 and 3 alone will secure payment of the 2015 Bonds in Fiscal Years 2035-36 and 2036-37 and tax increment revenues from Project Area No. 3 alone will secure payment of the 2015 Bonds in Fiscal Year 2037-38. See the caption "RISK FACTORS AND LIMITATIONS ON PLEDGED TAX REVENUES—Reduction in Taxable Value; Plan Limitations; Shortfall in Tax Revenue Projections."

TABLE 18
SUCCESSOR AGENCY TO THE SAN MARCOS REDEVELOPMENT AGENCY
PROJECT AREA NOS. 1, 2 AND 3
ESTIMATED DEBT SERVICE COVERAGE

Fiscal Year	***Pledged Tax Revenues***[(1)]	***2015 Bond Debt Service***	***Debt Service Coverage***
2015-16	$50,212,199	$ 17,897,653	2.81
2016-17	51,461,036	17,883,290	2.88
2017-18	52,315,847	17,884,026	2.93
2018-19	53,758,589	17,885,130	3.01
2019-20	50,332,510	17,875,880	2.82
2020-21	51,491,380	17,893,991	2.88
2021-22	52,670,593	17,870,341	2.95
2022-23	53,873,449	17,883,241	3.01
2023-24	55,102,971	17,432,384	3.16
2024-25	56,350,838	17,434,272	3.23
2025-26	57,629,544	17,751,847	3.25
2026-27	58,930,787	17,747,647	3.32
2027-28	60,262,254	17,235,747	3.50
2028-29	61,614,191	16,804,661	3.67
2029-30	63,000,104	16,731,130	3.77
2030-31	69,997,660	16,742,033	4.18
2031-32	71,435,663	13,776,621	5.19
2032-33	72,902,426	13,776,799	5.29
2033-34	74,398,523	10,030,413	7.42
2034-35	50,579,756	9,336,510	5.42
2035-36	51,599,000	9,333,349	5.53
2036-37	40,714,339	4,840,180	8.41
2037-38	41,529,325	4,840,592	8.58

(1) See Table 17 for detailed information with respect to the calculation of Pledged Tax Revenues.
Source: Stifel, Nicolaus & Company, Incorporated.

RISK FACTORS AND LIMITATIONS ON PLEDGED TAX REVENUES

Investment in the 2015 Bonds involves elements of risk. Certain specific risk factors affecting the payment and security of the 2015 Bonds are described below. The following discussion of risks is not meant to be an exhaustive list of the risks associated with the purchase of the 2015 Bonds and the order of discussion of such risks does not necessarily reflect the relative importance of the various risks. If any risk factor materializes to a sufficient degree, it alone could delay or preclude payment of principal of and/or interest on the 2015 Bonds. Potential investors are advised to consider the following factors, along with all other information in this Official Statement, in evaluating the 2015 Bonds. There can be no assurance that other risk factors not discussed under this caption will not become material in the future.

Plan Limits

The Project Areas are subject to time period limits on the receipt of tax increment revenues. See the caption "THE REDEVELOPMENT PLANS—Financial Limitations." For certain areas within such Project Areas, the last date to receive tax increment revenues occurs before the maturity of the 2015 Bonds. 2015 Bonds that mature after such date will not be secured by tax increment revenues derived from areas within such Project Areas for which the time period to receive tax increment revenues has passed. In particular, the last dates to receive tax increment revenues on Project Area Nos. 1 and 2 are July 12, 2034, and July 19, 2036, respectively.

Additionally, the Project Areas have cumulative limits on the amount of tax increment revenues that can be allocated to the Agency under the respective redevelopment plans. Based on the inflationary assumptions used, the Fiscal Consultant does not project that any of the cumulative tax increment limits will be reached prior to the final maturity of the 2015 Bonds.

The Agency currently estimates that it will have sufficient tax increment revenues to pay the principal of and interest on the 2015 Bonds. However, there can be no assurance that the actual amount of tax increment revenues received will be as set forth in the Agency's projections. See Appendix B.

Property Tax Limitations – Article XIIIA

On June 6, 1978, State voters approved an amendment (commonly known as Proposition 13 or the Jarvis-Gann Initiative) which added Article XIIIA to the California Constitution. Article XIIIA limits the amount of *ad valorem* taxes on real property to 1% of "full cash value" of such property, as determined by the county assessor. Article XIIIA defines "full cash value" to mean "the county assessor's valuation of real property as shown on the State fiscal year 1975-76 tax bill under 'full cash value,' or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment." Furthermore, the "full cash value" of all real property may be increased to reflect the rate of inflation, as shown by the consumer price index, not to exceed 2% per year, or may be reduced.

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

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

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

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

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

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

Reduction in Taxable Value; Plan Limitations; Shortfall in Tax Revenue Projections

Pledged Tax Revenues allocated to the Redevelopment Property Tax Trust Fund are determined by the amount of incremental taxable value in the Project Areas and the current rate or rates at which property in the Project Areas is taxed. The reduction of taxable values of property in the Project Areas caused by economic factors beyond the Agency's control, such as relocation out of the Project Areas by one or more major property owners, sale of property to a non-profit corporation exempt from property taxation or the complete or partial destruction of such property caused by, among other eventualities, earthquake, flood, drought, windstorm, wildfire or other natural disaster, could cause a reduction in the Pledged Tax Revenues that provide for the repayment of and secure the 2015 Bonds. Such reduction in Pledged Tax Revenues could have an adverse effect on the Agency's ability to make timely payments of principal of and interest on the 2015 Bonds. These risks may be greater where project areas have a high concentration of major taxpayers. Based on the Fiscal Year 2014-15 tax roll, the ten largest taxpayers in the Project Areas accounted for approximately 8.3% of the total assessed value of all of the Project Areas. See the caption "THE REDEVELOPMENT PLANS—Largest Taxpayers."

Pledged Tax Revenues derived from assessments on the unsecured roll which involve fixtures and equipment that could be moved from the Project Areas may be more susceptible to fluctuation from year to year than valuation reflected on the secured roll. For Fiscal Year 2014-15, approximately 4.08% of the total assessed value of all of the Project Areas is on the unsecured roll. Hunter Industries Inc., the top taxpayer in Project Area No. 3, has been assessed approximately $44 million on the County's Fiscal Year 2014-15 unsecured roll. See the caption "PROJECT AREA NO. 3—Largest Taxpayers." The Agency does not expect that the loss of Pledged Tax Revenues resulting from Hunter Industries Inc. moving fixtures or equipment from the Project Areas will have a material adverse impact on the Agency's ability to pay debt service on the 2015 Bonds.

As described in greater detail under the caption "Property Tax Limitations – Article XIIIA," Article XIIIA of the California Constitution provides that the full cash value base of real property used in determining taxable value may be adjusted from year to year to reflect the inflation rate, not to exceed a 2% increase for any given year, or may be reduced to reflect a reduction in the consumer price index, comparable local data or any reduction in the event of declining property value caused by damage, destruction or other factors (as described above). Such measure is computed on a calendar year basis. Any resulting reduction in the full cash value base over the term of the 2015 Bonds could reduce Pledged Tax Revenues securing the 2015 Bonds.

In addition to the other limitations on and required application under the Dissolution Act of Pledged Tax Revenues on deposit in the Redevelopment Property Tax Trust Fund, as described in this Official Statement, the State electorate or State Legislature could adopt a constitutional or legislative property tax reduction with the effect of reducing Pledged Tax Revenues allocated to the Redevelopment Property Tax Trust Fund and available to the Agency. Although the federal and California Constitutions include clauses generally prohibiting the State Legislature's impairment of contracts, there are also recognized exceptions to these prohibitions. There is no assurance that the State electorate or State Legislature will not at some future time approve additional limitations that could reduce the Pledged Tax Revenues and adversely affect the source of repayment and security of the 2015 Bonds.

As a result of the downturn in the housing market, several counties in California (including the County) reduced the assessed values of homes acquired in the peak of the real estate market in 2004 and 2005. See the caption "THE REDEVELOPMENT PLANS—Assessment Appeals." The Agency is aware that the County Assessor made reductions in Fiscal Year 2008-09 and 2009-10 assessed values in the Project Areas and in the City generally. The Agency cannot predict whether the County will further reduce assessed values in the Project Areas in future years. The Agency does not believe that any such reductions will have a material adverse impact on Pledged Tax Revenues or the Agency's ability to pay debt service on the 2015 Bonds, and the Agency notes that many of such single-year reductions in assessed values had been reversed by Fiscal Year 2014-15. However, reductions in assessed value due to current or future economic conditions in the Project Areas could impact the receipt of Pledged Tax Revenues as projected by the Fiscal Consultant. See the captions "PROJECT AREA NO. 1—Projected Taxable Valuation and Projected Pledged Tax Revenues," "PROJECT AREA NO. 2—Projected Taxable Valuation and Projected Pledged Tax Revenues" and "PROJECT AREA NO. 3—Projected Taxable Valuation and Projected Pledged Tax Revenues." If all pending appeals in the Project Areas are granted and assessed valuations reduced by the historical average percentage (46%) reduction of the full amount that the appellants seek ($193,986,834), gross tax revenues for the Project Areas would be reduced by approximately $865,000. See the captions "—Assessment Appeals" and "PLEDGED TAX REVENUE PROJECTIONS AND DEBT SERVICE COVERAGE."

The vast majority of currently pending and closed appeals of assessed valuations are Proposition 8 appeals, which apply only to a single year. See the caption "THE REDEVELOPMENT PLANS—Assessment Appeals" for further information with respect to Proposition 8 appeals.

In addition, limitations on the Agency's receipt and use of tax increment revenues may also affect the availability of Pledged Tax Revenues. As discussed under the caption "THE REDEVELOPMENT PLANS—Financial Limitations," the time limits to receive tax increment revenues will elapse for Project Area Nos. 1 and 2 in Fiscal Years 2034-35 and 2036-37, respectively, which is prior to the maturity of the 2015 Bonds. As a result, tax increment revenues from Project Area Nos. 2 and 3 alone will secure payment of the 2015 Bonds in Fiscal Years 2035-36 and 2036-37 and tax increment revenues from Project Area No. 3 will secure payment of the 2015 Bonds in Fiscal Year 2037-38.

The Fiscal Consultant has projected that the Project Areas will not reach their tax increment limits (discussed under the caption "THE REDEVELOPMENT PLANS—Financial Limitations") because such limits are subject to annual adjustment (increase or decrease) according to the consumer price index. However, there can be no assurance that these projections will not be affected by decreases in the consumer price index, changes in assessed valuations or other factors. Since Article XIIIA was approved, the annual adjustment for inflation has fallen below the 2% limitation several times, and in Fiscal Year 2010-11 the inflationary value adjustment was negative for the first time at -0.237%. See the captions "PROJECT AREA NO. 1—Bond and Tax Revenue Limitations," "PROJECT AREA NO. 2—Bond and Tax Revenue Limitations" and "PROJECT AREA NO. 3—Bond and Tax Revenue Limitations."

See the captions "SECURITY FOR THE 2015 BONDS—Tax Increment Financing" and "—Property Tax Collection Procedures" for a description of the property tax collection procedures of the County.

Risks to Real Estate Market

The Agency's ability to make payments on the 2015 Bonds is dependent upon the economic strength of the Project Areas. The general economy of the Project Areas is subject to all of the risks generally associated with urban real estate markets. Real estate prices and development may be adversely affected by changes in general economic conditions, fluctuations in the real estate market and interest rates, unexpected increases in development costs, the supply of or demand for competitive properties in such area, the market value of property in the event of sale or foreclosure and other similar factors. Furthermore, real estate development within the Project Areas could be adversely affected by limitations of infrastructure or future governmental policies, including governmental policies to restrict or control development, changes in real estate tax rates and other operating expenses, zoning laws and laws relating to threatened and endangered species and hazardous materials and fiscal policies, as well as natural disasters (including, without limitation, earthquakes, wildfires, droughts and floods), which may result in uninsured losses. In addition, if there is a decline in the general economy of the Project Areas, the owners of property within the Project Areas may be less able or less willing to make timely payments of property taxes or may petition for reduced assessed valuation, which could cause a delay or interruption in the receipt of Pledged Tax Revenues by the Agency from the Project Areas.

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

State Budget Issues

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

On May 14, 2015, the State Governor released the May revision (the "May Revision") to the proposed State fiscal year 2015-16 budget (the "2015-16 Budget"). The following information is drawn from the DOF's summary of the 2015-16 Budget, as revised by the May Revision. With respect to redevelopment, the May Revision proposes the following amendments to the Dissolution Act: (1) redevelopment successor agencies that enter into a written agreement with the DOF to remit unencumbered cash to the county auditor-controller will receive a finding of completion, which provides successor agencies with additional fiscal tools and reduced State oversight; (2) successor agencies that receive a finding of completion may expend a portion of proceeds of bonds issued in 2011, which proceeds are currently frozen; (3) pension or State Water Project override revenues that are not pledged to or not needed for redevelopment bond debt service will be returned to the entity that levies the override; (4) agreements relating to State highway improvements and money loaned to successor agencies to pay costs associated with redevelopment dissolution litigation will be considered enforceable obligations; and (5) reentered agreements entered into after the passage of AB 1484 are unenforceable unless entered into for the purpose of providing administrative support.

The full text of each Assembly Bill cited above may be obtained from the "Official California Legislative Information" website maintained by the Legislative Counsel of the State of California pursuant to State law, at the following web link: http://www.leginfo.ca.gov/bilinfo.html. Information about the State budget and State spending is available at various State maintained websites. Text of the 2015-16 Budget and other documents related to the State budget may be found at the website of the DOF, www.dof.ca.gov. A nonpartisan analysis of the budget is posted by the Legislative Analyst's Office at www.lao.ca.gov. In addition, various State official statements, many of which contain a summary of the current and past State budgets may be found at the website of the State Treasurer, www.treasurer.ca.gov.

Certain litigation is challenging some of the terms of the Dissolution Act, and it is anticipated that there will be additional future legislation in this area. The Agency cannot predict what measures may be proposed or implemented for the current fiscal year or in the future.

None of the websites or webpages referenced above is in any way incorporated into this Official Statement. They are cited for informational purposes only. The Agency makes no representation whatsoever as to the accuracy or completeness of any of the information on such websites.

Recognized Obligation Payment Schedule

The Dissolution Act provides that, commencing on the date that the first Recognized Obligation Payment Schedule is valid thereunder, only those obligations listed in the Recognized Obligation Payment Schedule may be paid by the Agency from the funds specified in the Recognized Obligation Payment Schedule. Before each six-month period, the Dissolution Act requires successor agencies to prepare, approve and submit to the successor agency's oversight board and the DOF for approval, a Recognized Obligation Payment Schedule pursuant to which enforceable obligations (as described under the caption "SECURITY FOR THE 2015 BONDS—Recognized Obligation Payment Schedule") of the successor agency are listed, together with the source of funds to be used to pay for each enforceable obligation. Tax increment revenues will not be distributed from the Redevelopment Property Tax Trust Fund by the County Auditor-Controller to the Agency's Redevelopment Obligation Retirement Fund without a duly approved and effective Recognized Obligation Payment Schedule obtained in sufficient time prior to the January 2 or June 1 distribution dates, as applicable. See the caption "SECURITY FOR THE 2015 BONDS—Recognized Obligation Payment Schedule." In the event that the Agency were to fail to file a Recognized Obligation Payment Schedule with respect to a six-month period, the availability of Pledged Tax Revenues to the Agency could be adversely affected for such period.

On and after July 1, 2016, the oversight board's functions will be assumed by a county oversight board established pursuant to Section 34179(j) of Dissolution Act. In addition, the Governor has proposed legislation: (i) to require the preparation of a Recognized Obligation Payment Schedule process once a year beginning January 1, 2016 (rather than twice a year under current law); and (ii) to establish an optional "Last and Final" Recognized Obligation Payment Schedule process beginning in September 2015. This procedure will be available only to successor agencies that have a Finding of Completion and DOF concurrence as to the items that qualify for payment, among other conditions. The Last and Final Recognized Obligation Payment Schedule will be binding on all parties and the successor agency will no longer submit a Recognized Obligation Payment Schedule. The county auditor-controller will remit the authorized funds to the successor agency in accordance with the approved Last and Final Recognized Obligation Payment Schedule until each remaining enforceable obligation has been fully paid; and (iii) to clarify that former tax increment caps and plan limits do not apply for the purposes of paying approved enforceable obligations.

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

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

(i) first, subject to certain adjustments for subordination to the extent permitted under the Dissolution Act (as described under the caption "SECURITY FOR THE 2015 BONDS—Tax Increment Financing") and no later than each January 2 and June 1, to each local agency and school entity, to the extent applicable, amounts required for pass-through payments that such entity would have received under provisions of the Law, as those provisions read on January 1, 2011, including pursuant to the Pass-Through Agreements and Statutory Pass-Through Amounts;

(ii) second, on each January 2 and June 1, to the Agency for payments listed in its Recognized Obligation Payment Schedule, with debt service payments scheduled to be made for tax allocation bonds having the highest priority over payments scheduled for other debts and obligations listed on the Recognized Obligation Payment Schedule;

(iii) third, on each January 2 and June 1, to the Agency for the administrative cost allowance, as defined in the Dissolution Act; and

(iv) fourth, on each January 2 and June 1, to taxing entities any moneys remaining in the Redevelopment Property Tax Trust Fund after the payments and transfers authorized by clauses (i) through (iii), in an amount proportionate to such taxing entity's share of property tax revenues in the tax rate area in such fiscal year (without giving effect to any pass-through obligations that were established under the Law).

If the Agency does not submit an Oversight Board-approved Recognized Obligation Payment Schedule within five business days of the date upon which the Recognized Obligation Payment Schedule is to be used to determine the amount of property tax allocations and the DOF does not provide a notice to the County Auditor-Controller to withhold funds from distribution to taxing entities, amounts in the Redevelopment Property Tax Trust Fund for such six-month period would be distributed to taxing entities pursuant to clause (iv) above. However, the Agency has covenanted to take all actions required under the Dissolution Act to include scheduled debt service on the 2015 Bonds and any Parity Debt, as well as any amount required under the Indenture to replenish the Reserve Accounts of the Debt Service Fund, in Recognized Obligation Payment Schedules for each six-month period so as to enable the County Auditor-Controller to distribute from the Redevelopment Property Tax Trust Fund to the Agency's Redevelopment Obligation Retirement Fund on each January 2 and June 1 amounts required for the Agency to pay principal of, and interest on, the Bonds coming due in the respective six-month period, including placing on the periodic Recognized Obligation Payment Schedule for approval by the oversight board and DOF, to the extent necessary, the amounts to be held by the Agency as a reserve until the next six-month period, as contemplated by paragraph (1)(A) of subdivision (d) of Section 34171 of the Dissolution Act, that are necessary to comply with the Indenture and to provide for the payment of principal and interest under the Indenture when the next property tax allocation is projected to be insufficient to pay all obligations due under the Indenture for the next payment due thereunder in the following six-month period. See Appendix B.

AB 1484 also adds new provisions to the Dissolution Act implementing certain penalties in the event that the Agency does not timely submit a Recognized Obligation Payment Schedule for a six-month period. Specifically, a Recognized Obligation Payment Schedule must be submitted by the Agency, after approval by the Oversight Board, to the County Administrative Officer, the County Auditor-Controller, the DOF and the State Controller no later than 90 days before the date of the next January 2 or June 1 property tax distribution with respect to each subsequent six-month period. If the Agency does not submit an Oversight Board-approved Recognized Obligation Payment Schedule by such deadlines, the City will be subject to a civil penalty equal to $10,000 per day for every day that the schedule is not submitted to the DOF. Additionally, the Agency's administrative cost allowance is reduced by 25% if the Agency does not submit an Oversight Board-approved Recognized Obligation Payment Schedule by the 80th day before the date of the next

January 2 or June 1 property tax distribution, as applicable, with respect to the Recognized Obligation Payment Schedule for subsequent six-month periods.

The estimated cash flow under the Spring 2016 and Fall 2016 Recognized Obligation Payment Schedules is set forth below.

TABLE 19
SUCCESSOR AGENCY TO THE SAN MARCOS REDEVELOPMENT AGENCY
ESTIMATED RECOGNIZED OBLIGATION PAYMENT SCHEDULES

	Estimated ROPS After Refunding[2] ***Spring (2015-16B) 1/2/2016***	***Estimated ROPS After Refunding***[2] ***Fall (2016-17A) 6/1/2016***
Revenues		
Gross Tax Revenue*	$ 34,381,405	$ 34,381,405
Unitary Revenue*	290,949	290,949
Subtotal Gross Tax Revenue	34,672,354	34,672,354
Estimated Senior Deductions		
County Administrative Fees*	444,090	444,090
Senior Statutory Pass-Throughs*	73,241	73,241
Senior Negotiated Pass-Through Agreements*	6,252,955	6,252,955
Subtotal Administrative Fees and Senior Pass-Through Payments	6,770,286	6,770,286
Housing Bonds	5,591,938	-
Subtotal Estimated Senior Deductions	12,362,223	6,770,286
Pledged Tax Revenues	22,310,131	27,902,068
Bond Obligations	***Bond Obligations***	***Bond Obligations***
April Payment 2015 Bonds[1]	8,948,826	-
October Payment 2015 Bonds[1]	-	8,948,826
Subtotal Bond Obligations Total	8,948,826	8,948,826
Bond Coverage	249%	312%
Subordinate Pass-Through Amounts*	6,548,335	6,548,335
Total Current Obligations with a Direct Tax Increment Pledge	15,497,161	15,497,161
Net Remaining for Other Obligations	$ 6,812,970	$ 12,404,907

* Figures derived from Exhibit 10A of the Fiscal Consultant Report set forth in Appendix B.
(1) Assumes 50% debt service allocation for the 2015 Bonds on the Recognized Obligation Payment Schedules.
(2) Bond Coverage equals Pledged Tax Revenues divided by debt service on the 2015 Bonds.

Estimated Revenues

In estimating that Pledged Tax Revenues will be sufficient to pay debt service on the 2015 Bonds, the Agency and the Fiscal Consultant have made certain assumptions with regard to present and future assessed valuation in the Project Areas, future tax rates and percentage of taxes collected. The Agency believes these assumptions to be reasonable, but there is no assurance that these assumptions will be realized. To the extent that the assessed valuation and the tax rates are less than expected, the Pledged Tax Revenues available to pay debt service on the 2015 Bonds will be less than those projected and such reduced Pledged Tax Revenues may be insufficient to provide for the payment of principal of, premium (if any) and interest on the 2015 Bonds.

Implementing Legislation

Legislation enacted by the State Legislature to implement Article XIIIA (Statutes of 1978, Chapter 292, as amended) provides that, notwithstanding any other law, local agencies may not levy any property tax, except to pay debt service on indebtedness approved by the voters prior to July 1, 1978, and that each county will levy the maximum tax permitted by Article XIIIA of $4.00 per $100 assessed valuation (based on the traditional practice in the State of using 25% of full cash value as the assessed value for tax purposes). Legislation enacted in connection with the implementation of Article XIIIA changed the levy to $1.00 per $100.00 assessed valuation based on 100% of full cash value.

The apportionment of property taxes in fiscal years after 1978-79 has been revised pursuant to Statutes of 1979, Chapter 282 which provides relief funds from State moneys beginning in fiscal year 1978-79 and is designed to provide a permanent system for sharing State taxes and budget surplus funds with local agencies. Under Chapter 282, cities and counties receive about one-third more of the remaining property tax revenues collected under Article XIIIA instead of direct State aid. School districts receive a correspondingly reduced amount of property taxes, but receive compensation directly from the State and are given additional relief. Chapter 282 does not affect the derivation of the base levy ($1.00 per $100 taxable valuation) and the bonded debt tax rate.

Future assessed valuation growth allowed under Article XIIIA (new construction, change of ownership, 2% annual value growth) will be allocated on the basis of "situs" among the jurisdictions that serve the tax rate area within which the growth occurs except for certain utility property assessed by the State Board of Equalization which is allocated by a different method discussed in this Official Statement.

Proposition 87

Under State law prior to 1988, if a taxing entity increased its tax rate to obtain revenues to repay voter-approved general obligation bonds, any redevelopment project area which included property affected by the tax rate increase would realize a proportionate increase in tax increment revenues.

Proposition 87, approved by the voters of the State on November 8, 1988, requires that all revenues produced by a tax rate increase (approved by the voters on or after January 1, 1989) go directly to the taxing entity which increases the tax rate to repay the general obligation bonded indebtedness. As a result, redevelopment agencies no longer receive an increase in tax increment revenues when taxes on property in a project area are increased to repay voter-approved general obligation debt.

Santa Ana Unified School District Case

The Fourth District of the California Court of Appeal has rendered a decision in *Santa Ana Unified School District vs. Orange County Development Agency* (the "Santa Ana USD Case") which involves the allocation of tax increment revenues pursuant to Section 33676(a) of the Law as it existed before the passage of AB 1290 (discussed under the caption "SECURITY FOR THE 2015 BONDS—Statutory Pass-Through Requirements"). Generally, before AB 1290, Section 33676(a) provided that, prior to the adoption of a redevelopment plan (or an amendment adding territory to a project area), under certain conditions, "any affected taxing agency may elect, and every school and community college district shall elect, to be allocated all or any portion of the tax revenues" derived based on an annual adjustment of the base year assessed value of real properties in the project area (or the added territory). The words "*every school and community college district shall elect*" were added pursuant to a 1984 amendment. The amount of property taxes that a taxing entity may receive under the former Section 33676(a) is derived by increasing the base year value of taxable real property in the project area (or the added territory) by an inflationary factor of not greater than two percent per year (the "2 Percent Allocation"). In effect, the 2 Percent Allocation reduces the tax increment revenues that a redevelopment agency receives from the project area (or, if applicable, an added area to the project area).

In the Santa Ana USD Case, the redevelopment plan at issue was adopted in 1986. In 1996, the Santa Ana Unified School District ("Santa Ana USD") adopted a resolution electing to be paid its share of the 2 Percent Allocation. The Orange County Development Agency took the position that Santa Ana USD was not entitled to the 2 Percent Allocation because the election to receive such allocation should have been made before the adoption of the redevelopment plan for the project area. In turn, Santa Ana USD argued that the mandatory nature of the words "shall elect" in the statute made the allocation mandatory with respect to a school district. The lower court ruled in favor of Santa Ana USD. In an opinion published June 29, 2001, the Court of Appeal affirmed. As a result, Santa Ana USD received the award it had requested, *i.e.*, its share of the 2 Percent Allocation from 1996, the year Santa Ana USD made the Section 33676 election. The California Supreme Court denied review of the Santa Ana USD Case on September 19, 2001. This case affects redevelopment agencies which have amended or added territory between the years 1983 to 1994.

Pursuant to City Ordinance No. 86-684, the Agency did amend the original boundaries of Project Area No. 2 during this time period to delete certain areas from Project Area No. 2. However, the County Auditor-Controller has determined that MWD, the only taxing entity that made a statutory election, is no longer entitled to payments pursuant to Section 33676.

Property Tax Collection Procedures

Classifications. In California, property which is subject to *ad valorem* taxes is classified as "secured" or "unsecured." Secured and unsecured property are entered on separate parts of the assessment roll maintained by the county assessor. The secured classification includes property on which any property tax levied by the county becomes a lien on that property sufficient, in the opinion of the county assessor, to secure payment of the taxes. Every tax which becomes a lien on secured property has priority over all other liens on the secured property, regardless of the time of the creation of other liens. A tax levied on unsecured property does not become a lien against the unsecured property, but may become a lien on certain other property owned by the taxpayer.

The valuation of property is determined as of January 1 each year and two equal installments of taxes levied upon secured property become delinquent on the following December 10 and April 10. Taxes on unsecured property are due January 1 and become delinquent on the following August 31.

Collections. The method of collecting delinquent taxes is substantially different for the two classifications of property. The taxing authority has four ways of collecting unsecured property taxes in the absence of timely payment by the taxpayer: (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 the personal property, improvements or possessory interests belonging or assessed to the assessee.

The exclusive means of enforcing the payment of delinquent taxes with respect to property on the secured roll is the sale of property securing the taxes to the State for the amount of taxes which are delinquent.

Current tax payment practices by the County provide for payment to the Agency of Tax Revenues monthly from November to July of each Fiscal Year; provided, however, that Tax Revenues from supplemental assessments are received throughout the year. The Agency does not participate in the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (known as the Teeter Plan), as provided for in Section 4701 *et seq.* of the Revenue and Taxation Code as to any of the Project Areas, and is therefore exposed to the risk of delinquencies in Tax Revenue collections.

Supplemental Assessments. A bill enacted in 1983, SB 813 (Statutes of 1983, Chapter 498), provides for the supplemental assessment and taxation of property as of the occurrence of a change in ownership or completion of new construction. Previously, statutes enabled the assessment of such changes only as of the next tax lien date (March 1 was used as the lien date as of the enactment of Chapter 498; however, as discussed below, the lien date was changed to January 1 by legislation enacted in 1995) following the change and thus delayed the realization of increased property taxes from the new assessments for up to 14 months. As enacted, Chapter 498 provides increased revenue to redevelopment agencies to the extent that supplemental assessments as a result of new construction or changes of ownership occur within the boundaries of redevelopment projects subsequent to the lien date. To the extent that such supplemental assessments occur within the Project Areas, Pledged Tax Revenues may increase. As a result of legislation enacted in 1995 (SB 327 and SB 722, chaptered as Chapter 499 and 497, respectively), commencing as of January 1, 1997, the lien date for locally assessed property tax has been changed from March 1 to January 1. The first day of January for each succeeding year is now the lien date. Actual tax increment receipts will be reduced to reflect tax collection fees charged by the County. Receipts may increase or decrease by the amount of supplemental roll revenue and prior supplemental roll refunds. Because these costs/refunds cannot be accurately projected, and because historically the revenues have exceeded the costs resulting in slightly higher revenues than anticipated, no provision has been made by the Fiscal Consultant to reflect this impact on future revenues. See Appendix B.

Appropriations Limitation – Article XIIIB

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

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

Tax Collection Fees

Legislation enacted by the State Legislature authorizes county auditors to determine property tax administration costs proportionately attributable to local jurisdictions and to submit invoices to the jurisdictions for such costs. Subsequent legislation specifically includes redevelopment agencies among the entities which are subject to a property tax administration charge. Actual tax increment disbursements are reduced to reflect the tax collection fee charged by the County Auditor-Controller pursuant to Senate Bill 2577. The tax collection fee varies slightly from year to year. Pledged Tax Revenues do not include and are reduced by County tax collection charges. In Fiscal Year 2014-15, the County charged the Agency administrative fees of $219,252 for Project Area No. 1, $152,750 for Project Area No. 2 and $464,811 for Project Area No. 3, representing approximately 1.30%, 1.38% and 1.22% of the total tax increment revenues received by the Agency in Fiscal Year 2014-15 for Project Area Nos. 1, 2 and 3, respectively. The tax collection fee charged by the County will decrease the amount of Pledged Tax Revenues pledged in connection with the 2015 Bonds.

Unitary Taxation of Utility Property

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

AB 454 (Statutes of 1987, Chapter 921) further modifies Chapter 1457 regarding the distribution of tax revenues derived from property assessed by the State Board of Equalization. Chapter 921 provides for the consolidation of all State-assessed property, except for regulated railroad property, into a single tax rate area in each county. Chapter 921 further provides for a new method of establishing tax rates on State-assessed property and distribution of property tax revenues derived from State-assessed property to taxing jurisdictions within each county as follows: for revenues generated from the one percent tax rate, each jurisdiction, including redevelopment project areas, will receive a percentage of up to its prior year State-assessed unitary revenue; and if county-wide revenues generated for unitary property are greater than 102% of the previous year's unitary revenues, each jurisdiction will receive a percentage share of the excess unitary revenue generated from growth above 102%; further, each jurisdiction will receive a percentage share of revenue based on the jurisdiction's annual debt service requirements and the percentage of property taxes received by each jurisdiction from unitary property taxes. Railroads will continue to be assessed and revenues allocated to all tax rate areas where railroad property is sited. The intent of Chapters 1457 and 921 is to provide redevelopment agencies with their appropriate share of revenue generated from the property assessed by the State Board of Equalization.

Based on AB 454 (pursuant to which property tax revenues from unitary utility property is disbursed in a different manner than revenue from non-unitary property), and because these revenues tend to fluctuate from year to year, increased revenues generated from this source are not included in the tax increment projections. See Appendix B.

Reduction in Inflationary Rate and Changes in Legislation; Further Initiatives

As described in greater detail above, Article XIIIA of the California Constitution provides that the full cash value base of real property used in determining taxable value may be adjusted from year to year to reflect the inflationary rate, not to exceed a two percent increase for any given year, or may be reduced to reflect a reduction in the Consumer Price Index or comparable local data. Such measure is computed on a calendar year basis.

Article XIIIA of the California Constitution, which significantly affected the rate of property taxation, was adopted pursuant to California's constitutional initiative process. From time to time, other initiative measures could be adopted by California voters. The adoption of any such initiative might alter the calculation of tax increment revenues, reduce the property tax rate, or broaden property tax exemptions. Future legislative reallocation of the one percent basic levy among the affected taxing entities could increase the taxes retained by certain taxing entities with a corresponding reduction in Pledged Tax Revenues. See the caption "—Property Tax Limitations—Article XIIIA."

Reductions in Pledged Tax Revenues due to the factors described above could have an adverse effect on the Agency's ability to make timely payments of principal of and interest on the 2015 Bonds.

Assessment Appeals

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

Pursuant to State law, a property owner may apply for a Proposition 8 reduction of the property tax assessment for such owner's property by filing a written application, in the form prescribed by the State Board of Equalization, with the appropriate county board of equalization or assessment appeals board. Any reduction in the assessment ultimately granted applies only to the year for which application is made and during which the written application is filed. The assessed value increases to its pre-reduction level (escalated to the inflation rate of no more than 2%) following the year for which the reduction application is filed. However, the county assessor has the power to grant a reduction not only for the year for which application was originally made, but also for the then current year and any intervening years as well. In practice, such a reduced assessment may and often does remain in effect beyond the year in which it is granted.

An appeal may result in a reduction to the assessor's original taxable value and a tax refund to the applicant property owner. A reduction in present or future taxable values within the Project Areas, which may arise out of successful appeals by property owners, will affect the amount of present or future tax increment revenues received by the Agency.

Assessors have the ability pursuant to Proposition 8 to temporarily reduce property tax assessments during times of negative economic conditions that result in decreased real estate values. The County Assessor's Office did so for many residential and commercial properties and those reduced values were reflected on the Fiscal Year 2008-09 and Fiscal Year 2009-10 tax roll. The Agency notes that many of such reductions had been either partially or fully reversed by Fiscal Year 2014-15.

Certain of the top ten largest property taxpayers in the Project Areas have pending property tax appeals. See the captions "THE REDEVELOPMENT PLANS—Assessment Appeals," "PROJECT AREA NO. 1—Largest Taxpayers," "PROJECT AREA NO. 2—Largest Taxpayers" and "PROJECT AREA NO. 3—Largest Taxpayers" for a description of pending appeals and the potential impact on Pledged Tax Revenues if the appeals are granted.

The County experienced a high level of assessment appeals in the late 2000s, and significant appeals to assessed values in the Project Areas may be filed from time to time in the future. The Agency cannot predict the extent of these appeals or their likelihood of success. The vast majority of currently pending and closed appeals are Proposition 8 appeals.

For Fiscal Years 2010-11 through 2014-15, 116 assessment appeals are pending in the Project Areas. If all of such appeals were granted in full, the cumulative reduction would equal less than 2.7% of the Fiscal Year 2014-15 assessed value of the Project Areas. The Fiscal Consultant has not made any adjustment to its projections as a result of these pending appeals. See Appendix B under the caption "ASSESSMENT APPEALS." However, if all pending appeals in the Project Areas are granted and assessed valuations reduced by the historical average percentage (46%) reduction of the full amount that the appellants seek ($193,986,834), gross tax revenues for the Project Areas would be reduced by approximately $865,000. The Agency does not believe that such a reduction would have a material adverse impact on the Agency's ability to pay debt service on the 2015 Bonds. See the caption "PLEDGED TAX REVENUE PROJECTIONS AND DEBT SERVICE COVERAGE."

A table summarizing the Project Areas' secured roll assessment appeals information is set forth under the caption "THE REDEVELOPMENT PLANS—Assessment Appeals."

Natural Disasters

The Project Areas, like all California communities, may be subject to unpredictable seismic activity, wildfires, droughts, high winds, tsunamis, landslides, floods, or other natural disasters. Southern California is a seismically active area. Seismic activity represents potential risk for damage to buildings, roads, bridges and property within the Project Areas in the event of an earthquake. There is significant potential for destructive ground shaking during the occurrence of a major seismic event. In addition, land susceptible to seismic activity may be subject to liquefaction during the occurrence of such an event.

In the event of a severe earthquake, wildfire, drought, windstorm, tsunami, landslide, flood or other natural disaster, there may be significant damage to both property and infrastructure in the Project Areas. As a result, property owners may be unable or unwilling to pay their property taxes when due. In addition, the value of land in the Project Areas could be reduced in the aftermath of such a natural disaster. Such a reduction of assessed valuations could result in a reduction of the Pledged Tax Revenues that secure the 2015 Bonds and in the proceeds of foreclosure sales in the event of delinquencies in the payment of Pledged Tax Revenues.

There are several identified faults within close proximity to or within the boundaries of the Project Areas that could potentially result in damage to buildings, roads, bridges, and property within the Project Areas in the event of an earthquake. Past experiences have resulted in minimal damage to the infrastructure and property within the Project Areas. A majority of the property within the Project Areas has been developed in conformity with the 1988 Uniform Building Code standards. Nonetheless, the occurrence of severe seismic activity in the City could result in substantial damage to property located in the Project Areas, and could lead to successful appeals for reduction in assessed values of such property. Such a reduction could result in a decrease in Pledged Tax Revenues.

Although portions of Project Area No. 1 and very small portions of Project Area No. 2 and Project Area No. 3 are located within a 100-year flood plain, there have been no recent reductions in assessed values as the result of flooding.

In recent years, including 2007 and 2014, portions of the City have experienced outbreaks of wildfires that have burned hundreds of acres at a time and destroyed dozens of homes and structures. Such wildfires have occurred in San Diego County, affecting parts of the City near the Project Areas and resulting in the destruction of homes.

Hazardous Substances

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

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

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

The Agency understands that hazardous substances may be located in, on or under real property located within the Project Areas, and has reviewed or participated in at least two work plan processes for the removal and remediation of such substances. There can be no assurance that the presence of hazardous substances, or the discovery thereof after the issuance of the 2015 Bonds, will not have an effect on property values in the Project Areas.

Limitations on Remedies

The enforceability of the rights and remedies of the owners of the 2015 Bonds and the obligations of the Agency may become subject to the following: the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect; equitable principles which may limit the specific enforcement under state law of certain remedies: the exercise by the United States of America of the powers delegated to it by the federal Constitution; and the reasonable and necessary exercise, in certain exceptional situations of the police power inherent in the sovereignty of the State and its governmental bodies in the interest of servicing a significant and legitimate public purpose. Bankruptcy proceedings, or the exercise of powers by the federal or state government, if initiated, could subject the owners of the 2015 Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise and consequently may entail risks of delay, limitation, or modification of their rights.

Bond Counsel has limited its opinion as to the enforceability of the 2015 Bonds and of the Indenture to the extent that enforceability may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance or transfer, moratorium or other similar laws affecting generally the enforcement of creditors' rights, by equitable principles and by the exercise of judicial discretion. The lack of availability of certain remedies or the limitation of remedies may entail risks of delay, limitation or modification of the rights of the 2015 Bond Owners.

Bankruptcy and Foreclosure

The payment of the property taxes from which Pledged Tax Revenues are derived and the ability of the County to foreclose the lien of a delinquent unpaid tax may be limited by bankruptcy, insolvency or other laws generally affecting creditors' rights (such as the Soldiers' and Sailors' Relief Act of 1940 discussed below) or by the laws of the State relating to judicial foreclosure. In addition, the prosecution of a foreclosure action could be delayed due to crowded local court calendars or delays in the legal process. The various legal opinions to be delivered concurrently with the delivery of the 2015 Bonds (including Bond Counsel's approving legal opinion) will be qualified as to the enforceability of the various legal instruments by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights, by the application of equitable principles and by the exercise of judicial discretion in appropriate cases.

Although bankruptcy proceedings would not cause the liens to become extinguished, bankruptcy of a property owner could result in a delay in prosecuting superior court foreclosure proceedings because federal bankruptcy laws may provide for an automatic stay of foreclosure and sale of tax sale proceedings. Such delay would increase the possibility of delinquent tax installments not being paid in full and thereby increase the likelihood of a delay or default in payment of the principal of and interest on the 2015 Bonds. Moreover, if the value of the subject property is less than the lien of property taxes, such excess could be treated as an unsecured claim by the bankruptcy court. Further, should remedies be exercised under the federal bankruptcy laws, payment of property taxes may be subordinated to bankruptcy law priorities. Thus, certain claims may have priority over property taxes in a bankruptcy proceeding even though they would not have priority outside of a bankruptcy proceeding.

In addition, the United States Bankruptcy Code might prevent moneys on deposit in the Redevelopment Obligation Retirement Fund from being applied to pay interest on the 2015 Bonds and/or to redeem 2015 Bonds if bankruptcy proceedings were brought by or against a landowner and if the court found that such landowner had an interest in such moneys within the meaning of Section 541(a)(1) of the United States Bankruptcy Code.

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

Investment of Tax Increment Revenues and Other Funds

Tax increment revenues (which include Pledged Tax Revenues) are invested by the Agency prior to their transfer to the Trustee for deposit by the Trustee in the funds and accounts established under the Indenture. Moneys held in the funds and accounts established under the Indenture must be invested by the Trustee in Permitted Investments (as such term is defined in the Indenture), and moneys in the Redevelopment Obligation Retirement Fund may be invested by the Agency in any lawful investment of Agency funds. See Appendix A under the caption "Definitions." The Agency cannot predict the impact on the investment of any tax increment revenues by the Agency if it experiences significant losses in its investments.

Future Land Use Regulations and Growth Control Initiatives

In the past, citizens of a number of local communities in Southern California have placed measures on the ballot designed to limit the issuance of building permits or impose other restrictions to control the rate of future growth in those areas. It is possible that future initiatives could be enacted that could be applicable to the City and have a negative impact on the ability of developers in the Project Areas to complete any existing or proposed development. 2015 Bond Owners should assume that any event that significantly affects the ability to develop land in the City could cause the land values within the Project Areas to decrease substantially and could affect the willingness and ability of the owners of land within the Project Areas to pay property taxes when due.

There can be no assurance that land development within the City will not be adversely affected by future governmental policies, including, but not limited to, government policies to restrict or control development. Under current State law, it is generally accepted that proposed development is not exempt from future land use regulations until building permits have been issued and substantial work has been performed and substantial liabilities have been incurred in good faith reliance on the permits prior to the adoption of such regulations.

Acceleration on Default

Under the Indenture, the principal due on the 2015 Bonds is subject to acceleration upon the occurrence of an Event of Default. If an Event of Default occurs under the Indenture, as a practical matter, 2015 Bond Owners will be limited to enforcing the obligation of the Agency to repay the 2015 Bonds on an annual basis to the extent of the availability of Pledged Tax Revenues. No real or personal property in the Project Areas is pledged to secure the 2015 Bonds, and it is not anticipated that the Agency will have available moneys sufficient to redeem all of the 2015 Bonds upon the occurrence of an Event of Default.

Secondary Market

There can be no guarantee that there will be a secondary market for the 2015 Bonds, or, if a secondary market exists, that such 2015 Bonds can be sold for any particular price. Although the Agency has committed to provide certain financial and operating information on an annual basis, there can be no assurance that such information will be available to 2015 Bond Owners on a timely basis. See the caption "CONTINUING DISCLOSURE" and Appendix E. Any failure to provide annual financial information, if required, does not give rise to monetary damages but merely an action for specific performance. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon the then-prevailing circumstances. Such prices could be substantially different from the original purchase price.

Early Redemption of Premium Bonds

2015 Bonds purchased, whether at original issuance or otherwise, for an amount greater than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated for federal tax purposes as having amortizable premium. If such Premium Bonds are redeemed prior to maturity (or, in some cases, prior to a scheduled redemption date; see the caption "—Reduction in Taxable Value; Plan Limitations; Shortfall in Tax Revenue Projections" below) as described under the caption "THE 2015 BONDS—Redemption," not all of the amortized premium may be realized by the Owner. The Premium Bonds are treated as all other 2015 Bonds for purposes of selection for redemption prior to maturity as described in this Official Statement.

No Validation Proceeding Undertaken

Section 860 of the Code of Civil Procedure of the State authorizes public agencies to institute a process, otherwise known as a "validation proceeding," for purposes of determining the validity of a resolution or any action taken pursuant thereto. Section 860 authorizes a public agency to institute validation proceedings in cases where another statute authorizes its use. Relevant to the 2015 Bonds, Section 53511 of the Government Code of the State authorizes a local agency to "bring an action to determine the validity of its bonds, warrants, contracts, obligations or evidences of indebtedness." Pursuant to Section 870 of the Code of Civil Procedure of the State, a final favorable judgment issued in a validation proceeding shall, notwithstanding any other provision of law, be forever binding and conclusive, as to all matters herein adjudicated or which could have been adjudicated, against all persons: "The judgment shall permanently enjoin the institution by any person of any action or proceeding raising any issue as to which the judgment is binding and conclusive."

The Agency has not undertaken or endeavored to undertake any validation proceeding in connection with the issuance of the 2015 Bonds. The Agency and Bond Counsel have relied on the provisions of AB 1484 authorizing the issuance of the 2015 Bonds and specifying the related deadline for any challenge to the 2015 Bonds to be brought. Specifically, Section 34177.5(e) of the Dissolution Act provides that notwithstanding any other law, an action to challenge the issuance of bonds (such as the 2015 Bonds), the incurrence of indebtedness, the amendment of an enforceable obligation, or the execution of a financing agreement authorized under Section 34177.5, must be brought within 30 days after the date on which the oversight board approves the resolution of the successor agency approving such financing. Such challenge period expired with respect to the 2015 Bonds and the oversight board resolution on May 16, 2015.

It is possible that the definition of Pledged Tax Revenues could be affected by changes in law or judicial decisions relating to the dissolution of redevelopment agencies. The Indenture provides that if, and to the extent, that the applicable property tax revenue provisions of the Dissolution Act are determined by a court in a final judicial decision to be invalid, then Pledged Tax Revenues will include all tax revenues allocated to the payment of indebtedness pursuant to Section 33670 of the Law or such other section as may be in effect at the time providing for the allocation of tax increment revenues in accordance with Article XVI, Section 16 of the California Constitution, subject to the exclusions set forth in the definition of Pledged Tax Revenues. Additionally, any action by a court to invalidate provisions of the Dissolution Act required for the timely payment of principal of, and interest on, the Bonds could be subject to issues regarding unconstitutional impairment of contracts and unconstitutional taking without just compensation. The Agency believes that the aforementioned considerations would provide some protections against the adverse consequences upon the Agency and the availability of Pledged Tax Revenues for the payment of debt service on the 2015 Bonds in the event of successful challenges to the Dissolution Act or portions thereof. However, the Agency provides no assurance that any other lawsuit challenging the Dissolution Act or portions thereof will not result in an outcome that may have a detrimental effect on the Agency's ability to timely pay debt service on the 2015 Bonds.

IRS Audit of Tax-Exempt Bond Issues

The Internal Revenue Service has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the 2015A Bonds will be selected for audit by the Internal Revenue Service. It is also possible that the market value of the 2015A Bonds might be affected as a result of such an audit of the 2015A Bonds (or by an audit of similar municipal obligations).

Loss of Tax Exemption

As discussed under the caption "TAX MATTERS," in order to maintain the exclusion from gross income for federal income tax purposes of the interest on the 2015A Bonds, the City and the Agency have covenanted in the Indenture and the Tax Certificate relating to the 2015A Bonds not to take any action, or fail to take any action, if such action or failure to take such action would adversely affect the exclusion from gross income of interest on the 2015A Bonds under Section 103 of the Internal Revenue Code of 1986, as amended. Interest on the 2015A Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date of issuance, as a result of acts or omissions of the City or the Agency subsequent to the issuance of the 2015A Bonds in violation of such covenants with respect to the 2015A Bonds. Should such an event of taxability occur, the 2015A Bonds are not subject to redemption by reason thereof and will remain outstanding until maturity or unless earlier redeemed pursuant to the redemption provisions of the Indenture.

Bonds Are Limited Obligations

Neither the faith and credit nor the taxing power of the Agency (except to the limited extent set forth in the Indenture), the City, the State or any political subdivision thereof is pledged to the payment of the 2015 Bonds. The 2015 Bonds are special obligations of the Agency; and, except as provided in the Indenture, they are payable solely from Pledged Tax Revenues. Pledged Tax Revenues could be insufficient to pay debt service on the 2015 Bonds as a result of delinquencies in the payment of property taxes or the insufficiency of proceeds derived from the sale of land within the Agency following a delinquency in the payment of the applicable property taxes. However, there can be no assurance that such policies will not be changed in the future. The Agency has no obligation to pay debt service on the 2015 Bonds in the event of insufficient Pledged Tax Revenues, except to the extent that money is available for such purpose in the Redevelopment Obligation Retirement Fund, the Debt Service Fund and the Reserve Account.

TAX MATTERS

In the opinion of Best Best & Krieger LLP, San Diego, California, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, interest on the 2015A Bonds is excluded from gross income for federal income tax purposes. Interest on the 2015B Bonds is subject to all applicable federal income taxation. In the further opinion of Bond Counsel, interest on the Bonds is exempt from State of California personal income tax. Bond Counsel notes that interest on the 2015A Bonds is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals. Bond Counsel further notes, however, 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.

Bond Counsel's opinion as to the exclusion from gross income for federal income tax purposes of interest on the 2015A Bonds is based upon certain representations of fact and certifications made by the Agency, the Underwriters and others and is subject to the condition that the Agency complies with all requirements of the Internal Revenue Code of 1986, as amended (the "Code") and the regulations adopted pursuant to the Code (the "Treasury Regulations") that must be satisfied subsequent to the issuance of the Bonds to assure that interest on the Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code and the Treasury Regulations might cause interest on the 2015A Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2015A Bonds. The Agency has covenanted to comply with all such requirements.

To the extent the issue price of any maturity of the 2015A Bonds is less than the amount to be paid at maturity of such 2015A Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Owner thereof, is treated as interest on the 2015A Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the 2015A Bonds is the first price at which a substantial amount of such maturity of the 2015A Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the 2015A Bonds accrues daily over the term to maturity of such 2015A Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such 2015A Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such 2015A Bonds. Owners of the 2015A Bonds should consult their own tax advisors with respect to the tax consequences of ownership of 2015A Bonds with original issue discount, including the treatment of purchasers who do not purchase such 2015A Bonds in the original offering to the public at the first price at which a substantial amount of such 2015A Bonds is sold to the public.

2015A Bonds purchased, whether at original issuance or otherwise, for an amount greater than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, a purchaser's basis in a Premium Bond, and under Treasury Regulations, the amount of tax exempt interest received will be reduced by the amount of amortizable bond premium properly allocable to such purchaser. Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

Should the interest on the 2015A Bonds become includable in gross income for federal income tax purposes, the 2015A 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 Indenture.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the 2015A Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Bond Owners from realizing the full current benefit of the tax status of such interest. As one example, the Obama Administration announced a legislative proposal which, for tax years beginning on or after January 1, 2013, generally have limited the exclusion from gross income of interest on obligations like the 2015A Bonds to some extent for taxpayers who are individuals and whose income is subject to higher marginal income tax rates. Other proposals have been made that could significantly reduce the benefit of, or otherwise affect, the exclusion from gross income of interest on obligations like the 2015A Bonds. The introduction or enactment of any such legislative proposals, clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the 2015A Bonds. Prospective purchasers of the 2015A Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, and regarding the impact of future legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

Bond Counsel's opinion may be affected by action taken (or not taken) or events occurring (or not occurring) after the date of issuance of the 2015A Bonds. Bond Counsel has not undertaken to determine, or to inform any person, whether any such action or events are taken or do occur, or whether such actions or events may adversely affect the value or tax treatment of a 2015A Bond, and Bond Counsel expresses no opinion with respect thereto.

The Internal Revenue Service (the "IRS") has initiated an expanded program for auditing tax-exempt bond issues, including both random and targeted audits. It is possible that the 2015A Bonds will be selected for audit by the IRS. It is also possible that the market value of the 2015A Bonds might be affected as a result of such an audit (or by an audit of similar bonds).

Although Bond Counsel has rendered an opinion that interest on the 2015A Bonds is excluded from gross income for federal income tax purposes provided the Agency continues to comply with certain requirements of the Code, the accrual or receipt of interest on the Bonds may otherwise affect the tax liability of the recipient. The extent of these other tax consequences will depend upon the recipient's particular tax status and other items of income or deductions. Bond Counsel expresses no opinion regarding any such consequences. Accordingly, all potential purchasers should consult their tax advisors before purchasing any of the Bonds.

A copy of the proposed form of opinion of Bond Counsel is attached hereto as Appendix D.

FISCAL CONSULTANT

The Agency has retained the firm of Rosenow Spevacek Group Inc. to act as the Fiscal Consultant for the Agency with respect to the Project Areas. As part of its duties, the Fiscal Consultant has prepared a Fiscal Consultant Report concerning the Agency, the Project Areas and current and expected development activity therein. The full text of the Fiscal Consultant Report is attached hereto as Appendix B.

FINANCIAL STATEMENTS

The audited financial statements of the City for the Fiscal Year ended June 30, 2014, attached hereto as Appendix C, including the footnotes thereto, should be reviewed in their entirety. Rogers, Anderson, Malody & Scott, LLP, San Bernardino, California, the City's auditor (the "Auditor"), has not consented to the inclusion of its report on such financial statements in Appendix C, and has not undertaken to update 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. No opinion is expressed by the Auditor with respect to any event subsequent to its report dated January 22, 2015.

FINANCIAL ADVISOR

The Agency has retained Fieldman Rolapp & Associates, Inc., Irvine, California (the "Financial Advisor") as financial advisor for the sale of the 2015 Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume any responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement.

The Financial Advisor is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal or other public securities.

PROFESSIONAL FEES

In connection with the execution of the 2015 Bonds, fees payable to Fieldman Rolapp & Associates, Inc., as Financial Advisor, Best Best & Krieger LLP, as Bond Counsel, and Stradling Yocca Carlson & Rauth, a Professional Corporation, as Disclosure Counsel, are contingent upon the issuance of the 2015 Bonds.

UNDERWRITING

The 2015 Bonds are being purchased by Stifel, Nicolaus & Company, Incorporated (the "Representative"), as representative of itself and Piper Jaffray & Co. ("PJC" and, collectively with the Representative, the "Underwriters") pursuant to a Bond Purchase Agreement, dated June 16, 2015 (the "Purchase Agreement"), by and between the Representative and the Agency. The Underwriters have agreed: (a) to purchase the 2015A Bonds at a price of $96,723,436.93 (being the aggregate principal amount thereof, plus an original issue premium of $12,381,066.70 and less an Underwriters' discount of $367,629.77); and (b) to purchase the 2015B Bonds at a price of $137,901,732.77 (being the aggregate principal amount thereof, less a net original discount of $747,190.75 and less an Underwriters' discount of $636,076.48). The Purchase Agreement provides that the Underwriters will purchase all of the Bonds if any are purchased. The obligation to make such purchase is subject to certain terms and conditions set forth in the Purchase Agreement, the approval of certain legal matters by counsel and certain other conditions.

The initial public offering prices stated on the inside front cover of this Official Statement may be changed from time to time by the Underwriters. The Underwriters may offer and sell the 2015 Bonds to certain dealers (including dealers depositing 2015 Bonds into investment trusts), dealer banks, banks acting as agents and others at prices lower than said public offering prices.

The Underwriters and their affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage services. The Underwriters and their affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for the Agency and the City, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities, which may include credit default swaps) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Agency and the City.

The Underwriters and their affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

RATING

Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P"), has assigned a rating of "AA-" to the 2015 Bonds. Such rating reflects only the views of S&P, and any desired explanation of the significance of such rating may be obtained from S&P. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that such rating will continue for any given period of time or that the rating will not be revised downward or withdrawn entirely by S&P, if in its judgment, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the 2015 Bonds.

CONTINUING DISCLOSURE

The Agency covenanted for the benefit of holders and Beneficial Owners of the Bonds: (1) to provide certain financial information and operating data (the "Annual Report") relating to the Agency and the property in the Project Areas by not later than April 1 after the end of the Agency's Fiscal Year, commencing with the report for Fiscal Year 2014-15; and (2) to provide notices of the occurrence of certain enumerated events. The Annual Report will be filed by the Agency with the Municipal Securities Rulemaking Board's Electronic Municipal Market Access System for municipal securities disclosures, maintained on the Internet at http://emma.msrb.org/ ("EMMA"). The notices of enumerated events will be timely filed by the Agency with EMMA. The specific nature of the information to be contained in the Annual Report and the notices of enumerated events is set forth in the Continuing Disclosure Certificate. See Appendix E. These covenants have been made in order to assist the Underwriters in complying with the Rule.

It should be noted that the Agency is required to file certain financial statements with the Annual Report. This requirement has been included in the Continuing Disclosure Certificate solely to satisfy the provisions of the Rule. The inclusion of this information does not mean that the 2015 Bonds are secured by any resources or property of the Agency or the City other than as described in this Official Statement. See the captions "RISK FACTORS AND LIMITATIONS ON PLEDGED TAX REVENUES—The Special Tax Refunding Bonds are Limited Obligations."

The City is not an obligated party under the Continuing Disclosure Certificate; however, City staff will be responsible for filing the Annual Reports on behalf of the Agency. The City and the Agency believe that they have not failed to comply in the last five years in all material respects with any previous undertakings with regard to the Rule to provide annual reports or notices of enumerated events. Audited financial statements of the City were not available at the time the annual report was due for Fiscal Year 2010-11 and audited financial statements of the City and the Agency were not available at the time the annual reports were due for Fiscal Years 2011-12 and 2012-13. As required by the respective continuing disclosure undertakings, the City and the Agency, as applicable, provided notice that the audited financial statements were not available and that such audited financial statements would be filed as soon as available. However, the City and the Agency, as applicable, did not file unaudited financial statements prior to the filing deadlines as required in the respective continuing disclosure undertakings for the applicable Fiscal Years. The City has taken steps, including the addition of staff resources, to ensure that future audited financial statements will be completed by the time that they are due under the continuing disclosure undertakings of the City and its related entities, barring any unforeseen circumstances.

The full text of the Continuing Disclosure Certificate is set forth in Appendix E.

NO LITIGATION

There is no litigation pending or, to the Agency's knowledge, threatened to restrain or enjoin the issuance, execution or delivery of the 2015 Bonds, to contest the validity of the 2015 Bonds, the pledge of Pledged Tax Revenues, the Indenture, or any proceedings of the Agency with respect thereto. In the opinion of the Agency and Agency Counsel, there are no lawsuits or claims pending against the Agency which will materially affect the Agency's finances as to impair the ability to pay principal of and interest on the 2015 Bonds when due.

See the caption "SECURITY FOR THE 2015 BONDS—Tax Increment Financing" for a discussion of certain litigation that could affect the deposits into the Redevelopment Property Tax Trust Fund.

CERTAIN LEGAL MATTERS

The legality of the issuance of the 2015 Bonds is subject to the approval of Best Best & Krieger LLP, San Diego, California, Bond Counsel. Bond Counsel's closing opinion with respect to the 2015 Bonds will be substantially in the form set forth in Appendix D. Certain legal matters will be passed upon for the Agency by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Disclosure Counsel, and by the City Attorney, acting as Agency Counsel. Certain legal matters will be passed upon for the Underwriters by Jones Hall, a Professional Law Corporation, San Francisco, California, as Underwriters' Counsel, and for the Trustee by its counsel.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

MISCELLANEOUS

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

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

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

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

SUCCESSOR AGENCY TO THE SAN MARCOS REDEVELOPMENT AGENCY

By: /s/Jack Griffin
Executive Director

(THIS PAGE INTENTIONALLY LEFT BLANK)

APPENDIX A

SUMMARY OF THE INDENTURE

The following is a summary of certain provisions of the Indenture of Trust not otherwise described in the text of this Official Statement. This summary is not intended to be definitive, and reference is made to the text of the Indenture of Trust for the complete provisions thereof.

DEFINITIONS

"Act" means Articles 1 through 4 (commencing with Section 6500) of Chapter 5, Division 7, Title 1 of the Government Code of the State.

"Additional Revenues" means, as the date of calculation, the amount of Pledged Tax Revenues which, as shown in a report of an Independent Redevelopment Consultant, are estimated to be receivable by the Successor Agency within the Fiscal Year following the Fiscal Year in which such calculation is made as a result of increases in the assessed valuation of taxable property in the Project Areas due to either (a) construction which has been completed and for which a certificate of occupancy has been issued by the City but which is not then reflected on the tax rolls, or (b) transfer of ownership or any other interest in real property which has been recorded but which is not then reflected on the tax rolls. For purposes of this definition, the term "increases in the assessed valuation" means the amount by which the assessed valuation of taxable property in the Project Areas is estimated to increase above the assessed valuation of taxable property in the Project Areas (as evidenced in the written records of the County) as of the date on which such calculation is made.

"Affiliate" means, with respect to a specified Person, another Person that directly, or indirectly through one or more intermediaries, controls, or is controlled by or is under common control with, the Person specified.

"AGM" means Assured Guaranty Municipal Corp.

"Agreement" means that certain Joint Exercise of Powers Agreement, dated June 1, 1989, entered into under the Act by and between the City and the Former Agency together with any amendments thereof and supplements thereto.

"Annual Debt Service" means, for each Bond Year, the sum of (a) the interest payable on the Bonds (including any Parity Debt) in such Bond Year, and (b) the principal amount of the Outstanding Bonds (including any Parity Debt) scheduled to be paid in such Bond Year upon the maturity or mandatory sinking account redemption thereof.

"Authority" means the San Marcos Public Facilities Authority, a joint powers authority duly organized and existing under the Agreement and the laws of the State.

"Authorized Representative" means: (a) with respect to the Authority, its Chairman, Vice Chairman, Executive Director, Secretary, or Treasurer or any other Person designated as an Authorized Representative of the Authority by a certificate of the Authority signed by its Executive Director and filed with the Successor Agency and the Trustee; (b) with respect to the Successor Agency, the Mayor, Vice Mayor, City Manager, or Finance Director of the City acting for and on behalf of the Successor Agency, or any other Person designated as an Authorized Representative of the City by a certificate signed on behalf of the Successor Agency by the City Manager and filed with the Authority and the Trustee; and (d) with respect to the Trustee, the President, any Vice President, any Assistant Vice President, any Senior Authorized Officer, or any Trust Officer of the Trustee, and when used with reference to any act or document also means any other Person authorized to perform such act or sign any document by or pursuant to a resolution of the Board of Directors of the Trustee or the by-laws of the Trustee. An Authorized Representative may by written instrument designate any Person to act on his or her behalf.

"Bond Counsel" means any attorney or firm of attorneys appointed by or acceptable to the Successor Agency of nationally-recognized experience in the issuance of obligations the interest on which is excludable from gross income for federal income tax purposes under the Tax Code.

"Bond Year" means any twelve-month period beginning on October 2 in any year and extending to the next succeeding October 1, both dates inclusive; except that the first Bond Year shall begin on the Closing Date and end on October 1, 2015.

"Bonds" means, collectively, the Series 2015 Bonds and, if the context requires, any additional Parity Debt.

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

"Civic Center Lease" means the Lease Agreement (Civic Center), dated as of November 1, 2001 by and between the Authority, as lessor, and the City, as lessee.

"Closing Date" means, with respect to the Series 2015 Bonds, the date on which the Series 2015 Bonds are delivered by the Successor Agency to the Original Purchaser.

"Costs of Issuance" means items of expense payable or reimbursable directly or indirectly by the Successor Agency and related to the authorization, sale and issuance of the Bonds, which items of expense shall include, but not be limited to, printing costs, costs of reproducing and binding documents, closing costs, filing and recording fees, initial fees and charges of the Trustee including its first annual administration fee, expenses incurred by the Successor Agency in connection with the issuance of the Bonds, fees and charges of the Trustee for paying and redeeming the Prior Bonds, underwriter's discount, original issue discount, legal fees and charges, including Bond Counsel and financial consultant's fees, costs of cash flow verification, premiums for any municipal bond insurance policy that may be purchased and for any reserve policy the Successor Agency may purchase, rating agency fees, charges for execution, transportation and safekeeping of the Series 2015 Bonds and other costs, charges and fees in connection with the original issuance of the Series 2015 Bonds.

"Costs of Issuance Fund" means the fund by that name established and held by the Trustee pursuant to the Indenture.

"County" means the County of San Diego, a county duly organized and existing under the Constitution and laws of the State.

"Credit Facility" means (i) the Reserve Policy or (ii) an irrevocable standby or direct-pay letter of credit or surety bond issued by a commercial bank or insurance company and deposited with the Trustee pursuant to the provisions of the Indenture, provided that all of the following requirements are met by the Successor Agency at the time of delivery thereof to the Trustee: (a) the long-term credit rating of such bank or insurance company is in one of the three highest rating categories by S&P; (b) such letter of credit or surety bond has a term of at least twelve (12) months; (c) such letter of credit or surety bond has a stated amount at least equal to the portion of the Reserve Requirement with respect to which funds are proposed to be released pursuant to the provisions of the Indenture; (d) the Trustee is authorized pursuant to the terms of such letter of credit or surety bond to draw thereunder an amount equal to any deficiencies which may exist from time to time in the Interest Account, the Principal Account or the Sinking Account for the purpose of making payments required pursuant to the provisions of the Indenture; and (e) prior written notice is given to the Trustee before the effective date of any such Credit Facility.

"Debt Service Fund" means the fund by that name established and held by the Trustee pursuant to the Indenture.

"Defeasance Obligations" means:

(a) cash;

(b) U.S. Treasury Certificates, Notes and Bonds (including State and Local Government Series);

(c) Direct obligations of the Treasury that have been stripped by the Treasury itself, CATS, TIGRS and similar securities;

(d) The interest component of Resolution Funding Corporation strips which have been stripped by request to the Federal Reserve Bank of New York in book entry form;

(e) Pre-refunded municipal bonds rated "Aa" or higher by Moody's and "AA" or higher by S&P, provided that, the pre-refunded municipal bonds must have been pre-refunded with cash, direct U.S. or U.S. guaranteed obligations, or AAA rated pre-refunded municipals; and

(f) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the Successor Agency itself): (i) direct obligations or fully guaranteed certificates of beneficial ownership of the U.S. Export-Import Bank; (ii) certificates of beneficial ownership of the Rural Economic Community Development Administration (formerly the Farmers Home Administration); (iii) obligations of the Federal Financing Bank; (iv) debentures of the Federal Housing Administration; (v) participation certificates of the General Services Administration; (vi) guaranteed Title XI financings of the U.S. Maritime Administration; (vii) project notes, local authority bonds, new communities debentures and U.S. public housing notes and bonds of the U.S. Department of Housing and Urban Development.

"Dissolution Act" means the provisions of Assembly Bill X1 26, signed by the Governor on June 28, 2011, and filed with the Secretary of State on June 29, 2011, consisting of Part 1.8 (commencing with Section 34161) and Part 1.85 (commencing with Section 34170) of Division 24 of the California Health and Safety Code, as amended by Assembly Bill 1484, signed by the Governor on June 27, 2012, and filed with the Secretary of State on June 27, 2012.

"DOF" means the California Department of Finance.

"Event of Default" means any of the events described in the Indenture.

"Fair Market Value" means, with respect to any investment, the price at which a willing buyer would purchase the investment from a willing seller in a bona fide, arm's length transaction (determined as of the date the contract to purchase or sell the investment becomes binding) if the investment is traded on an established securities market (within the meaning of section 1273 of the Tax Code) and, otherwise, the term "Fair Market Value" means the acquisition price in a bona fide arm's length transaction (as referenced above) if (i) the investment is a certificate of deposit that is acquired in accordance with applicable regulations under the Tax Code, (ii) the investment is an agreement with specifically negotiated withdrawal or reinvestment provisions and a specifically negotiated interest rate (for example, a guaranteed investment contract, a forward supply contract or other investment agreement) that is acquired in accordance with applicable regulations under the Tax Code, (iii) the investment is a United States Treasury Security--State and Local Government Series that is acquired in accordance with applicable regulations of the United States Bureau of Public Debt, or (iv) any commingled investment fund in which the Successor Agency and related parties do not own more than a ten percent (10%) beneficial interest therein if the return paid by the fund is without regard to the source of the investment. The Trustee shall have no duty in connection with the determination of Fair Market Value other than to follow the investment directions of the Successor Agency in any written directions of the Successor Agency.

"Federal Securities" means any direct, noncallable general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America and CATS and TGRS), or obligations the payment of principal of and interest on which are unconditionally guaranteed by the United States of America.

"Fiscal Year" means any twelve-month period beginning on July 1 in any year and extending to the next succeeding June 30, both dates inclusive, or any other twelve-month period selected and designated by the Successor Agency as its official fiscal year period pursuant to a Written Certificate of the Successor Agency filed with the Trustee.

"Former Agency" means the San Marcos Redevelopment Agency, also known as the Redevelopment Agency of the City of San Marcos, a public body corporate and politic duly organized and formerly existing under the Redevelopment Law and dissolved in accordance with the Dissolution Act.

"Housing Bonds" means the Former Agency's $52,805,000 San Marcos Redevelopment Agency Housing Set-Aside Tax Allocation Bonds, Series 2010 (Taxable).

"Indenture" means the Indenture of Trust by and between the Successor Agency and the Trustee, as amended or supplemented from time to time pursuant to any Supplemental Indenture entered into pursuant to the provisions hereof.

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

"Independent Fiscal Consultant" means any consultant or firm of such consultants appointed by or acceptable to the Successor Agency and who, or each of whom: (a) is judged by the Successor Agency to have experience in matters relating to the financing of redevelopment projects; (b) is in fact independent and not under domination of the Successor Agency; and (c) is not connected with the Successor Agency as an officer or employee of the Successor Agency, but who may be regularly retained to make reports to the Successor Agency.

"Independent Redevelopment Consultant" means any consultant or firm of such consultants appointed by the Successor Agency, and who, or each of whom:

(a) is judged by the Successor Agency to have experience in matters relating to the collection of Pledged Tax Revenues or otherwise with respect to the financing of redevelopment projects;

(b) is in fact independent and not under the domination of the Successor Agency;

(c) does not have any substantial interest, direct or indirect, with the Successor Agency, other than as original purchaser of the Bonds or any Parity Debt; and

(d) is not connected with the Successor Agency as an officer or employee of the Successor Agency, but who may be regularly retained to make reports to the Successor Agency.

"Information Services" means "EMMA" or the "Electronic Municipal Market Access" system of the Municipal Securities Rulemaking Board; or, in accordance with then-current guidelines of the Securities and Exchange Commission, such other services providing information with respect to called bonds as the Successor Agency may designate in a Written Certificate of the Successor Agency delivered to the Trustee.

"Interest Account" means the account by that name established and held by the Trustee pursuant to the Indenture.

"Interest Payment Date" means each April 1 and October 1 in each year, commencing October 1, 2015, for so long as any of the Bonds remain unpaid.

"Late Payment Rate" means the lesser of (x) the greater of (i) the per annum rate of interest, publicly announced from time to time by JPMorgan Chase Bank at its principal office in the City of New York, as its prime or base lending rate ("Prime Rate") (any change in such Prime Rate to be effective on the date such change is announced by JPMorgan Chase Bank) plus 5%, and (ii) the then applicable highest rate of interest on the Bonds and (y) the maximum rate permissible under applicable usury or similar laws limiting interest rates. The Late Payment Rate shall be computed on the basis of the actual number of days elapsed over a year of 360 days. In the event JPMorgan Chase Bank ceases to announce its Prime Rate publicly, Prime rate shall be the publicly announced prime or base lending rate of such national bank as AGM shall specify.

"Lease Agreements" means collectively, the Civic Center Lease and the Public Works Yard Lease.

"Low and Moderate Income Housing Fund" means the fund of the Successor Agency by that name established pursuant to Section 33334.3 of the Redevelopment Law.

"Maximum Annual Debt Service" means, as of the date of calculation, the largest Annual Debt Service for the current or any future Bond Year payable on the Bonds or any Parity Debt in such Bond Year.

"Moody's" means Moody's Investors Service, Inc., its successors and assigns.

"Office" means, with respect to the Trustee, the corporate trust office of the Trustee at 120 South San Pedro Street, Suite 400, Los Angeles, California 90012, or at such other or additional offices as may be specified by the Trustee in writing to the Successor Agency, provided that for the purposes of maintenance of the Registration Books and presentation of Bonds for transfer, exchange or payment such term shall mean the office of the Trustee at which it conducts its corporate agency business.

"Original Purchaser" means the Stifel, Nicolaus & Company, Incorporated, on behalf of itself and Piper Jaffray & Company, as the original purchasers of the Series 2015 Bonds.

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

"Oversight Board" means the oversight board duly constituted from time to time pursuant to Section 34179 of the Dissolution Act.

"Owner" means, with respect to any Bond, the person in whose name the ownership of such Bond shall be registered on the Registration Books.

"Parity Debt" means any bonds, notes, loans, advances or other indebtedness issued or incurred by the Successor Agency on a parity with the Series 2015 Bonds pursuant to the Indenture.

"Parity Debt Instrument" means any resolution, indenture of trust, trust agreement or other instrument authorizing the issuance of any Parity Debt and which otherwise complies with all of the terms and conditions of the Indenture, including, without limitation, the provisions of the Indenture.

"Pass-Through Agreements" mean certain contractual and statutory obligations secured by a pledge or lien on Tax Increment Revenues superior to the lien securing the Housing Bonds, as set forth in the agreements listed below:

(a) Amended and Restated Agreement regarding Redevelopment Project Areas 1, 2 and 3, dated as of December 12, 2000, by and among Palomar Community College District, the City and the Former Agency;

(b) Agreement for Cooperation, dated as of July 25, 1989, by and among the San Diego County Office of Education, the City and the Former Agency;

(c) Amended Agreement for Cooperation, dated as of April 10, 1990, by and among the County of San Diego, the City and the Former Agency;

(d) Agreement for Cooperation, dated as of August 13, 1985, by and among Olivenhain Municipal Water District, the City and the Former Agency;

(e) Agreement for Cooperation, dated as of May 28, 1985, by and among Palomar Community College District, the City and the Former Agency;

(f) Agreement for Cooperation, dated as of May 14, 1985, by and among the San Marcos Fire Protection District, the City and the Former Agency;

(g) Agreement for Cooperation, dated as of May 14, 1985, by and among San Marcos County Water District (now Vallecitos Water District), the City and the Former Agency;

(h) Settlement Agreement and Mutual Release of Claims, dated as of July 8, 1998, by and among the County of San Diego, the City and the Former Agency;

(i) Agreement for Cooperation, dated as of March 13, 1990, by and among North County Cemetery District, the City and the Former Agency;

(j) Agreement for Cooperation, dated as of February 13, 1991, by and among Palomar Community College District, the City and the Former Agency;

(k) Agreement for Cooperation, dated as of June 13, 1989, by and among Palomar Community College District, the City and the Former Agency;

(l) Agreement for Cooperation, dated as of June 13, 1989, by and among San Marcos Fire Protection District, the City and the Former Agency; and

(m) Agreement for Cooperation, dated as of June 13, 1989, by and among Vallecitos Water District, the City and the Former Agency.

“Permitted Investments” means any of the following which at the time of investment are legal investments under the laws of the State of California for the moneys proposed to be invested therein (provided that the Trustee shall be entitled to rely upon any investment direction from the Successor Agency as conclusive certification to the Trustee that the investments described therein are so authorized under the laws of the State and constitute Permitted Investments), but only to the extent that the same are acquired at Fair Market Value:

(a) Federal Securities;

(b) obligations of any of the following federal agencies which obligations represent full faith and credit of the United States of America, including: Export-Import Bank, Farm Credit System Financial Assistance Corporation, Rural Economic Community Development Administration (formerly Farmers Home Administration), General Services Administration, U.S. Maritime Administration, Small Business Administration, Government National Mortgage Association, U.S. Department of Housing & Urban Development, Federal Housing Administration and Federal Financing Bank;

(c) direct obligations for any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America: senior debt obligations rated “Aaa” by Moody’s and “AAA” by S&P issued by Fannie Mae or Federal Home Loan Mortgage Corporation (FHLMC); obligations of the Resolution Funding Corporation (REFCORP); senior debt obligations of the Federal Home Loan Bank System; and senior debt obligations of other Government Sponsored Agencies;

(d) U.S. dollar denominated deposit accounts, federal funds and banker’s acceptances with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of A-1 or A-1+ by S&P and P-1 by Moody’s, and maturing no more than 360 days after the date of purchase, including those of the Trustee or its affiliates;

(e) commercial paper which is rated at the time of purchase in the single highest classification, A-1+ by S&P and P-1 by Moody’s and which matures not more than 270 days after the date of purchase;

(f) investments in a money market fund rated AAAm or AAAm-G or better by S&P, including funds for which the Trustee or its affiliates provide investment advisory or other management services;

(g) any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and (i) which are rated, based on the escrow, in the highest rating category of S&P and Moody’s or (ii)(A) which are fully secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or Federal Securities, which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, in such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (B) which fund is sufficient, as verified by an Independent Accountant and with the prior approval of S&P, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to above, as appropriate;

(h) the County’s investment pool; and

(i) the Local Agency Investment Fund of the State, created pursuant to Section 11429.1 of the California Government Code but only, in the case of Trustee held funds, to the extent any moneys invested by the Trustee are subject to deposit and withdrawal solely by the Trustee.

“Plan Limitations” means the limitations contained or incorporated in each of the Redevelopment Plans on (a) the aggregate principal amount of indebtedness payable from Tax Increment Revenues which may be outstanding at any time, or (b) the aggregate amount of taxes which may be divided and allocated to the Successor Agency pursuant to such Redevelopment Plan.

“Pledged Tax Revenues” means all moneys deposited from time to time in the Redevelopment Property Tax Trust Fund as provided in paragraph (2) of subdivision (a) of Section 34183 of the California Health and Safety Code but excluding (i) amounts of such taxes required to be paid by the Successor Agency to pay Pass-Through Agreements, or pursuant to Section 33607.7 of the Redevelopment Law, except and to the extent that any amounts so payable are payable on a basis subordinate to the payment of the Series 2015 Bonds and any additional Parity Debt, as applicable, (ii) amounts deducted pursuant to Section 34183(a) of the Dissolution Act for permitted administrative costs of the County auditor-controller, and (iii) excluding all other amounts which prior to the adoption of the Dissolution Act were required to be deposited into the Former Agency's Low and Moderate Income Housing Fund pursuant to Sections 33334.2, 33334.3 and 33334.6 of the Redevelopment Law, to the extent required to pay debt service on the Housing Bonds. If, and to the extent, that the provisions of Section 34172 or paragraph (2) of subdivision (a) of Section 34183 are invalidated by a final judicial decision, then Pledged Tax Revenues shall include all tax revenues allocated to the payment of indebtedness pursuant to Health & Safety Code Section 33670 or such other section as may be in effect at the time providing for the allocation of tax increment revenues in accordance with Article XVI, Section 16 of the California Constitution, subject to the exclusions set forth above.

"Policy Costs" means repayment of any draws on the Reserve Policy and payment of expenses and accrued interest thereon at the Late Payment Rate.

"Principal Account" means the account by that name established and held by the Trustee pursuant to the Indenture.

"Pre-Existing Agreements" means the contractual and statutory obligations, if any, secured by a lien on Tax Increment Revenues superior to the lien securing the Housing Bonds, including Pass-Through Agreements.

"Prior Bonds" shall mean, collectively, the Series 1997A Bonds, the Series 1998A Bonds, the Series 2001A Bonds, the Series 2003A Bonds, the Series 2003B Bonds, the Series 2005A Bonds, the Series 2005B Bonds, the Series 2005C Bonds and the Series 2006A Bonds.

"Project Areas" means the project areas described in the Redevelopment Plans.

"Public Works Yard Lease" means the Lease Agreement (Public Works Yard), dated as of November 1, 2001, by and between the Authority, as lessor, and the City, as lessee.

"Recognized Obligation Payment Schedule" means a Recognized Obligation Payment Schedule, each prepared and approved from time to time pursuant to subdivision (l) of Section 34177 of the California Health and Safety Code.

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

"Redemption Account" means the account by that name established and held by the Trustee pursuant to the Indenture.

"Redevelopment Law" means the Community Redevelopment Law of the State, constituting Part 1 of Division 24 of the Health and Safety Code of the State, and the acts amendatory thereof and supplemental thereto.

"Redevelopment Obligation Retirement Fund" means the fund by that name established pursuant to California Health and Safety Code Section 34170.5(a) and administered by the Successor Agency.

"Redevelopment Plans" means, individually, (a) the Redevelopment Plan for the San Marcos Redevelopment Project Area No. 1 approved and adopted by the City by Ordinance No. 83-604 on July 12, 1983, together with any amendments thereof hereafter duly enacted pursuant to the Redevelopment Law; (b) the Redevelopment Plan for the San Marcos Redevelopment Project Area No. 2 approved and adopted by the City by Ordinance No. 85-662 on July 19, 1985, together with any amendments thereof hereafter duly enacted pursuant to the Redevelopment Law; or (c) the Redevelopment Plan for the San Marcos Redevelopment Project Area No. 3 approved and adopted by the City by Ordinance No. 89-820 on July 11, 1989, together with any amendments thereof hereafter duly enacted pursuant to the Redevelopment Law. "Redevelopment Plans" or "Plans" means, collectively, each of the foregoing Redevelopment Plans.

"Redevelopment Project Areas" or "Project Areas" means the Redevelopment Project Areas described in the Redevelopment Plans.

"Redevelopment Projects" or "Projects" means the undertaking of the Successor Agency pursuant to the Redevelopment Plans, as amended, and the Redevelopment Law for the redevelopment of the Redevelopment Project Areas.

"Redevelopment Property Tax Trust Fund" or "RPTTF" means the fund by that name established pursuant to Health & Safety Code Sections 34170.5(b) and 34172(c) and administered by the County auditor-controller.

"Refunding Law" means Article 11 (commencing with Section 53580) of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State, and the acts amendatory thereof and supplemented thereto.

"Registration Books" means the records maintained by the Trustee pursuant to the Indenture for the registration and transfer of ownership of the Series 2015 Bonds.

"Related Documents" means any document executed in connection with the Bonds.

"Request of the Successor Agency" means a request in writing signed by the Executive Director, Treasurer or Secretary of the Successor Agency, or any other officer of the Successor Agency duly authorized by the Successor Agency for that purpose.

"Reserve Account" means the account by that name established and held by the Trustee pursuant to the Indenture.

"Reserve Policy" means the municipal bond debt service reserve insurance policy deposited into the Reserve Account.

"Reserve Requirement" means, with respect to the Series 2015 Bonds, as of any calculation date, the least of (i) ten percent (10%) of the original principal amount of the Series 2015 Bonds, (ii) Maximum Annual Debt Service with respect to the Series 2015 Bonds, or (iii) 125% of average Annual Debt Service on the Series 2015 Bonds; provided further that (a) the Reserve Requirement with respect to the Series 2015A Bonds and the Series 2015B Bonds will be calculated on a combined basis, provided that, in the event the Reserve Requirement for the Series 2015A Bonds and the Series 2015B Bonds is funded with cash, the Trustee shall establish separate subaccounts for the proceeds of the Series 2015A Bonds and the Series 2015B Bonds to enable the Trustee to track the investment of the proceeds of the Series 2015A Bonds and the Series 2015B Bonds and (b) that the Successor Agency may meet all or a portion of the Reserve Requirement by depositing a Credit Facility meeting the requirements of the Indenture.

"ROPs" or "Registered Obligations Payment Schedule" means a Recognized Obligations Payment Schedule or any other document as may be required to be filed by the Successor Agency so to enable the County Auditor-Controller to distribute from the RPTTF to the Successor Agency, for deposit into the Redevelopment Obligation Retirement Fund on each RPTTF Disbursement Date the amounts specified in the Indenture.

"S&P" means Standard & Poor's Ratings Service, a division of the McGraw-Hill Companies, Inc., its successors and assigns.

"Securities Depositories" means The Depository Trust Company, 55 Water Street, 50th Floor, New York, N.Y. 10041-0099 Attn: Call Notification Department, Fax (212) 855-7232 and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depositories as the Successor Agency may designate in a Written Request of the Successor Agency delivered to the Trustee.

"Series 1997A Bonds" means the Former Agency's Tax Allocation Bonds (1997 Affordable Housing Project), Series 1997A.

"Series 1997A Bonds Escrow Agreement" means the Escrow Deposit and Trust Agreement, dated as of July 1, 2015, by and between the Successor Agency and the Series 1997A Escrow Bank pertaining to the Series 1997A Bonds.

"Series 1997A Bonds Escrow Bank" means MUFG Union Bank, N.A., acting in its capacity as the escrow bank pursuant to the Series 1997A Bonds Escrow Agreement.

"Series 1998A Bonds" means the Former Agency's Tax Allocation Bonds (1998 Affordable Housing Project), Series 1998A.

"Series 1998A Bonds Escrow Agreement" means the Escrow Deposit and Trust Agreement, dated as of July 1, 2015, by and between the Successor Agency and the Series 1998A Bonds Escrow Bank, pertaining to the Series 1998A Bonds.

“Series 1998A Bonds Escrow Bank” means The Bank of New York Mellon Trust Company, N.A., acting in its capacity as the escrow bank pursuant to the Series 1998A Bonds Escrow Agreement.

“Series 2001A Bonds” means the Authority’s 2001 Public Improvement Refunding Revenue Bonds, Series A (Civic Center/Public Works Yard).

“Series 2001A Bonds Escrow Agreement” means the Escrow Deposit and Trust Agreement, dated as of July 1, 2015, by and between the Successor Agency and the Series 2001A Bonds Escrow Bank, pertaining to the Series 2001A Bonds.

“Series 2001A Bonds Escrow Bank” means MUFG Union Bank, N.A., acting in its capacity as the escrow bank pursuant to the Series 2001A Bonds Escrow Agreement.

“Series 2003A Bonds” means the Authority’s 2003 Tax Allocation Revenue Bonds (Project Areas No.1, No. 2 & No. 3 Refunding and Financing Project), Series A.

“Series 2003A Bonds Escrow Agreement” means the Escrow Deposit and Trust Agreement, dated as of July 1, 2015, by and between the Successor Agency and the Series 2003A Bonds Escrow Bank, pertaining to the Series 2003A Bonds.

“Series 2003A Bonds Escrow Bank” means U.S. Bank National Association, acting in its capacity as the escrow bank pursuant to the Series 2003A Bonds Escrow Agreement.

“Series 2003B Bonds” means the Authority’s 2003 Tax Allocation Revenue Bonds (Project Area No. 1 Refunding and Financing Project), Taxable Series B.

“Series 2003B Bonds Escrow Agreement” means the Escrow Deposit and Trust Agreement, dated as of July 1, 2015, by and between the Successor Agency and the Series 2003B Bonds Escrow Bank, pertaining to the Series 2003B Bonds.

“Series 2003B Bonds Escrow Bank” means U.S. Bank National Association, acting in its capacity as the escrow bank pursuant to the Series 2003B Bonds Escrow Agreement.

“Series 2005A Bonds” means the Authority’s 2005 Tax Allocation Revenue Bonds (Project Areas No. 1 and No. 3 Refunding Project), Series A.

“Series 2005A Bonds Escrow Agreement” means the Escrow Deposit and Trust Agreement, dated as of July 1, 2015, by and between the Successor Agency and the Series 2005A Bonds Escrow Bank, pertaining to the Series 2005A Bonds.

“Series 2005A Bonds Escrow Bank” means MUFG Union Bank, N.A., acting in its capacity as the escrow bank pursuant to the Series 2005A Bonds Escrow Agreement.

“Series 2005B Bonds” means the Authority’s 2005 Tax Allocation Revenue Bonds (Project Area No. 1 Refunding and Financing Project), Taxable Series B.

“Series 2005B Bonds Escrow Agreement” means the Escrow Deposit and Trust Agreement, dated as of July 1, 2015, by and between the Successor Agency and the Series 2005B Bonds Escrow Bank, pertaining to the Series 2005B Bonds.

“Series 2005B Bonds Escrow Bank” means MUFG Union Bank, N.A., acting in its capacity as the escrow bank pursuant to the Series 2005B Bonds Escrow Agreement.

“Series 2005C Bonds” means the Authority’s 2005 Tax Allocation Revenue Bonds (Project Areas No. 2 and No. 3 Financing Project), Series C.

“Series 2005C Bonds Escrow Agreement” means the Escrow Deposit and Trust Agreement, dated as of July 1, 2015, by and between the Successor Agency and the Series 2005C Bonds Escrow Bank, pertaining to the Series 2005C Bonds.

“Series 2005C Bonds Escrow Bank” means MUFG Union Bank, N.A., acting in its capacity as the escrow bank pursuant to the Series 2005C Bonds Escrow Agreement.

"Series 2005C Trustee" means MUFG Union Bank, N.A., acting in its capacity as trustee for the Series 2005C Bonds pursuant to the Indenture of Trust, dated as of June 1, 2005, by and between the Authority and Union Bank of California, N.A.

"Series 2006A Bonds" means the Authority's 2006 Tax Allocation Revenue Bonds (Project Area No. 3 Financing Project), Series A.

"Series 2006A Bonds Escrow Agreement" means the Escrow Deposit and Trust Agreement, dated as of July 1, 2015, by and between the Successor Agency and the Series 2006A Bonds Escrow Bank, pertaining to the Series 2006A Bonds.

"Series 2006A Bonds Escrow Bank" means MUFG Union Bank, N.A., acting in its capacity as the escrow bank pursuant to the Series 2006A Bonds Escrow Agreement.

"Series 2006A Trustee" means MUFG Union Bank, N.A., acting in its capacity as trustee for the Series 2006A Bonds pursuant to the Indenture of Trust, dated as of March 1, 2006, by and between the Authority and Union Bank of California, N.A.

"Series 2015 Bonds" means collectively the Series 2015A Bonds and the Series 2015B Bonds.

"Series 2015A Bonds" the Successor Agency to the San Marcos Redevelopment Agency Tax Allocation Refunding Bonds, Series 2015A, issued in the initial principal amount of $84,710,000.

"Series 2015B Bonds" means the Successor Agency to the San Marcos Redevelopment Agency Taxable Tax Allocation Refunding Bonds, Series 2015B, issued in the initial principal amount of $139,285,000.

"Sinking Account" means the account by that name established and held by the Trustee pursuant to the Indenture.

"State" means the State of California.

"Subordinate Debt" means any bonds, notes, loans, advances or other indebtedness issued or incurred by the Successor Agency in accordance with the requirements of the Indenture, which are either: (a) payable from, but not secured by a pledge of or lien upon, the Pledged Tax Revenues; or (b) secured by a pledge of or lien upon the Pledged Tax Revenues which is subordinate to the pledge of and lien upon the Pledged Tax Revenues under the Indenture for the security of the Bonds.

"Successor Agency" means the Successor Agency to the San Marcos Redevelopment Agency, a public entity existing under the Dissolution Act, as successor to the Former Agency.

"Successor Agency Project Fund" means the fund by that name established and held by the Trustee pursuant to the Indenture.

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

"Tax Code" means the Internal Revenue Code of 1986 as in effect on the Closing Date or (except as otherwise referenced in the Indenture) as it may be amended to apply to obligations issued on the Closing Date, together with applicable proposed, temporary and final regulations promulgated, and applicable official public guidance published, under said Code.

"Term Bonds" means, collectively, (a) the Series 2015B Bonds maturing on October 1, 2024, October 1, 2027, October 1, 2029, October 1, 2034 and October 1, 2038 and (b) any maturity of Parity Debt which is subject to mandatory Sinking Account redemption pursuant to the Supplemental Indenture authorizing the issuance thereof.

"Trustee" means MUFG Union Bank, N.A., as trustee under the Indenture, or any successor thereto appointed as Trustee under the Indenture in accordance with the provisions of Article VI.

"Written Request of the Successor Agency" or "Written Certificate of the Successor Agency" means a request or certificate, in writing signed by the Executive Director, Treasurer or Secretary of the Successor Agency or by any other officer of the Successor Agency duly authorized by the Successor Agency for that purpose and so identified in a Written Certificate of the Successor Agency.

DEPOSIT AND APPLICATION OF PROCEEDS OF SERIES 2015 BONDS ISSUANCE OF PARITY DEBT

Issuance of Series 2015 Bonds. Upon the execution and delivery of the Indenture, the Successor Agency shall execute and deliver the Series 2015A Bonds in the aggregate principal amount of $84,710,000 and the Series 2015B Bonds in the aggregate principal amount of $139,285,000 to the Trustee, and the Trustee shall authenticate and deliver the Series 2015A Bonds and the Series 2015B Bonds to the Original Purchaser upon receipt of a Request of the Successor Agency therefor.

Costs of Issuance Fund. The Costs of Issuance Fund shall be held by the Trustee in trust. The moneys in the Costs of Issuance Fund shall be used and withdrawn by the Trustee from time to time to pay the Costs of Issuance upon submission of a Written Request of the Successor Agency stating the person to whom payment is to be made, the amount to be paid, the purpose for which the obligation was incurred and that such payment is a proper charge against said fund. On the date six months following the Closing Date, or upon the earlier Written Request of the Successor Agency stating that all known Costs of Issuance have been paid, all amounts, if any, remaining in the Costs of Issuance Fund shall be withdrawn therefrom by the Trustee and transferred to the Debt Service Fund and the Costs of Issuance Fund shall be closed.

Successor Agency Project Fund. A fund to be held by the Trustee known as the “Successor Agency Project Fund” and within the Successor Agency Project Fund the “Project Area 2 Account” and the “Project Area 3 Account” is established under the Indenture. The moneys set aside and placed in such accounts shall remain therein until from time to time expended solely for the purpose of financing the costs of capital improvements and other costs, all as authorized pursuant to the Redevelopment Law.

Upon receipt of a payment request in a form satisfactory to the Trustee and executed by Authorized Representative of the Successor Agency in payment of or reimbursement of the payments of costs that are certified in such payment request to be properly chargeable to the applicable account of the Redevelopment Fund, the Trustee shall disburse moneys from such account in the amount(s) and directly to the person(s) or entity(ies) specified in such payment request. The Trustee may rely on a Payment Request executed by an Authorized Representative of the Successor Agency as complete authorization for the payment(s) specified therein.

If any moneys remain on deposit in either account of the Redevelopment Fund after the full accomplishment of the object and purposes for which such moneys may be expended pursuant to the Redevelopment Law as evidenced by a written certificate executed by an Authorized Representative of the Successor Agency, such funds shall be transferred by the Trustee as directed in such certificate to the Debt Service Fund and such moneys will, as directed in such certificate, be utilized to pay scheduled debt service on the Series 2015 Bonds, to optionally redeem Series 2015B Bonds pursuant to the Indenture or to defease Series 2015B Bonds pursuant to the Indenture.

Issuance of Parity Debt. In addition to the Series 2015 Bonds, the Successor Agency may issue or incur additional Parity Debt in such principal amount as shall be determined by the Successor Agency for purposes of refunding any existing debt of the Successor Agency so long as Section 34177.5(a) of the Redevelopment Law has been satisfied. The Successor Agency may issue and deliver any Parity Debt subject to the following specific conditions that are made conditions precedent to the issuance and delivery of such Parity Debt issued under this Section:

(a) No Event of Default shall have occurred and be continuing, and the Successor Agency shall otherwise be in compliance with all covenants set forth in the Indenture.

(b) The Successor Agency shall fund a reserve account relating to such Parity Debt in an amount equal to the Reserve Requirement.

(c) The Successor Agency shall deliver to the Trustee a Written Certificate of the Successor Agency certifying that the conditions precedent to the issuance of such Parity Debt set forth above have been satisfied.

Issuance of Subordinate Debt. The Successor Agency may issue or incur Subordinate Debt in such principal amount as shall be determined by the Successor Agency. Such Subordinate Debt may be payable from any assets or property of the Successor Agency, including Pledged Tax Revenues on a subordinate basis to the payment of debt service on the Series 2015 Bonds and any Parity Debt.

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

SECURITY OF BONDS; FLOW OF FUNDS INVESTMENTS

Pledge of Pledged Tax Revenues. Except as provided in the Indenture, the Series 2015 Bonds and all Parity Debt, shall be secured by a pledge of, security interest in and lien on all of the Pledged Tax Revenues. In addition, the Series 2015 Bonds, and any other Parity Debt, shall, subject to the Indenture, be secured by a first and exclusive pledge of, security interest in and lien upon all of the moneys in the Debt Service Fund, the Interest Account, the Principal Account, the Sinking Account, the Redemption Account and the Reserve Account. Such pledge, security interest in and lien shall be for the equal security of the Outstanding Bonds without preference or priority for series, issue, number, dated date, sale date, date of execution or date of delivery. Except for the Pledged Tax Revenues and such moneys, no funds of the Successor Agency are pledged to, or otherwise liable for, the payment of principal of or interest or redemption premium (if any) on the Bonds.

In consideration of the acceptance of the Series 2015 Bonds by those who shall hold the same from time to time, the Indenture shall be deemed to be and shall constitute a contract between the Successor Agency and the Owners from time to time of the Series 2015 Bonds, and the covenants and agreements in the Indenture set forth to be performed on behalf of the Successor Agency shall be for the equal and proportionate benefit, security and protection of all Owners of the Series 2015 Bonds without preference, priority or distinction as to security or otherwise of any of the Series 2015 Bonds over any of the others by reason of the number or date thereof or the time of sale, execution and delivery thereof, or otherwise for any cause whatsoever, except as expressly provided in the Indenture.

Redevelopment Obligation Retirement Fund; Deposit of Pledged Tax Revenues. There has been established a special trust fund known as the "Redevelopment Obligation Retirement Fund," which shall be held by the Successor Agency pursuant to Section 34170.5(b) of the California Health and Safety Code. There is established under the Indenture a special trust fund known as the "Debt Service Fund" and the accounts therein referred to below which shall be held by the Trustee in accordance with the Indenture.

The Successor Agency shall take all actions required under the Dissolution Act to include each ROPS to be submitted after the effective date of the Indenture, so to enable the County Auditor-Controller to distribute from the RPTTF to the Successor Agency, for deposit into the Redevelopment Obligation Retirement Fund on each RPTTF disbursement date, the following amounts: (i) the interest payment coming due with respect to the Outstanding Bonds during such ROPS Period, (ii) for ROPS which covers payment from January through June of any calendar year, at least one-half of the principal amount coming due with respect to the Bonds on October 1st of such calendar year (the "Principal Reserve"), (iii) for ROPS which covers payments from July through December of any calendar year, an amount equal to the principal amount coming due on October 1st of such calendar year, less the Principal Reserve already received in connection with the immediately prior ROPS and deposited with the Trustee, and (iv) any amount required under the Indenture to replenish the Reserve Account, if required pursuant to the Indenture (and any provision amendatory thereto as set forth in supplement indentures).

The Successor Agency shall deposit all of the Pledged Tax Revenues received from each distribution of Pledged Tax Revenues in any Bond Year commencing on the first day of such Bond Year from the RPTTF in accordance with the Dissolution Act for the purpose of paying debt service on the Series 2015 Bonds and any Parity Debt in the Redevelopment Obligation Retirement Fund immediately upon receipt thereof by the Successor Agency, and promptly thereafter shall transfer amounts therein to the Trustee for deposit in the Debt Service Fund established and held under the Indenture until such time that the aggregate amounts on deposit in such Debt Service Fund equal the aggregate amounts required to be deposited into the Interest Account, the Principal Account and the Reserve Account in the each six month period of such Bond Year pursuant to the Indenture and for deposit in each such six month period of each Bond Year in the funds and accounts established with respect to Parity Bonds, as provided in any Supplemental Indenture.

Debt Service Fund; Transfer of Amounts to Trustee. Moneys in the Debt Service Fund shall be transferred in the following amounts at the following times, in the following respective special accounts within the

Debt Service Fund, which accounts are established with the Trustee to pay debt service on the Series 2015 Bonds and any Parity Debt not otherwise provided for in a Parity Debt Instrument, in the following order of priority:

(a) Interest Account. On or before the fourth (4th) Business Day preceding each date on which interest on the Series 2015 Bonds and any such Parity Debt becomes due and payable, the Trustee shall withdraw from the Debt Service Fund and transfer to the Interest Account an amount which, when added to the amount then on deposit in the Interest Account, will be equal to the aggregate amount of the interest becoming due and payable on the Outstanding Series 2015 Bonds and any such Parity Debt on such date. No such transfer and deposit need be made to the Interest Account if the amount contained therein is at least equal to the interest to become due on the Interest Payment Date upon all of the Outstanding Series 2015 Bonds and any such Parity Debt. All moneys in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Bonds as it shall become due and payable (including accrued interest on any Series 2015 Bonds and any such Parity Debt purchased or redeemed prior to maturity pursuant to the Indenture).

(b) Principal Account. On or before the fourth (4th) Business Day preceding each date on which principal of the Series 2015 Bonds and any such Parity Debt becomes due and payable at maturity, the Trustee shall withdraw from the Debt Service Fund and transfer to the Principal Account an amount which, when added to the amount then on deposit in the Principal Account, will be equal to the amount of principal coming due and payable on such date on the Outstanding Series 2015 Bonds and any such Parity Debt. All moneys in the Principal Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Series 2015 Bonds and any such Parity Debt upon the maturity thereof.

(c) Sinking Account. On or before the fourth (4th) Business Day preceding each date on which any Outstanding Series 2015B Term Bonds become subject to mandatory Sinking Account redemption, the Successor Agency shall withdraw from the Debt Service Fund and transfer to the Trustee for deposit in the Sinking Account an amount which, when added to the amount then contained in the Sinking Account, will be equal to the aggregate principal amount of the Series 2015B Term Bonds required subject to mandatory Sinking Account redemption on such date. All moneys on deposit in the Sinking Account shall be used and withdrawn by the Trustee for the sole purpose of paying the principal of the Series 2015B Term Bonds as it shall become due and payable upon the mandatory Sinking Account redemption thereof.

(d) Reserve Account. The Reserve Account is established under the Indenture solely as security for payments payable by the Successor Agency pursuant to the Indenture and pursuant to any other Parity Debt Instrument, which shall be held by the Trustee in trust for the benefit of the Owners of the Bonds and any Parity Debt. The Reserve Requirement for the Series 2015 Bonds will be satisfied by the delivery of the Reserve Policy by AGM on the Closing Date with respect to the Series 2015 Bonds. The Successor Agency will have no obligation to replace the Reserve Policy or to fund the Reserve Account with cash if, at any time that the Series 2015 Bonds are Outstanding, amounts are not available under the Reserve Policy other than in connection with a draw on the Reserve Policy.

The Reserve Account may be maintained in the form of one or more separate sub-accounts which are established for the purpose of securing separate series of Bonds or Parity Debt or for holding the proceeds of separate issues of the Bonds and any Parity Debt in conformity with applicable provisions of the Code to the extent directed by the Successor Agency in writing to the Trustee. Additionally, the Successor Agency may, in its discretion, combine amounts on deposit in the Reserve Account and on deposit in any reserve account relating to any (but not necessarily all) Parity Debt in order to maintain a combined reserve account for the Bonds and any (but not necessarily all) Parity Debt.

(e) Redemption Account. On or before the Business Day preceding any date on which Bonds are subject to redemption, other than mandatory Sinking Account redemption of Series 2015 Term Bonds, the Trustee shall withdraw from the Debt Service Fund for deposit in the Redemption Account an amount required to pay the principal of and premium, if any, on the Series 2015 Bonds or other Parity Debt to be so redeemed on such date. The Trustee shall also deposit in the Redemption Account any other amounts received by it from the Successor Agency designated by the Successor Agency in writing to be deposited in the Redemption Account. All moneys in the Redemption Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of and premium, if any, on the Series 2015 Bonds or other Parity Debt upon the redemption thereof, on the date set for such redemption, other than mandatory Sinking Account redemption of Term Bonds.

(f) Equal Rights. It is the intention of the Successor Agency that the Series 2015 Bonds and Parity Debt shall be secured by and payable from all moneys deposited in the Redevelopment Obligation Retirement Fund on an equal basis but subordinate to the Housing Bonds. To the extent that moneys deposited in the Redevelopment Obligation Retirement Fund are insufficient to pay debt service on the Series 2015 Bonds and Parity Debt as it becomes due, the Series 2015 Bonds and Parity Debt shall be payable on a pro-rata basis from all available moneys deposited in the Redevelopment Obligation Retirement Fund. Additionally, any moneys which remain in the Debt Service Fund after payment of principal of and interest on the Bonds shall be used to pay AGM for any other unpaid advances under the Reserve Policy.

In the event that the Successor Agency fails to make the deposits required pursuant to (a), (b) or (c) above, the Trustee shall immediately notify the Successor Agency.

Investment of Moneys in Funds. Moneys in the Debt Service Fund, the Interest Account, the Principal Account, the Sinking Account, the Reserve Account and the Redemption Account shall be invested by the Trustee in Permitted Investments specified in the Request of the Successor Agency (which Request shall be deemed to include a certification that the specified investment is a Permitted Investment) delivered to the Trustee at least two (2) Business Days in advance of the making of such investments; *provided, however,* that in the absence of any such direction from the Successor Agency, the Trustee shall hold any such moneys uninvested. Moneys in the Redevelopment Obligation Retirement Fund shall be invested by the Successor Agency in any obligations in which the Successor Agency is legally authorized to invest funds within its control.

Obligations purchased as an investment of moneys in any fund or account shall be deemed to be part of such fund or account. Whenever in the Indenture any moneys are required to be transferred by the Successor Agency to the Trustee, such transfer may be accomplished by transferring a like amount of Permitted Investments. All interest or gain derived from the investment of amounts in any of the funds or accounts held by the Trustee under the Indenture shall be deposited in the Interest Account; *provided, however,* that all interest or gain from the investment of amounts in the Reserve Account shall be deposited by the Trustee in the Interest Account to the extent not required to cause the balance in the Reserve Account to equal the Reserve Requirement. No Permitted Investment of moneys in the Reserve Account shall have a maturity in excess of five (5) years following the date of its acquisition. For purposes of acquiring any investments under the Indenture, the Trustee may commingle funds held by it under the Indenture upon receipt by the Trustee of the Request of the Successor Agency. The Trustee may act as principal or agent in the acquisition or disposition of any investment, may utilize the investment departments of its affiliates to complete each transaction and may impose its customary charges therefor. The Trustee shall incur no liability for losses arising from any investments made pursuant to this Section. The Successor Agency acknowledges that to the extent that regulations of the Comptroller of the Currency or other applicable regulatory agency grant the Successor Agency the right to receive brokerage confirmations of security transactions effected by the Trustee as they occur, the Successor Agency specifically waives receipt of such confirmations to the extent permitted by law. The Successor Agency further understands that trade confirmations for securities transactions effected by the Trustee will be available upon request and at no additional cost and other trade confirmations may be obtained from the applicable broker. The Trustee shall furnish to the Successor Agency periodic statements which include detail of all investment transactions made by the Trustee. Upon the Successor Agency's election, such statements will be delivered by the Trustee via the Trustee's online service and upon electing such service, paper statements will be provided only upon request.

Valuation and Disposition of Investments.

(a) Except as otherwise provided in subsection (b) of this Section, the Successor Agency covenants that all investments of amounts deposited in any fund or account created by or pursuant to this Indenture, or otherwise containing gross proceeds of the Bonds (within the meaning of Section 148 of the Tax Code) shall be acquired, disposed of and valued (as of the date that valuation is required by the Indenture or the Tax Code) at Fair Market Value. The Trustee shall have no duty in connection with the determination of Fair Market Value other than to follow the investment directions of the Successor Agency in any Certificate or Request of the Successor Agency.

(b) Investments in funds or accounts (or portions thereof) that are subject to a yield restriction under applicable provisions of the Tax Code and investments in the Reserve Account shall be valued at cost thereof, (consisting of present value thereof, as determined by the Successor Agency, within the meaning of Section 148 of the Tax Code); provided that the Successor Agency shall inform the Trustee which funds are subject to a yield restriction.

(c) Except as provided in the proceeding subsection (b), with respect to a yield restriction, for the purpose of determining the amount in any fund, the value of Permitted Investments credited to such fund shall be valued by the Trustee at least annually at the market value thereof. For purposes of valuation, the Trustee shall be entitled to utilize any pricing services it considers reliable. The Trustee may sell in any commercially reasonable manner, or present for redemption, any Permitted Investment so purchased by the Trustee whenever it shall be necessary in order to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund to which such Permitted Investment is credited, and the Trustee shall not be liable or responsible for any loss resulting from sale or redemption of any such Permitted Investment.

OTHER COVENANTS OF THE SUCCESSOR AGENCY

Punctual Payment. The Successor Agency shall punctually pay or cause to be paid the principal, premium (if any) and interest to become due in respect of all the Series 2015 Bonds and Parity Debt in strict conformity with the terms of the Series 2015 Bonds and of the Indenture. The Successor Agency shall faithfully observe and perform all of the conditions, covenants and requirements of the Indenture and all Supplemental Indentures. Nothing contained in the Indenture shall prevent the Successor Agency from making advances of its own moneys howsoever derived to any of the uses or purposes referred to in the Indenture.

Continuing Disclosure. The Successor Agency covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate, if any, executed and delivered by the Successor Agency. Notwithstanding any other provision in the Indenture, failure of the Successor Agency to comply with such Continuing Disclosure Certificate shall not constitute an Event of Default under the Indenture; provided, however, that any Participating Underwriter (as such term is defined in such Continuing Disclosure Certificate) or any Owner or beneficial owner of the Series 2015 Bonds may take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the Successor Agency to comply with its obligations under this Section.

Limitation on Additional Indebtedness. The Successor Agency covenants that so long as any of the Series 2015 Bonds remain Outstanding, the Successor Agency shall not issue any bonds, notes or other obligations which are otherwise secured on a basis which is senior to the pledge and lien which secures the Series 2015 Bonds. The Successor Agency covenants that it shall not issue any bonds, notes or other obligations, enter into any agreement or otherwise incur any indebtedness, which is in any case payable from all or any part of the Pledged Tax Revenues, excepting only the Series 2015 Bonds and Parity Debt, any Subordinate Debt and any obligations entered into pursuant to the Indenture.

Extension of Payment of Series 2015 Bonds. The Successor Agency shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any claims for interest by the purchase of such Bonds or by any other arrangement, and in case the maturity of any of the Bonds or the time of payment of any such claims for interest shall be extended, such Bonds or claims for interest shall not be entitled, in case of any default under the Indenture, to the benefits of the Indenture, except subject to the prior payment in full of the principal of all of the Outstanding Bonds and of all claims for interest thereon which shall not have been so extended. Nothing in this Section shall be deemed to limit the right of the Successor Agency to issue bonds for the purpose of refunding any Outstanding Bonds, and such issuance shall not be deemed to constitute an extension of maturity of the Bonds.

Payment of Claims. The Successor Agency shall pay and discharge, or cause to be paid and discharged, any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien or charge upon the properties owned by the Successor Agency or upon the Pledged Tax Revenues or any part thereof, or upon any funds held by the Trustee pursuant hereto, or which might impair the security of the Bonds or any Parity Debt. Nothing contained in the Indenture shall require the Successor Agency to make any such payment so long as the Successor Agency in good faith shall contest the validity of said claims.

Books and Accounts; Financial Statements. The Successor Agency shall keep, or cause to be kept, proper books of record and accounts, separate from all other records and accounts of the Successor Agency and the County, in which complete and correct entries shall be made of all transactions relating to the Redevelopment Projects, the Pledged Tax Revenues and the Redevelopment Obligation Retirement Fund. Such books of record and accounts shall at all times during business hours be subject to the inspection of the Owners of not less than ten percent (10%) in aggregate principal amount of the Bonds then Outstanding, or their representatives authorized in writing.

The Successor Agency will cause to be prepared and delivered to the Trustee annually, within one hundred and eighty (180) days after the close of each Fiscal Year so long as any of the Bonds are Outstanding, complete audited financial statements with respect to such Fiscal Year showing the Pledged Tax Revenues, all disbursements from the Redevelopment Obligation Retirement Fund and the financial condition of the Redevelopment Projects, including the balances in all funds and accounts relating to the Redevelopment Projects, as of the end of such Fiscal Year. In accordance with the Indenture, the Trustee shall not be responsible for reviewing such financial statements. The Successor Agency shall furnish a copy of such statements to any Owner upon reasonable request and at the expense of such Owner. In addition, the Successor Agency shall deliver the Successor Agency's annual budget to any Owner upon the written request of such Owner.

Protection of Security and Rights of Owners. The Successor Agency will preserve and protect the security of the Bonds and the rights of the Owners. From and after the date of issuance of any Bonds, such Bonds shall be incontestable by the Successor Agency.

Payments of Taxes and Other Charges. The Successor Agency will pay and discharge, or cause to be paid and discharged, all taxes, service charges, assessments and other governmental charges which may hereafter be lawfully imposed upon the Successor Agency or the properties then owned by the Successor Agency in the Project Area, when the same shall become due. Nothing contained in the Indenture shall require the Successor Agency to make any such payment so long as the Successor Agency in good faith shall contest the validity of said taxes, assessments or charges. The Successor Agency will duly observe and conform with all valid requirements of any governmental authority relative to the Redevelopment Projects or any part thereof.

Disposition of Property. Except as otherwise required by the Dissolution Act, the Successor Agency will not participate in the disposition of any land or real property in the Project Areas to anyone which will result in such property becoming exempt from taxation because of public ownership or use or otherwise (except property that, as of the date of the Indenture, has been dedicated for public right-of-way or is planned for public ownership or use) so that such disposition shall, when taken together with other such dispositions, aggregate more than ten percent (10%) of the land area in the Project Areas unless such disposition is permitted in this Section. If the Successor Agency proposes to participate in such a disposition, it shall thereupon appoint an Independent Fiscal Consultant to report on the effect of said proposed disposition. If the report of the Independent Fiscal Consultant concludes that the security of the Bonds or the rights of the Owners will not be materially adversely impaired by said proposed disposition, the Successor Agency may thereafter make such disposition. If such report concludes that such security will be materially adversely impaired by the proposed disposition, the Successor Agency shall not approve the proposed disposition.

Maintenance of Pledged Tax Revenues. The Successor Agency shall comply with all requirements of the Redevelopment Law to ensure the allocation and payment to it of the Pledged Tax Revenues, including without limitation the timely filing of any necessary statements of indebtedness with appropriate officials of the County and (in the case of supplemental revenues and other amounts payable by the State) appropriate officials of the State of California. The Successor Agency shall not enter into any agreement with the County or any other governmental unit which would have the effect of reducing the amount of Pledged Tax Revenues available to the Successor Agency for payment of the Bonds. The Successor Agency shall not undertake proceedings for amendment of the Redevelopment Plans or any one or more of the Redevelopment Plans if such amendment shall result in payments to one of more taxing entities pursuant to Sections 33607.5 and 33607.7 of the Redevelopment Law unless the Successor Agency shall first obtain a written opinion of an Independent Redevelopment Consultant that such payments will not adversely impair the Successor Agency's ability to pay the Series 2015 Bonds and all Parity Debt. Nothing in the Indenture is intended or shall be construed in any way to prohibit or impose any limitations on the entering into by the Successor Agency of any such agreement, amendment or supplement which by its term is subordinate to the payment of the Series 2015 Bonds and all Parity Debt.

Compliance with the Redevelopment Law; Recognized Obligation Payment Schedules. The Successor Agency shall comply with all of the requirements of the Redevelopment Law and the Dissolution Act. Without limiting the generality of the foregoing, the Successor Agency covenants and agrees to file all required statements and hold all public hearings required under the Dissolution Act to assure compliance by the Successor Agency with its covenants under the Indenture. Further, it will take all actions required under the Dissolution Act to include scheduled debt service on the Series 2015 Bonds and any Parity Debt, as well as any amount required under the Indenture to replenish the Reserve Accounts of the Debt Service Fund, in Recognized Obligation Payment Schedules for each six-month period so as to enable the San Diego County Auditor-Controller to distribute from the

Redevelopment Property Tax Trust Fund to the Agency's Redevelopment Obligation Retirement Fund on each January 2 and June 1 amounts required for the Successor Agency to pay principal of, and interest on, the Bonds coming due in the respective six-month period. These actions will include, without limitation, placing on the periodic Recognized Obligation Payment Schedule for approval by the Oversight Board and State Department of Finance, to the extent necessary, the amounts to be held by the Successor Agency as a reserve until the next six-month period, as contemplated by paragraph (1)(A) of subdivision (d) of Section 34171 of the Dissolution Act, that are necessary to comply with the Indenture and to provide for the payment of principal and interest under the Indenture when the next property tax allocation is projected to be insufficient to pay all obligations due under the Indenture for the next payment due under the Indenture in the following six-month period.

Tax Covenants Relating to the Series 2015A Bonds.

(a) Private Activity Bond Limitation. The Successor Agency shall assure that the proceeds of the Series 2015A Bonds are not so used as to cause the Series 2015A Bonds to satisfy the private business tests of Section 141(b) of the Tax Code or the private loan financing test of Section 141(c) of the Tax Code.

(b) Federal Guarantee Prohibition. The Successor Agency shall not take any action or permit or suffer any action to be taken if the result of the same would be to cause any of the Series 2015A Bonds to be "federally guaranteed" within the meaning of Section 149(b) of the Tax Code.

(c) No Arbitrage. The Successor Agency shall not take, or permit or suffer to be taken by the Trustee or otherwise, any action with respect to the proceeds of the Series 2015A Bonds which, if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the Closing Date would have caused the Series 2015A Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Tax Code.

(d) Maintenance of Tax-Exemption. The Successor Agency shall take all actions necessary to assure the exclusion of interest on the Series 2015A Bonds from the gross income of the Owners of the Series 2015A Bonds to the same extent as such interest is permitted to be excluded from gross income under the Tax Code as in effect on the Closing Date. This covenant shall remain in full force and effect following defeasance of the Series 2015A Bonds pursuant to the Indenture.

(e) Rebate Requirement. The Successor Agency shall take any and all actions necessary to assure compliance with section 148(f) of the Tax Code, relating to the rebate of excess investment earnings, if any, to the federal government, to the extent that such section is applicable to the Series 2015A Bonds.

The Trustee shall have no duty to monitor the compliance by the Successor Agency with any of the covenants contained in this Section.

Plan Limitations; Annual Review of Pledged Tax Revenues. The Successor Agency shall manage its fiscal affairs in a manner which ensures that it will have sufficient Pledged Tax Revenues available under the Plan Limitations in the amounts and at the times required to enable the Successor Agency to pay the principal of and interest and premium (if any) on the Series 2015 Bonds and any Parity Debt when due.

Additionally, the Successor Agency covenants that, if it is determined that the Plan Limitations apply to the Successor Agency, it will annually review, no later than December 1 of each year, the total amount of tax increment revenue remaining available to be received by the Successor Agency under the Plan Limitations, as well as future cumulative Annual Debt Service, any obligations of the Successor Agency payable from tax increment revenues that are senior to the Series 2015 Bonds, and payments on obligations that are subordinate to the Series 2015 Bonds. If, based on such review, the allocation of tax increment revenues to the Successor Agency in any of the next three succeeding Fiscal Years will cause an amount equal to ninety-five (95%) of the amount remaining under the Plan Limitations to fall below the sum of (i) remaining cumulative Annual Debt Service, (ii) any obligations of the Successor Agency payable from tax increment revenues that are senior to the Series 2015 Bonds, and (iii) payments on obligations that are subordinate to the Series 2015 Bonds, the Successor Agency shall either (1) defease Series 2015 Bonds or Parity Debt by depositing an amount of Pledged Tax Revenues equal to the amount that is required to ensure continuing compliance with the first paragraph of this Section in a defeasance escrow to be held by the Trustee and to be pledged solely to the payment of debt service on the Series 2015 Bonds or Parity Debt, which escrow shall be invested in Defeasance Obligations and used for the payment of interest on and principal of and redemption premiums, if any, on the Series 2015 Bonds or Parity Debt or (2) adopt a plan approved by an Independent Redevelopment Consultant which demonstrates the Successor Agency's continuing ability to pay debt service on the Series 2015 Bonds and Parity Debt. In determining the amount to be deposited in escrow with the Trustee, the Successor Agency may consider actual interest earnings on the amounts so deposited.

The Trustee shall not be responsible for monitoring or enforcing the requirements of this Section.

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

THE TRUSTEE

Duties, Immunities and Liabilities of Trustee.

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

The Successor Agency may remove the Trustee at any time, unless an Event of Default shall have occurred and then be continuing, and shall remove the Trustee (i) if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Owners of not less than a majority of the principal amount of the Bonds then Outstanding (or their attorneys duly authorized in writing) or (ii) if at any time the Trustee shall cease to be eligible in accordance with subsection (e) of this Section, or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Trustee or its property shall be appointed, or any public officer shall take control or charge of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation. In each case such removal shall be accomplished by the giving of 30 days' written notice of such removal by the Successor Agency to the Trustee, whereupon the Successor Agency shall appoint a successor Trustee by an instrument in writing.

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

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

Agency fails to mail such notice within fifteen (15) days after acceptance of appointment by the successor Trustee, the successor Trustee shall cause such notice to be mailed at the expense of the Successor Agency.

Any Trustee appointed under the provisions of this Section in succession to the Trustee shall (i) be a company or bank having trust powers, (ii), shall have an office in the State of California or such other state as shall be acceptable to the Successor Agency, (iii) have (or be part of a bank holding company system whose bank holding company has) a combined capital and surplus of at least Seventy Fifty Million Dollars ($75,000,000), and (iv) be subject to supervision or examination by federal or state authority. If such bank or company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purpose of this subsection the combined capital and surplus of such bank or company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. In case at any time the Trustee shall cease to be eligible in accordance with the provisions of this subsection (e), the Trustee shall promptly resign in the manner and with the effect specified in subsection (c) of this Section.

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

Liability of Trustee.

(a) The recitals of facts in the Indenture and in the Bonds contained shall be taken as statements of the Successor Agency, and the Trustee shall not assume responsibility for the correctness of the same, nor make any representations as to the validity or sufficiency of any offering memorandum, the Indenture or of the Bonds nor shall incur any responsibility in respect thereof, other than as expressly stated in the Indenture. The Trustee shall, however, be responsible for its representations contained in its certificate of authentication on the Bonds. The Trustee shall not be liable in connection with the performance of its duties under the Indenture, except for its own negligence or willful misconduct. The Trustee shall not be liable for the acts of any agents of the Trustee selected by it with due care. The Trustee may become the Owner of any Bonds with the same rights it would have if they were not Trustee and, to the extent permitted by law, may act as depository for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of the Owners, whether or not such committee shall represent the Owners of a majority of the principal amount of the Bonds then Outstanding. The Trustee, either as principal or agent, may engage in or be entrusted in any financial or other transaction with the Successor Agency.

(b) The Trustee shall not be liable for any error of judgment made in good faith by a responsible officer.

(c) The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in accordance with the direction of the Successor Agency, accompanied by an opinion of Bond counsel, or in accordance with direction of the Owners of not less than a majority of the principal amount of the Bonds then Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under the Indenture.

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

(e) The Trustee shall not be deemed to have knowledge of any Event of Default under the Indenture unless and until a responsible officer of the Trustee shall have actual knowledge thereof, or the Trustee shall have received written notice thereof at its Office. Except as otherwise expressly provided in the Indenture, the Trustee shall not be bound to ascertain or inquire as to the performance or observance of any of the terms, conditions, covenants or agreements in the Indenture or of any of the documents executed in connection with the Bonds, or as to the existence of an Event of Default under the Indenture. The Trustee shall not be responsible for the Successor Agency's payment of principal and interest on the Bonds, the observance or performance by the Successor Agency of any other covenants, conditions or terms contained in the Indenture, or the validity or effectiveness of any collateral given to or held by it. Without limiting the generality of the foregoing, the Trustee shall not be responsible for reviewing the contents of any financial statements furnished to the Trustee pursuant to the Indenture and may rely conclusively on the Written Certificate of the Successor Agency accompanying such financial statements to establish the Successor Agency's compliance with its financial covenants under the Indenture, including, without limitation, its covenants regarding the deposit of Pledged Tax Revenues into the Redevelopment Obligation Retirement Fund and the investment and application of moneys on deposit in the Redevelopment Obligation Retirement Fund (other than its covenants to transfer such moneys to the Trustee when due under the Indenture).

(f) No provision in the Indenture shall require the Trustee to risk, expend, or advance its own funds or otherwise incur any financial liability under the Indenture. However, if the Trustee elects to advance funds, it shall be entitled to receive interest on any moneys advanced by it under the Indenture, at the maximum rate permitted by law.

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

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

(i) Before taking any action under the Indenture at the request of the Owners, the Trustee may require that a satisfactory indemnity bond be furnished by the Owners for the reimbursement of all expenses to which it may put and to protect it against all liability, except liability which is adjudicated to have resulted from its negligence or willful misconduct in connection with any action so taken.

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

(k) The Trustee agrees to accept and act upon facsimile transmission of written instructions and/or directions pursuant to the Indenture provided, however, that: (i) subsequent to such facsimile transmission of written instructions and/or directions the Trustee shall forthwith receive the originally executed instructions and/or directions, (ii) such originally executed instructions and/or directions shall be signed by a person as may be designated and authorized to sign for the party signing such instructions and/or directions, and (iii) the Trustee shall have received a current incumbency certificate containing the specimen signature of such designated person.

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

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

Whenever in the administration of the trusts imposed upon it by the Indenture the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Indenture, such matter (unless other evidence in respect thereof be specifically prescribed in the Indenture) may be deemed to be conclusively proved and established by a Written Certificate of the Successor Agency, which shall be full warrant to the Trustee for any action taken or suffered in good faith under the provisions of the Indenture in reliance upon such Certificate, but in its discretion the Trustee may (but shall have no duty to), in lieu thereof, accept other evidence of such matter or may require such additional evidence as it may deem reasonable. The Trustee may conclusively rely on any certificate or Report of any Independent Accountant or Independent Fiscal Consultant appointed by the Successor Agency.

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

Compensation and Indemnification. The Successor Agency shall pay to the Trustee from time to time compensation for all services rendered under the Indenture and also all expenses, charges, legal and consulting fees and other disbursements and those of its attorneys (including any allocated costs of internal counsel), agents and employees, incurred in and about the performance of its powers and duties under the Indenture. The Trustee shall have a first lien on the Pledged Tax Revenues and all funds and accounts held by the Trustee under the Indenture to secure the payment to the Trustee of all fees, costs and expenses, including compensation to its experts, attorneys and counsel incurred in declaring such Event of Default and in exercising the rights and remedies set forth in the Indenture.

The Successor Agency further covenants and agrees to indemnify and save the Trustee and its officers, directors, agents affiliates and employees, harmless against any loss, expense, including legal fees and expenses, and liabilities which it may incur arising out of or in the exercise and performance of its powers and duties under the Indenture, including the costs and expenses of defending against any claim of liability and of enforcing any remedies under the Indenture and under any related documents, but excluding any and all losses, expenses and liabilities which are due to the negligence or willful misconduct of the Trustee, its officers, directors, agents affiliates or employees. The obligations of the Successor Agency under this Section shall survive resignation or removal of the Trustee under the Indenture and payment of the Bonds and discharge of the Indenture.

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

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

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

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

The Trustee may perform any of its obligations or duties under the Indenture and under any related documents through agents or attorneys and shall not be responsible for the acts of any such agents or attorneys appointed by it with due care.

No Liability for Successor Agency Performance. The Trustee shall have no liability or obligation to the Bond Owners with respect to the payment of debt service by the Successor Agency or with respect to the observance or performance by the Successor Agency of the other conditions, covenants, and terms contained in the Indenture, or with respect to the investment of any moneys in any fund or account established, held, or maintained by the Successor Agency pursuant to the Indenture.

MODIFICATION OR AMENDMENT OF THE INDENTURE

Authorized Amendments. The Indenture and the rights and obligations of the Successor Agency and of the Owners may be modified or amended at any time by a Supplemental Indenture which shall become binding upon adoption, but without the consent of any Owners, to the extent permitted by law and only for any one or more of the following purposes-

(a) to add to the covenants and agreements of the Successor Agency contained in the Indenture, other covenants and agreements thereafter to be observed, or to limit or surrender any rights or power reserved to or conferred upon the Successor Agency in the Indenture provided such addition, limit, or surrender shall not materially adversely affect the interest of the Owners as determined by the Successor Agency and certified to the Trustee; or

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

(c) to provide for the issuance of Parity Debt pursuant to the Indenture, and to provide the terms and conditions under which such Parity Debt may be issued, including but not limited to the establishment of special funds and accounts relating thereto and any other provisions relating solely thereto, subject to and in accordance with the provisions of the Indenture; or

(d) to amend any provision of the Indenture to assure the exclusion from gross income of interest on the Series 2015A Bonds for federal income tax purposes, in the opinion of Bond Counsel filed with the Successor Agency and the Trustee; or

(e) to comply with the requirements of the provider, if any, of a Credit Facility.

Except as set forth in the preceding paragraph, the Indenture and the rights and obligations of the Successor Agency and of the Owners may be modified or amended at any time by a Supplemental Indenture which shall become binding when the written consents of the Owners of a majority of the principal amount of the Bonds then Outstanding are delivered to the Trustee. No such modification or amendment shall (a) extend the maturity of or reduce the interest rate on any Bond or otherwise alter or impair the obligation of the Successor Agency to pay the principal, interest or redemption premium (if any) at the time and place and at the rate and in the currency provided therein of any Bond without the express written consent of the Owner of such Bond, (b) reduce the percentage of Bonds required for the written consent to any such amendment or modification, or (c) without its written consent thereto, modify any of the rights or obligations of the Trustee.

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

Endorsement or Replacement of Bonds After Amendment. After the effective date of any amendment or modification of the Indenture pursuant to the Indenture, the Successor Agency may determine that any or all of the Bonds shall bear a notation, by endorsement in form approved by the Successor Agency, as to such amendment or modification and in that case upon demand of the Successor Agency the Owners of such Bonds shall present such Bonds for that purpose at the Office of the Trustee, and thereupon a suitable notation as to such action shall be made on such Bonds. In lieu of such notation, the Successor Agency may determine that new Bonds shall be prepared and executed in exchange for any or all of the Bonds and in that case upon demand of the Successor Agency the Owners of the Bonds shall present such Bonds for exchange at the Office of the Trustee without cost to such Owners.

Amendment by Mutual Consent. The provisions of the Indenture shall not prevent any Owner from accepting any amendment as to the particular Bond held by such Owner, provided that due notation thereof is made on such Bond.

Trustee's Reliance. The Trustee may conclusively rely, and shall be protected in relying, upon an opinion of counsel stating that all requirements of the Indenture relating to the amendment or modification of the Indenture have been satisfied and that such amendments or modifications do not materially adversely affect the interests of the Owners.

EVENTS OF DEFAULT AND REMEDIES

Events of Default and Acceleration of Maturities. Each of the following events shall constitute an Event of Default under the Indenture:

(a) Failure to pay any installment of the principal of any Bonds when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by acceleration, or otherwise.

(b) Failure to pay any installment of interest on any Bonds when and as the same shall become due and payable.

(c) Failure by the Successor Agency to observe and perform any of the other covenants, agreements or conditions on its part in the Indenture or in the Bonds contained, if such failure shall have continued for a period of thirty (30) days after written notice thereof, specifying such failure and requiring the same to be remedied, shall have been given to the Successor Agency by the Trustee; *provided, however*, if in the reasonable opinion of the Successor Agency the failure stated in the notice can be corrected, but not within such thirty (30) day period, such failure shall not constitute an Event of Default if corrective action is instituted by the Successor Agency within such thirty (30) day period and the Successor Agency shall thereafter diligently and in good faith cure such failure in a reasonable period of time.

(d) The Successor Agency shall commence a voluntary case under Title 11 of the United States Code or any substitute or successor statute.

If an Event of Default has occurred and is continuing, the Trustee may, and if requested in writing by the Owners of a majority of the principal amount of the Bonds then Outstanding the Trustee shall, (a) declare the principal of the Bonds, together with the accrued interest thereon, to be due and payable immediately, and upon any such declaration the same shall become immediately due and payable, anything in the Indenture or in the Bonds to the contrary notwithstanding, and (b) upon receipt of indemnity satisfactory to it from any liability or expense, including payment of the fees and expenses of its counsel and agents, exercise any other remedies available to the Trustee and the Owners in law or at equity. The Trustee shall be entitled as a matter of right to the appointment of a receiver or receivers for the Pledged Tax Revenues, if appropriate, and for the revenues, income, product, and profits thereon, if any, *ex parte*, and without notice, and the Successor Agency consents to the appointment of such receiver upon the occurrence of an Event of Default. If any receivership, bankruptcy, insolvency, or reorganization or other judicial proceedings affecting the Successor Agency is filed, the Trustee shall be entitled to file such proofs of claims and other documents as may be necessary or advisable in order to have claims of the Trustee and Owners allowed in such proceedings for the entire amount due and payable under the Indenture at the time of the institution of such proceedings, and also for any additional amount which may become due and payable after such date, without prejudice to the right of any Owner to file a claim on his own behalf. The Trustee shall not be obligated to take any such action unless offered compensation, indemnity for its potential liability, and reimbursement for its legal fees and expenses in accordance with this Section.

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

This provision, however, is subject to the condition that if, at any time after the principal of the Bonds shall have been so declared due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, the Successor Agency shall deposit with the Trustee a sum sufficient to pay all principal on the Bonds matured prior to such declaration and all matured installments of interest (if any) upon all the Bonds, with interest on such overdue installments of principal and interest (to the extent permitted by law) at the weighted average interest rate then borne by the Outstanding Bonds, and the fees and expenses of the Trustee, including any fees and expenses of its attorneys, and any and all other defaults known to the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the Owners of a majority of the principal amount of the Bonds then Outstanding, by written notice to the Successor Agency and to the Trustee, may, on behalf of the Owners of all of the Bonds, rescind and annul such declaration and its consequences. However, no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

Application of Funds Upon Acceleration. All of the Pledged Tax Revenues and all sums in the funds and accounts established and held by the Trustee under the Indenture upon the date of the declaration of acceleration as provided in the Indenture, and all sums thereafter received by the Trustee under the Indenture, shall be applied by the Trustee as follows and in the following order:

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

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

Power of Trustee to Control Proceedings. In the event that the Trustee, upon the happening of an Event of Default, shall have taken any action, by judicial proceedings or otherwise, pursuant to its duties under the Indenture, whether upon its own discretion or upon the request of the Owners of a majority of the principal amount of the Bonds then Outstanding, it shall have full power, in the exercise of its discretion for the best interests of the Owners of the Bonds, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action; *provided, however,* that the Trustee shall not, unless there no longer continues an Event of Default, discontinue, withdraw, compromise or settle, or otherwise dispose of any litigation pending at law or in equity, if at the time there has been filed with it a written request signed by the Owners of a majority of the principal amount of the Bonds then Outstanding opposing such discontinuance, withdrawal, compromise, settlement or other disposal of such litigation accompanied, if requested by the Trustee, by indemnity or confirmation of indemnity as described in the Indenture.

Limitation on Owners' Right to Sue. No Owner of any Bond issued under the Indenture shall have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon the Indenture, unless (a) such Owner shall have previously given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of a majority of the principal amount of the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers granted in the Indenture or to institute such action, suit or proceeding in its own name; (c) said Owners shall have tendered to the Trustee indemnity reasonably acceptable to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the

Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

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

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

Non-waiver. Nothing in the Indenture or in the Bonds, shall affect or impair the obligation of the Successor Agency, which is absolute and unconditional, to pay from the Pledged Tax Revenues and other amounts pledged under the Indenture, the principal of and interest and redemption premium (if any) on the Bonds to the respective Owners when due and payable as provided in the Indenture, or affect or impair the right of action, which is also absolute and unconditional, of the Owners to institute suit to enforce such payment by virtue of the contract embodied in the Bonds.

A waiver of any default by any Owner shall not affect any subsequent default or impair any rights or remedies on the subsequent default. No delay or omission of any Owner or the Trustee to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein, and every power and remedy conferred upon the Trustee and Owners by the Redevelopment Law or by the Indenture may be enforced and exercised from time to time and as often as shall be deemed expedient by the Owners and the Trustee.

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

Actions by Trustee as Attorney-in-Fact. Any suit, action or proceeding which any Owner shall have the right to bring to enforce any right or remedy under the Indenture may be brought by the Trustee for the equal benefit and protection of all Owners similarly situated and the Trustee is appointed (and the successive respective Owners by taking and holding the Bonds shall be conclusively deemed so to have appointed it) the true and lawful attorney-in-fact of the respective Owners for the purpose of bringing any such suit, action or proceeding and to do and perform any and all acts and things for and on behalf of the respective Owners as a class or classes, as may be necessary or advisable in the opinion of the Trustee as such attorney-in-fact, subject to the provisions of Article VI.

Remedies Not Exclusive. No remedy in the Indenture conferred upon or reserved to the Trustee or Owners is intended to be exclusive of any other remedy. Every such remedy shall be cumulative and shall be in addition to every other remedy given under the Indenture or now or hereafter existing, at law or in equity or by statute or otherwise, and may be exercised without exhausting and without regard to any other remedy conferred by the Redevelopment Law or any other law.

MISCELLANEOUS

Defeasance of Bonds. If the Successor Agency shall pay and discharge the entire indebtedness on any Bonds in any one or more of the following ways:

(i) by paying or causing to be paid the principal of and interest on such Bonds, as and when the same become due and payable;

(ii) by irrevocably depositing with the Trustee or another fiduciary, in trust, at or before maturity, an amount of cash which, together with the available amounts then on deposit in the funds and accounts established pursuant to the Indenture, in the opinion or report of an Independent Accountant is fully sufficient to pay such Bonds, including all principal, interest and redemption premium, if any;

(iii) by irrevocably depositing with the Trustee or another fiduciary, in trust, non-callable Defeasance Obligations in such amount as an Independent Accountant shall determine will, together with the interest to accrue thereon and available moneys then on deposit in any of the funds and accounts established pursuant to the Indenture, be fully sufficient to pay and discharge the indebtedness on such Bonds (including all principal, interest and redemption premium, if any) at or before maturity; or

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

and if such Bonds are to be redeemed prior to the maturity thereof notice of such redemption shall have been duly given or provision satisfactory to the Trustee shall have been made for the giving of such notice, then, at the election of the Successor Agency, and notwithstanding that any such Bonds shall not have been surrendered for payment, the pledge of the Pledged Tax Revenues and other funds provided for in the Indenture and all other obligations of the Trustee and the Successor Agency under the Indenture with respect to such Bonds shall cease and terminate, except only (A) the obligations of the Successor Agency under the Indenture, (B) the obligation of the Trustee to transfer and exchange Bonds under the Indenture, (C) the obligation of the Successor Agency to pay or cause to be paid to the Owners of such Bonds, from the amounts so deposited with the Trustee, all sums due thereon, and (D) the obligations of the Successor Agency to compensate and indemnify the Trustee pursuant to the Indenture. Notice of such election shall be filed with the Trustee. In the event the Successor Agency shall, pursuant to the foregoing provisions, pay and discharge any portion or all of the Bonds then Outstanding, the Trustee shall be authorized to take such actions and execute and deliver to the Successor Agency all such instruments as may be necessary or desirable to evidence such discharge, including without limitation, selection by lot of Bonds of any maturity of the Bonds that the Successor Agency has determined to pay and discharge in part. Any funds thereafter held by the Trustee, which are not required for said purpose, shall be paid over to the Successor Agency.

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

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

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

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

Disqualified Bonds. In determining whether the Owners of the requisite aggregate principal amount of Bonds have concurred in any demand, request, direction, consent or waiver under the Indenture, Bonds which are owned or held by or for the account of the Successor Agency (but excluding Bonds held in any employees' retirement fund) shall be disregarded and deemed not to be Outstanding for the purpose of any such determination, provided however that the Trustee shall not be deemed to have knowledge that any Bond is owned or held by or for the account of the Successor Agency unless the Successor Agency is the registered Owner or the Trustee has received written notice that any other registered Owner is the owner or is holding for the account of the Successor Agency.

PROVISIONS RELATING TO RESERVE POLICY

So long as the Reserve Policy remains in force and effect, or any amounts are owed to AGM, the following provisions shall govern and control notwithstanding anything to the contrary set forth in the Indenture.

(a) The Successor Agency shall repay any draws under the Reserve Policy and pay all related reasonable expenses incurred by AGM and shall pay interest thereon from the date of payment by AGM at the Late Payment Rate. If the interest provisions shall result in an effective rate of interest which, for any period, exceeds the limit of the usury or any other laws applicable to the indebtedness created in the Indenture, then all sums in excess of those lawfully collectible as interest for the period in questions shall, without further agreement or notice between or by any party, be applied as additional interest for any later periods of time when amounts are outstanding under the Indenture to the extent that interest otherwise due under the Indenture for such periods plus such additional interest would not exceed the limit of the usury or such other laws, and any excess shall be applied upon principal immediately upon receipt of such moneys by AGM, with the same force and effect as if the Successor Agency had specifically designated such extra sums to be so applied and AGM had agreed to accept such extra payment(s) as additional interest for such later periods. In no event shall any agreed-to or actual exaction as consideration for the indebtedness created in the Indenture exceed the limits imposed or provided by the law applicable to the Reserve Policy for the use or detention of money or for forbearance in seeking its collection.

Policy Costs shall commence in the first month following each draw, and each such monthly payment shall be in an amount at least equal to 1/12 of the aggregate Policy Costs related to such draw.

The Successor Agency shall take all actions by the Dissolution Act to ensure that Policy Costs are paid to AGM when due, including the submittal of Recognized Obligation Payment Schedules providing for Policy Costs that are payable to AGM.

Amounts in respect of Policy Costs paid to AGM shall be credited first to interest due, then to the expenses due and then to principal due. As and to the extent that payments are made to AGM on account of principal due, the coverage under the Reserve Policy will be increased by a like amount, subject to the terms of the Reserve Policy. The obligation to pay Policy Costs shall be secured by a valid lien on the Pledged Tax Revenues (subject only to the priority of payment provisions set forth under the Indenture).

All cash and investments in the Reserve Account shall be transferred to the Interest Account and the Principal Account for payment of debt service on the Series 2015 Bonds before any drawing may be made on the Reserve Policy or any other Credit Facility. Payment of Policy Costs shall be made prior to replenishment of any such cash amounts. Draws on all Credit Facilities (including the Reserve Policy) on which there is available coverage shall be made on a pro-rata basis (calculated by reference to the coverage then available thereunder) after applying all available cash and investments in the Reserve Account. Payment of Policy Costs and reimbursement of amounts with respect to other Credit Facilities shall be made on a pro-rata basis prior to replenishment of any cash drawn from the Reserve Account. For the avoidance of doubt, "available coverage" means the coverage then available for disbursement pursuant to the terms of the applicable alternative credit instrument without regard to the legal or financial ability or willingness of the provider of such instrument to honor a claim or draw thereon or the failure of such provider to honor any such claim or draw.

(b) Upon a failure to pay Policy Costs when due or any other breach of terms, AGM shall be entitled to exercise any and all legal and equitable remedies available to it, including those provided under the Indenture, other that (i) acceleration of the maturity of the Series 2015 Bonds or (ii) remedies which would adversely affect owners of the Series 2015 Bonds.

(c) The Indenture shall not be discharged until all Policy Costs owing to AGM shall have been paid in full. The Successor Agency's obligation to pay such amounts shall expressly survive payment in full of the Series 2015 Bonds.

(d) The Successor Agency shall include any Policy Costs then due and owing AGM in the calculation of the additional bonds test in the Indenture.

(e) The prior written consent of AGM shall be a condition precedent to the deposit of any Credit Facility credited to the Reserve Account established for the Series 2015 Bonds in lieu of a cash deposit into the Reserve Account. Amounts drawn under the Reserve Policy shall be available only for the payment of scheduled principal and interest on the Series 2015 Bonds when due.

(f) The Trustee shall ascertain the necessity for a claim upon the Reserve Policy in accordance with the provisions of subparagraph (a) and provide notice to AGM in accordance with the terms of the Reserve Policy at least five (5) Business Days prior to each date upon which interest or principal is due on the Series 2015 Bonds. Where deposits are required to be made by the Successor Agency with the Trustee to the Interest Account and the Principal Account for the Series 2015 Bonds more often than semi-annually, the Trustee shall be instructed to give notice to AGM of any failure of the Successor Agency to make timely payment in full of such deposits within two (2) Business Days of the date due.

(g) The Successor Agency will pay or reimburse AGM any and all charges, fees, costs, losses, liabilities and expenses which AGM may pay or incur, including, but not limited to, fees and expenses of attorneys, accountants, consultants and auditors and reasonable costs of investigations, in connection with (i) any accounts established to facilitate payments under the Reserve Policy, (ii) the administration, enforcement, defense or preservation of any rights in respect of the Indenture or any Related Documents, including defending, monitoring or participating in any litigation or proceeding (including any bankruptcy proceeding in respect of the Successor Agency) relating to the Indenture or any other Related Document or the transactions contemplated by the Related Documents, (iii) the foreclosure against, sale or other disposition of any collateral securing any obligations under the Indenture or any other Related Document, if any, or the pursuit of any remedies under the Indenture or any other Related Document, to the extent such costs and expenses are not recovered from such foreclosure, sale or other disposition, (iv) any amendment, waiver, or other action with respect to, or related to the Indenture, the Reserve Policy or any other Related Document whether or not executed or completed, or (v) any action taken by AGM to cure a default or termination or similar event (or to mitigate the effect thereof) under the Indenture or any other Related Document; costs and expenses shall include a reasonable allocation of compensation and overhead attributable to time of employees of AGM spent in connection with the actions described in clauses (ii) through (v) above. AGM reserves the right to charge a reasonable fee as a condition to executing any amendment, waiver or consent proposed in respect of the Indenture or any other Related Document. Amounts payable by the Successor Agency shall bear interest at the Late Payment Rate from the date such amount is paid or incurred by AGM until the date AGM is paid in full.

(h) The obligation of the Successor Agency to pay all amounts due to AGM shall be an absolute and unconditional obligation of the Successor Agency and will be paid or performed strictly in accordance with the provisions of the Indenture, irrespective of: (i) any lack of validity or enforceability of or any amendment or modifications of, or waiver with respect to the Series 2015 Bonds, the Indenture or any other Related Document; (ii) any amendment or other modification of, or waiver with respect to the Reserve Policy; (iii) any exchange, release or non-perfection of any security interest in property securing the Series 2015 Bonds, the Indenture or any other Related Documents; (iv) whether or not such Series 2015 Bonds are contingent or matured, disputed or undisputed, liquidated or unliquidated; (v) any amendment, modification or waiver of or any consent to departure from the Reserve Policy, the Indenture or all or any of the other Related Documents; (vi) the existence of any claim, setoff, defense (other than the defense of payment in full), reduction, abatement or other right which the Successor Agency may have at any time against the Trustee or any other person or entity other than AGM, whether in connection with the transactions contemplated in the Indenture or in any other Related Documents or any unrelated transactions; (vii) any statement or any other document presented under or in connection with the Reserve Policy proving in any and all respects invalid, inaccurate, insufficient, fraudulent or forged or any statement therein being untrue or inaccurate in any respect; or (viii) any payment by AGM under the Reserve Policy against presentation of a certificate or other document which does not strictly comply with the terms of the Reserve Policy.

(i) The Successor Agency shall fully observe, perform and fulfill each of the provisions (as each of these provisions may be amended, supplemented, modified or waived with the prior written consent of AGM) of the Indenture applicable to it. No provision of the Indenture or any other Related Document shall be amended, supplemented, modified or waived, without the prior written consent of AGM, in any material respect or otherwise in a manner that could adversely affect the payment obligations of the Successor Agency under the Indenture or the priority accorded to the reimbursement of Policy Costs under the Indenture. AGM is expressly made a third party beneficiary of the Indenture and each other Related Document.

(j) The Successor Agency covenants to provide to AGM, promptly upon request, any information regarding the Series 2015 Bonds or the financial condition and operations of the Successor Agency as reasonably requested by AGM. The Successor Agency will permit AGM to discuss the affairs, finances and accounts of the Successor Agency or any information AGM may reasonably request regarding the security for the Series 2015 Bonds with appropriate officers of the Successor Agency and will use commercially reasonable efforts to enable AGM to have access to the facilities, books and records of the Successor Agency on any Business Day upon reasonable prior notice.

APPENDIX B

FISCAL CONSULTANT REPORT

(THIS PAGE INTENTIONALLY LEFT BLANK)

Final

FISCAL CONSULTANT REPORT

TAX ALLOCATION REFUNDING BONDS, SERIES 2015A

and

TAXABLE TAX ALLOCATION REFUNDING BONDS, SERIES 2015B

Redevelopment Project Areas 1, 2, and 3

SUCCESSOR AGENCY TO THE SAN MARCOS REDEVELOPMENT AGENCY

May 14, 2015

ROSENOW SPEVACEK GROUP INC.

TABLE OF CONTENTS

INTRODUCTION

Over the years, the former San Marcos Redevelopment Agency ("Former Agency"), has issued bonds and/or been a party to various agreements and/or loans secured by tax increment revenues derived from Redevelopment Project Area No. 1, Redevelopment Project Area No. 2, and Redevelopment Project Area No. 3. Based upon current market conditions, a number of these financial obligations can be refinanced to generate substantial interest cost savings. These obligations are summarized as follows:

- Redevelopment Agency of the City of San Marcos Tax Allocation Bonds (1997 Affordable Housing Project) Series 1997A ("Series 1997A Bonds"), of which $6,035,000 of bonds are currently outstanding;
- Redevelopment Agency of the City of San Marcos Tax Allocation Bonds (1998 Affordable Housing Project) Series 1998A ("Series 1998A Bonds" and together with the Series 1997A Bonds, "Prior Former Agency Bonds"), of which $4,935,000 of bonds are currently outstanding;
- Reimbursement Agreement relating to the San Marcos Public Facilities Authority 2001 Public Improvement Refunding Revenue Bonds, Series A (Civic Center/Public Works Yard) ("Series 2001A Bonds") of which $38,760,000 of bonds are currently outstanding;
- Loan Agreements from Project Areas No. 1, No. 2, and No. 3 relating to the San Marcos Public Facilities Authority 2003 Tax Allocation Revenue Bonds (Project Areas No. 1, No. 2, and No. 3 Refunding and Financing Project), Series A ("Series 2003A Bonds"), of which $53,120,000 of bonds are currently outstanding;
- Loan Agreement from Project Area No. 1 relating to the San Marcos Public Facilities Authority 2003 Tax Allocation Revenue Bonds (Project Area No. 1 Refunding and Financing Project), Taxable Series B ("Series 2003B Bonds"), of which $16,725,000 of bonds are currently outstanding;
- Loan Agreements from Project Areas No. 1 and No. 3 relating to the San Marcos Public Facilities Authority 2005 Tax Allocation Revenue Bonds (Project Areas No. 1 and No. 3 Refunding Project), Series A ("Series 2005A Bonds"), of which $26,800,000 of bonds are currently outstanding;
- Loan Agreement from Project Area No. 1 relating to the San Marcos Public Facilities Authority 2005 Tax Allocation Revenue Bonds (Project Area No. 1 Refunding and Financing Project), Taxable Series B ("Series 2005B Bonds"), of which $26,385,000 of bonds are currently outstanding;
- Loan Agreements from Project Areas No. 2 and No. 3 relating to the San Marcos Public Facilities Authority 2005 Tax Allocation Revenue Bonds (Project Areas No. 2 and No. 3 Financing Project), Series C ("Series 2005C Bonds"), of which $50,705,000 of bonds are currently outstanding; and
- Loan Agreement from Project Area No. 3 relating to the San Marcos Public Facilities Authority 2006 Tax Allocation Revenue Bonds (Project Area No. 3 Financing Project), Series A ("Series 2006A Bonds" and together with the Series 2001A Bonds, the Series 2003A Bonds, the Series 2003B Bonds, the Series 2005A Bonds, the Series 2005B Bonds, and the Series 2005C Bonds the "Prior Authority Bonds"), of which $30,575,000 of bonds are currently outstanding.

The Prior Former Agency Bonds, together with the Prior Authority Bonds, will hereinafter be referred to as the "Prior Bonds."

The Prior Bonds are secured by Redevelopment Project Area ("Project Area" or "PA") Nos. 1, 2, and 3 revenues.

This Fiscal Consultant Report ("FCR") has been prepared by RSG, Inc. ("RSG") at the request of the City of San Marcos, acting as the Successor Agency to the San Marcos Redevelopment Agency ("Successor Agency"),[1] to illustrate the ability of future revenues from tax increment ("Revenue Projections") to pay debt obligations.

This FCR presents the Revenue Projections (including the general methodology and assumptions made in preparation of the Revenue Projections), historical assessment and revenue data, and other pertinent information regarding the Project Areas. The following tables and exhibits are provided as documentation and support for the Revenue Projections.

Exhibit 1:	Plan Limits
Exhibit 2:	Current Year and Base Year Assessed Valuations
Exhibit 3A–3D:	Historic Assessed Value and Tax Increment Receipts
Exhibit 4:	Fiscal Year 2014-15 Tax Rates
Exhibit 5A-5C:	Changes in Assessed Value Due to Sales
Exhibit 6A–6C:	Changes in Assessed Value Due to Construction
Exhibit 7A-7D:	Fiscal Year 2014-15 Top Ten Secured Taxpayers
Exhibit 8A-8D:	Secured Assessed Value by Land Use
Exhibit 9A-9D:	Assessment Appeal History
Exhibit 10A-10D:	Tax Increment Revenue Projections

Projected assessed values and tax increment revenues presented in this FCR are based upon the following assumptions:

1. Historical growth trends;

2. Trended growth in valuation as permitted by Article XIIIA of the California Constitution ("Proposition 13"); and

3. Assessment and apportionment procedures of the County of San Diego ("County").

The Revenue Projections have been conservatively estimated in order to reduce the possibility of overstating future tax increment revenues. While precautions have been taken to ensure the accuracy of the data used in the formulation of these Revenue Projections, it cannot be assured that projected valuations will be realized. Actual values may be affected by future events and conditions that cannot be controlled or predicted with certainty.

[1] Compensation paid to RSG by the Agency for preparation of this FCR is not contingent upon the sale of bonds.

EFFECT OF REDEVELOPMENT DISSOLUTION

Due to Assembly Bill x1 26 ("ABx1 26"), upheld by the California State Supreme Court in December 2011, all redevelopment agencies were dissolved on February 1, 2012. This action implemented significant changes to the California Health and Safety Code ("HSC"), including severe restrictions on any redevelopment activities, as well as changes to the method for collection and distribution of tax increment. For each dissolved redevelopment agency, a successor agency was created to wind down redevelopment activities and oversee payment of all valid debts, including bond indebtedness. When the Former Agency was dissolved, the City of San Marcos elected to become the Successor Agency. Under ABx1 26, actions taken by the Successor Agency require approval by the Oversight Board of the Successor Agency to the San Marcos Redevelopment Agency ("Oversight Board"), whose actions are in turn reviewed by the California State Department of Finance ("DOF").

Unlike redevelopment agencies, successor agencies are not allocated all tax increment in a project area. Instead, successor agencies are allocated available revenues in amounts necessary to pay valid debts, or "Recognized Obligations", according to schedules created by the successor agency every six months. These schedules are known as Recognized Obligation Payment Schedules ("ROPS"). DOF has proposed legislation that would make the ROPS an annual process instead of every six months.

All property tax formerly known as tax increment amounts are now collected by the county auditor-controllers and distributed pursuant to HSC Section 34183. Former tax increment is distributed in the following priority: (1) County and State administrative fees; (2) taxing agency (pass-through) payments; (3) successor agency debts, including bond debt, as identified on the ROPS; (4) successor agency administrative costs; and (5) remaining money is shared among the project area's affected taxing agencies. Subtraction of the County and State administrative fees and the pass-through payments from the gross incremental revenue results in the net revenue available for the Successor Agency's debt service payments and other obligations.

Some of the negotiated pass-through payments were made potentially subordinate to debt service payments by agreement with the affected taxing entity. Prior to the ABx1 26, redevelopment agencies managed the distribution of tax increment and could directly divert subordinate pass-through payments for debt service payments if there were not sufficient revenues for both. Since the passage of ABx1 26, in order to effect the subordination of qualifying pass-through payments, successor agencies must file a notice of insufficiency with their auditor-controller and with DOF for their approval. If the request is approved, the auditor-controller provides the successor agency with the subordinated funds to pay debt service.

Although the application of subordination differs after ABx1 26 compared to before ABx1 26, this FCR shows revenue available for debt service net of administrative fees and unsubordinate pass-through payments only ("Total Net Revenue"). In addition, the Low and Moderate Housing Set Aside requirements were eliminated under ABx1 26 and subsequent legislation Assembly Bill 1484 (together, the "Dissolution Act"). The Successor Agency does not intend to claim subordinate pass-through payments. They are shown in the revenue projections in the column to the right of Total Net Revenue.

On a technical note, the Dissolution Act essentially eliminated the term "tax increment", and refers instead only to property taxes. However, it is important to note that the process for determining the property tax amounts subject to the Dissolution Act continues to be determined in the same manner utilized prior to dissolution (i.e., the base year value is subtracted from the current year value and property taxes paid on this incremental value). For clarity, this FCR continues to use the term tax increment to refer to those property taxes generated in the Project Areas above the established base year value.

REDEVELOPMENT PLAN LIMITATIONS

The former California Community Redevelopment Law, HSC Section 33000, et seq., required redevelopment agencies to include certain time and financial limits in adopted redevelopment plans. The Dissolution Act eliminated the portion of the HSC that required these limitations, but does not specifically address the enforcement of the limitations contained in redevelopment plans.

It is important to note that the California State Department of Finance ("DOF") has made it a policy as of April 2014 to advise County Auditor-Controllers ***not*** to apply tax increment caps that would prevent the full payment of approved enforceable obligations, such as debt service payments on bonds. More specifically, in an April 2, 2014 letter to the Santa Cruz County Auditor-Controller's Office, DOF stated the following:

> "Finance is aware that the project area plans of most RDAs established prior to the enactment of Assembly Bill 1290 (Chapter 942, Statutes of 1993) contained limits on the amount of property tax increment that the RDAs were allowed to receive. Pursuant to AB 1290, project areas created or expanded subsequent to December 31, 1993, operated under the statutory tax increment caps and time limits contained in that legislation.
>
> In the post-RDA era, the need to uphold a cap that has not yet been reached is questionable, as the RDAs have been dissolved. As the court stated in *California Redevelopment Association v. Matosantos* (2013) 212 Cal. App. 4th 1457, 1492, "(g)iven that the redevelopment agencies no longer exist, so too do any dollar limits on their funding." In its analysis of ABx1 26, the California Supreme Court made it plain that the "...Legislature has determined that tax increment should no longer be allocated to redevelopment agencies [citation], except insofar as necessary to satisfy existing obligations." (CRA, supra, 53 Cal. 4th at page 263).
>
> In addition, to be consistent with the dissolution law's directive that enforceable obligations are to be paid, Finance believes that relying on a tax increment cap that was not reached prior to the enactment of the dissolution statutes to prevent payment of enforceable obligations is inconsistent with the purpose and intent of the RDA dissolution statutes. Therefore, **Finance advises county auditor-controllers to not apply tax increment caps to bar payment of Finance-approved enforceable obligations.** The only exception would be if the former RDA had reached that tax increment cap prior to the enactment of ABx1 26 on June 28, 2011."

In order to provide a conservative approach, RSG has assumed that the adopted limitations in the redevelopment plans for the Project Areas ("Redevelopment Plans") remain in effect. All of the applicable time and financial limits for the Project Areas are presented in Exhibit 1 on the following page.

As shown in Exhibit 1, the time limit to incur indebtedness for all Project Areas was eliminated by amendment in previous years.

Summary of Redevelopment Plan Financial and Time Limits			Exhibit 1
San Marcos Redevelopment Agency - All Project Areas			
	Project Area No. 1	**Project Area No. 2**	**Project Area No. 3**
Date of Adoption:	7/12/1983	7/19/1985	7/11/1989
Time Limits			
Incur Debt	Eliminated[1]	Eliminated[2]	Eliminated[3]
Plan Effectiveness	41 years (7/12/24)[4]	41 years (7/19/26)[5]	41 years (7/11/30)[6]
Increment Collection	51 years (7/12/34)[4]	51 years (7/19/36)[5]	51 years (7/11/40)[6]
Financial Limits			
Bonded Debt*	$100,000,000	$100,000,000	$100,000,000
	(2014=$239 million)	(2014=$218 million)	(2014=$185 million)
Tax Increment* & **	$600,000,000 cumulative	$200,000,000 cumulative	$50,000,000 annually
	(2014=$945 million)	(2014=$437 million)	(2014=$92 million)

* Pursuant to the respective redevelopment plans, the amounts are annually adjusted by CPI.

** Tax increment limits are exclusive of pass-through payments; Project Area 3's limit is annual and excludes pass-through agreement payments and the low and moderate income housing set-aside associated with those payments.

[1] Ordinance No. 2003-1211 [2] Ordinance No. 2005-1250
[3] Ordinance No. 2009-1317 [4] Ordinance No. 2003-1208
[5] Ordinance No. 2003-1209 [6] Ordinance No. 2003-1210

Source: San Marcos Redevelopment Agency, California State Department of Finance

To calculate the status of the tax increment limit applicable to the Project Areas, RSG applied the actual California Consumer Price Index ("CCPI") adjustment factors to-date to the tax increment limits listed above in Exhibit 1, as provided in the redevelopment plans for the Project Areas. The application of the CPI inflator to the tax increment limits of the Project Areas results in the following current limits:

- Project Area No. 1 - $945 million (cumulative)
- Project Area No. 2 - $437 million (cumulative)
- Project Area No. 2 - $92 million (annual)

The cumulative tax increment limits for Project Area Nos. 1 and 2 are net of pass-through payments. The annual tax increment limit for Project Area No. 3 is net of pass-through payments and the Low and Moderate Income Housing Set Aside associated with those payments. Due to the manner in which these limits are calculated, RSG estimated these amounts utilizing the tax increment projections that incorporate actual assessed valuation information to estimate tax increment revenue.

The estimated amounts of tax increment generated in the Project Areas through June 30, 2014 are as follows:

- Project Area No. 1 - $205 million (cumulative)
- Project Area No. 2 - $104 million (cumulative)
- Project Area No. 3 - $25 million (annual)

Assuming an annual 2% increase in assessed valuation, the Former Agency will not exceed the 2015 tax increment limits. Even at higher growth levels, given the annual CPI adjustment, it is unlikely that any of the limits will be reached.

The following represents the CPI-adjusted 2015 bonded indebtedness limits for the Project Areas:

- Project Area No. 1 - $239 million
- Project Area No. 2 - $218 million
- Project Area No. 3 - $185 million

Currently, the amount of outstanding bonds for each of the Project Areas is below their respective limits.

GENERAL ASSUMPTIONS IN THE REVENUE PROJECTIONS

Assessed Valuation

The ad valorem property tax system in California dictates that property taxes are based on a 1% general levy tax rate applied to non-exempt local and state secured and unsecured assessed valuations. In accordance with the HSC and the Redevelopment Plans, the Former Agency collects tax increment revenue generated by increases in assessed valuation above the base year assessed valuation, or the assessed valuation at the time a project area is adopted. Each year, the local roll is released by the San Diego County Assessor ("County Assessor") to the San Diego County Auditor-Controller ("County Auditor"), who establishes the equalized assessment roll and provides a report of Project Areas' assessed valuations for the current fiscal year and base year.

The current year and base year assessed valuations for the Project Areas, as reported by the County Auditor in Fiscal Year ("FY") 2014-15, are presented in Exhibit 2 below.

Current Year and Base Year Assessed Valuations[1] **Exhibit 2**

San Marcos Redevelopment Agency - All Project Areas

	PA 1	PA 2	PA 3
Current Year			
Secured	$ 1,695,129,625	$ 1,191,585,130	$ 4,014,445,592
Utility	-	-	-
Unsecured	179,115,606	38,734,183	75,808,223
Totals	$ 1,874,245,231	$ 1,230,319,313	$ 4,090,253,815
Base Year			
Secured	$ 204,203,562	$ 120,816,599	$ 348,245,450
Utility	1,441,788	68,984	-
Unsecured	18,325,070	12,481,660	13,171,721
Totals	$ 223,970,420	$ 133,367,243	$ 361,417,171

[1] The assessed values represented above are net of all exemptions except the Homeowner's Exemption.

Source: San Diego County Auditor-Controller – Property Tax Services, Community Redevelopment Assessed Valuations, July 5, 2014

For the purposes of this FCR, tax increment revenues are projected based on future assessed valuation in excess of the base year assessed value currently reported by the County Auditor. More specifically, tax increment revenue is generated from the application of the tax rate on the increases in the total assessed value above the base year assessed value.

The current year total assessed value for the Project Areas, net of all exemptions (except the Homeowner's Exemption, as tax increment includes subvention payments for the Homeowner's Exemption), is as follows:

- Project Area No. 1 - $1,874,245,231
- Project Area No. 2 - $1,230,319,313
- Project Area No. 3 - $4,090,253,815

It should be noted that the base year value for only Project Areas Nos. 1 and 3 changed from Fiscal Year 2006-07 to 2007-08 due to a change in the way the California Board of Equalization allocates State of California assessed utility value in redevelopment project areas, but has not changed since that time.

Tax Increment Collection History

Each Project Area has experienced positive growth in assessed values in recent years. In FY 2014-15 alone, the incremental assessed values in Project Area Nos. 1, 2, and 3 grew by 2%, 8%, and 14%, respectively.

Over the last five years, incremental assessed values in the Project Areas have grown at the following overall annualized rates:

- Project Area No. 1 - 1.97% increase
- Project Area No. 2 - 1.73% increase
- Project Area No. 3 - 5.12% increase

Exhibit 3A below summarizes estimated tax increment receipts (based on assessed valuation) compared to actual tax increment receipts for FY 2010-11 through FY 2014-15 for all Project Areas. Exhibits 3B through 3D on the following page present a summary of tax increment revenue collections for FY 2010-11 through FY 2014-15 for each of the Project Areas individually.

Historical Tax Increment Revenues					**Exhibit 3A**
San Marcos Redevelopment Agency - All Project Areas					
	2010-11[2]	2011-12[3]	2012-13[4]	2013-14[5]	2014-15[6]
Estimated Revenue Based on Incremental Assessed Value[1]	$56,042,807	$56,529,347	$56,374,519	$58,918,499	$64,760,635
Actual Tax Increment Revenue[1]	$56,007,933	$55,379,974	$57,798,561	$60,897,603	$66,173,236
% of Estimated vs. Actuals	**99.94%**	**97.97%**	**102.53%**	**103.36%**	**102.18%**

[1] County administrative charges have not been deducted.

[2] Actual revenue based on Gross Incremental Revenue report for FY 2010-11 found in County Tax Rate Book for FY 2011-12.

[3] Actual revenue based on Redevelopment Property Tax Trust Fund distribution for June 1, 2012 ($23,497,585) and July 16, 2012 ($31,882,389).

[4] Actual revenue based on Redevelopment Property Tax Trust Fund distribution for January 1, 2013 and June 1, 2013.

[5] Actual revenue based on Redevelopment Property Tax Trust Fund distribution for January 1, 2014 and June 1, 2014.

[6] Actual revenue based on Redevelopment Property Tax Trust Fund distribution for January 1, 2015 and estimated distribution for June 1, 2015.

Source: San Diego County Auditor-Controller – Property Tax Services, Community Redevelopment Assessed Valuations, July 5, 2014

Historical Assessed Valuations — Exhibit 3B

San Marcos Redevelopment Agency - Project Area No. 1

	2010-11	%Δ	2011-12	%Δ	2012-13	%Δ	2013-14	%Δ	2014-15	%Δ
Secured	1,564,620,181	-2.68%	1,568,680,278	0.26%	1,594,582,953	1.65%	1,650,019,754	3.48%	1,695,129,625	2.73%
State Utility	-		-		-		-		-	
Unsecured	185,696,335	0.54%	187,508,047	0.98%	187,456,360	-0.03%	187,640,865	0.10%	179,115,606	-4.54%
Total Assessed Value[1]	1,750,316,516	-2.35%	1,756,188,325	0.34%	1,782,039,313	1.47%	1,837,660,619	3.12%	1,874,245,231	1.99%
Less: Base Year	(223,970,420)		(223,970,420)		(223,970,420)		(223,970,420)		(223,970,420)	
Incremental Assessed Value	**$1,526,346,096**	**-2.69%**	**$1,532,217,905**	**0.38%**	**$1,558,068,893**	**1.69%**	**$1,613,690,199**	**3.57%**	**$1,650,274,811**	**2.27%**

[1] Net of non-homeowner exemptions and includes public utility values.

Source: San Diego County Auditor-Controller – Property Tax Services, Community Redevelopment Assessed Valuations, July 5, 2014

Historical Assessed Valuations — Exhibit 3C

San Marcos Redevelopment Agency - Project Area No. 2

	2010-11	%Δ	2011-12	%Δ	2012-13	%Δ	2013-14	%Δ	2014-15	%Δ
Secured	1,117,153,585	-0.70%	1,108,666,155	-0.76%	1,073,652,934	-3.16%	1,116,783,433	4.02%	1,191,585,130	6.70%
State Utility	-		-		-		-		-	
Unsecured	40,502,847	-1.14%	39,065,654	-3.55%	37,281,663	-4.57%	35,807,511	-3.95%	38,734,183	8.17%
Total Assessed Value[1]	1,157,656,432	-0.71%	1,147,731,809	-0.86%	1,110,934,597	-3.21%	1,152,590,944	3.75%	1,230,319,313	6.74%
Less: Base Year	(133,367,243)		(133,367,243)		(133,367,243)		(133,367,243)		(133,367,243)	
Incremental Assessed Value	**$1,024,289,189**	**-0.80%**	**$1,014,364,566**	**-0.97%**	**$977,567,354**	**-3.63%**	**$1,019,223,701**	**4.26%**	**$1,096,952,070**	**7.63%**

[1] Net of non-homeowner exemptions and includes public utility values.

Source: San Diego County Auditor-Controller – Property Tax Services, Community Redevelopment Assessed Valuations, July 5, 2014

Historical Assessed Valuations — Exhibit 3D

San Marcos Redevelopment Agency - Project Area No. 3

	2010-11	%Δ	2011-12	%Δ	2012-13	%Δ	2013-14	%Δ	2014-15	%Δ
Secured	3,332,723,826	-1.48%	3,384,326,078	1.55%	3,380,679,637	-0.11%	3,548,663,162	4.97%	4,014,445,592	13.13%
State Utility	-		-		-		-		-	
Unsecured	82,338,724	-0.56%	83,443,272	1.34%	82,553,166	-1.07%	71,690,000	-13.16%	75,808,223	5.74%
Total Assessed Value[1]	3,415,062,550	-1.46%	3,467,769,350	1.54%	3,463,232,803	-0.13%	3,620,353,162	4.54%	4,090,253,815	12.98%
Less: Base Year	(361,417,171)		(361,417,171)		(361,417,171)		(361,417,171)		(361,417,171)	
Incremental Assessed Value	**$3,053,645,379**	**-1.63%**	**$3,106,352,179**	**1.73%**	**$3,101,815,632**	**-0.15%**	**$3,258,935,991**	**5.07%**	**$3,728,836,644**	**14.42%**

[1] Net of non-homeowner exemptions and includes public utility values.

Source: San Diego County Auditor-Controller – Property Tax Services, Community Redevelopment Assessed Valuations, July 5, 2014

Growth Assumptions

Article XIIIA (Proposition 13) Inflationary Adjustments

Article XIIIA of the California Constitution, enacted in 1978 by California Proposition 13, and State Board of Equalization ("SBOE") Rule 460, subdivision (b)(5) provide that the "full value of real property shall be modified to reflect the percentage change in the cost of living . . . provided that such value shall not reflect an increase in excess of 2 percent of the taxable value of the preceding lien date." The CCPI establishes the inflation rate used to determine the "percentage change in cost of living."

In December 2014, the SBOE announced the CCPI from October 2013 to October 2014 increased by 1.998% and directed county assessors to prepare the FY 2015-16 assessment rolls based upon an inflation factor of 1.998%. In most years, the CCPI has exceeded 2% and has resulted in an upward adjustment to the valuation of real property by 2%.

Since 1978, there have been eight previous occurrences when the inflationary adjustment was less than 2%. These occurred in FY 1983-84, 1995-96, 1996-97, 1999-00, 2004-05, 2010-11, 2011-12, and 2014-15; the inflationary adjustments for these fiscal years were 1.00%, 1.19%, 1.11%, 1.853%, 1.867%, -0.237% (deflation), 0.753%, and 0.454%, respectively.

Since the inflation factor has been less than 2% in four of the previous six years, the Revenue Projections in this FCR reflect the following secured value growth factors:

- 1.998% in 2015-16
- 1% in FY 2016-17 and 2017-18
- 2% in all remaining years

Unsecured Roll

The FY 2014-15 unsecured value represents approximately 10%, 3%, and 2% of the overall assessed value for Project Area Nos. 1, 2, and 3, respectively. Over the last five years, unsecured values in Project Area No. 1 had experienced slight increases, but then declined by approximately 5% in FY 2014-15. In Project Area Nos. 2 and 3, however, unsecured values decreased during the first four years, with one exception, before increasing by 8% and 6%, respectively, in FY 2014-15.

Because unsecured property values are unstable compared to secured property values, and in order to conservatively estimate future revenue, the Revenue Projections included in Exhibits 10A through 10D assume zero growth in unsecured values in all years.

Tax Rates

Tax rates, including the 1% basic levy and any override rate, are assigned by Tax Rate Area ("TRA"). Exhibit 4 on the following page presents a summary of the FY 2014-15 tax rates by TRA for the Project Areas, as reported by the County Auditor. Because the override rate may decrease over time and most taxing entities have a provision to receive revenues resulting from their special tax levies, RSG's Revenue Projections assume only the basic 1% levy.

Fiscal Year 2014-15 Tax Rates		Exhibit 4
San Marcos Redevelopment Agency - All Project Areas		
Project Area	**# of TRAs**	**Tax Rate**
Project Area 1		
	24	1.11379
	2	1.09134
	1	1.11029
Total	**27**	
Project Area 2		
	32	1.11379
	5	1.09029
	1	1.09988
	1	1.06661
Total	**39**	
Project Area 3		
	39	1.11379
	10	1.11029
	3	1.09029
	2	1.09988
	1	1.09134
Total	**55**	

Source: San Diego County Auditor-Controller, Office of Property Tax Services

County Administrative Charges

The County charges an administrative fee for disbursing property tax increment revenues to successor agencies. This fee is based on actual cost, prorated among redevelopment project areas based on their respective assessed values. For the tax increment actual distribution in January 2015 and projected distribution in June 2015 (corresponding to the FY 2014-15 property tax revenues), the County charged the Successor Agency $219,252 for Project Area No. 1, $152,750 for Project Area No. 2, and $464,811 for Project Area No. 3 in administrative fees. These administrative fees represent 1.30%, 1.38%, and 1.22% of the total tax increment for Project Area Nos. 1, 2, and 3, respectively.

Administrative fees are deducted from gross incremental revenue before the calculation of pass-through payments (described later in this FCR) and the subsequent calculation of Total Net Revenue. The Revenue Projections assume growth in the administrative fees will equal growth in estimated tax increment.

Unitary Utility Revenue

As provided by Assembly Bill 454, property tax revenue from unitary utility property is disbursed in a different manner than revenue from non-unitary property. For FY 2013-14, the latest available as of the date of this FCR, the County Auditor reports the unitary tax revenue to be $212,833, $93,042 and $276,023 for Project Area Nos. 1, 2, and 3, respectively.

Since unitary utility apportionments are not increased in the same manner as other secured and unsecured assessed property, make up a very small portion of overall tax increment revenue, and are difficult to project, RSG has conservatively projected no annual growth in unitary utility revenue over the term of the Revenue Projections in Exhibits 10A through 10D.

Changes in Assessed Value Caused by Ownership Changes

To analyze the impact of property sales on assessed values in the Project Areas, RSG compiled statistics of 2014 and 2015 sales (January 1, 2014 through March 24, 2015). Monthly and year-to-date summaries of these sales for the Project Areas are presented in Exhibits 5A through 5C (not including multi-parcel transfers or transfers with no sale price). Exhibits 5A through 5C also reveal the total number of property sales and the difference between the sale prices and the properties' assessed values.

Assessed values are based on data from CoreLogic's MetroScan database. RSG used the County Assessor's Preliminary Assessment Roll for FY 2015-16 to adjust sales pries that seemed inaccurate in the MetroScan database. Inaccuracies most likely resulted from parcel subdivisions, which change parcel numbers, the basis on which the database was analyzed. The sales recorded in 2014 and early 2015 are expected to be reassessed at their sale value on the FY 2015-16 and FY 2016-17 assessment rolls.

Changes in Assessed Value Due to Sales — **Exhibit 5A**

San Marcos Redevelopment Agency - Project Area No. 1

Month	Year	# of Sales	Total Presale Value[1]	Total Sale Price	Projected Increase
January	2014	4	$ 8,185,401	$ 11,590,000	$ 3,404,599
February	2014	5	886,150	1,010,000	123,850
March	2014	4	336,713	16,040,000	15,703,287
April	2014	9	3,781,158	3,795,000	13,842
May	2014	15	6,564,526	7,736,000	1,171,474
June	2014	6	788,716	2,449,000	1,660,284
July	2014	8	1,902,042	5,075,000	3,172,958
August	2014	7	6,436,625	8,936,500	2,499,875
September	2014	7	17,386,003	21,484,803	4,098,800
October	2014	8	1,596,945	2,405,000	808,055
November	2014	4	4,263,535	6,494,000	2,230,465
December	2014	8	7,191,505	7,851,398	659,893
January	2015	3	1,615,079	7,062,500	5,447,421
February	2015	7	2,072,351	2,197,000	124,649
March	2015	6	1,167,689	1,801,000	633,311
Total	2014	85	$ 59,319,319	$ 94,866,701	$ 35,547,382
Total to Date	2015	16	4,855,119	11,060,500	6,205,381

Projected Increase/(Decrease) in FY 2015-16 Values Due to Sales:	35,547,382
Projected Increase/(Decrease) in FY 2016-17 Values Due to Sales:	6,205,381
Total Project Area No. 1 FY 2014-15 Value:	$ 1,874,245,231
Percentage Increase/(Decrease) in FY 2015-16 Values Due to Sales:	1.90%

[1] Represents the total secured assessed value of parcels.

Sources: Metroscan, San Diego County Assessor's Office, 2015-16 Preliminary Assessment Roll, & San Diego County Auditor-Controller – Property Tax Services, Community Redevelopment Assessed Valuations, July 5, 2014

Changes in Assessed Value Due to Sales — **Exhibit 5B**

San Marcos Redevelopment Agency - Project Area No. 2

Month	Year	# of Sales	Total Presale Value[1]	Total Sale Price	Projected Increase
January	2014	6	$ 1,962,812	$ 2,692,500	$ 729,688
February	2014	7	2,130,882	2,735,000	604,118
March	2014	6	1,544,175	2,014,000	469,825
April	2014	9	7,267,250	12,543,000	5,275,750
May	2014	6	1,813,571	2,512,000	698,429
June	2014	10	3,928,734	4,768,500	839,766
July	2014	12	4,474,510	5,509,000	1,034,490
August	2014	7	3,026,214	3,607,000	580,786
September	2014	3	821,776	1,167,000	345,224
October	2014	9	3,100,326	3,810,500	710,174
November	2014	8	6,611,690	8,804,000	2,192,310
December	2014	6	2,483,944	3,676,500	1,192,556
January	2015	10	3,061,873	3,961,000	899,127
February	2015	6	2,012,806	2,789,000	776,194
March	2015	4	1,456,775	1,832,000	375,225
Total	2014	89	$ 39,165,884	$ 53,839,000	$ 14,673,116
Total to Date	2015	20	6,531,454	8,582,000	2,050,546

Projected Increase/(Decrease) in FY 2015-16 Values Due to Sales:	14,673,116
Projected Increase/(Decrease) in FY 2016-17 Values Due to Sales:	2,050,546
Total Project Area No. 2 FY 2014-15 Value:	$ 1,230,319,313
Percentage Increase/(Decrease) in FY 2015-16 Values Due to Sales:	1.19%

[1] Represents the total secured assessed value of parcels.

Sources: Metroscan, San Diego County Assessor's Office, 2015-16 Preliminary Assessment Roll, & San Diego County Auditor-Controller – Property Tax Services, Community Redevelopment Assessed Valuations, July 5, 2014

Changes in Assessed Value Due to Sales					Exhibit 5C
San Marcos Redevelopment Agency - Project Area No. 3					
Month	Year	# of Sales	Total Presale Value[1]	Total Sale Price	Projected Increase
January	2014	25	$ 11,777,353	$ 14,496,500	$ 2,719,147
February	2014	66	22,401,409	33,296,000	10,894,591
March	2014	50	23,701,833	30,560,000	6,858,167
April	2014	59	26,862,721	37,845,600	10,982,879
May	2014	86	30,939,972	46,040,864	15,100,892
June	2014	61	23,622,873	32,556,600	8,933,727
July	2014	51	21,138,802	28,684,500	7,545,698
August	2014	64	24,815,636	33,052,000	8,236,364
September	2014	37	15,207,835	19,837,500	4,629,665
October	2014	63	28,223,855	38,656,865	10,433,010
November	2014	38	12,639,757	26,158,500	13,518,743
December	2014	59	23,935,812	36,506,000	12,570,188
January	2015	33	35,341,158	44,366,273	9,025,115
February	2015	43	28,660,531	35,429,640	6,769,109
March	2015	30	13,114,506	16,624,000	3,509,494
Total	2014	659	$ 265,267,857	$ 377,690,929	$ 112,423,072
Total to Date	2015	106	77,116,195	96,419,913	19,303,718
Projected Increase/(Decrease) in FY 2015-16 Values Due to Sales:					112,423,072
Projected Increase/(Decrease) in FY 2016-17 Values Due to Sales:					19,303,718
Total Project Area No. 3 FY 2014-15 Value:					$ 4,090,253,815
Percentage Increase/(Decrease) in FY 2015-16 Values Due to Sales:					2.75%

[1] Represents the total secured assessed value of parcels.

Sources: Metroscan, San Diego County Assessor's Office, 2015-16 Preliminary Assessment Roll and Property Sales Database, & San Diego County Auditor-Controller – Property Tax Services, Community Redevelopment Assessed Valuations, July 5, 2014

Based on an analysis of property transfers, property sales are anticipated to add approximately $35.5 million, $14.7 million, and $112.4 million of assessed value in FY 2015-16 for Project Area Nos. 1, 2, and 3, respectively. In FY 2016-17, property sales through March 31, 2015 are anticipated to add approximately $6.2 million, $2.1 million, and $19.3 million of assessed value for Project Area Nos. 1, 2, and 3, respectively.

Changes in Assessed Value Resulting from New Construction

Exhibits 6A through 6C on the following page present a summary of finaled building permits for each Project Area, by type of construction, that will increase the assessed value of the subject property. This increase in assessed valuation should be reflected on the FY 2015-16 and 2016-17 assessment rolls. This includes new construction and additions, but excludes tenant improvements and solar installations because such improvements may replace previous improvements and would not add to the assessed value of a property.

Exhibits 6A, 6B, and 6C cover all building permits for new construction finaled from January 1, 2014 to March 31, 2015 within each of the Project Areas.

Changes in Assessed Value Due to Construction							Exhibit 6A
San Marcos Redevelopment Agency - Project Area No. 1							
	January 2014 - December 2014			**January 2015 - March 2015**			
Type of Construction	# of Finaled Permits		Valuation	# of Finaled Permits		Valuation	
Commercial	2		2,921,406	-		-	
Multi Family	17		34,434,512	8		20,629,493	
Single Family	-		-	-		-	
Total	**19**	**$**	**37,355,918**	**8**	**$**	**20,629,493**	
Total Value Added to FY 2015-16			37,355,918			N/A	
Total Value Added to FY 2016-17			N/A			20,629,493	
Project Area No. 1 FY 2014-15 Secured Value			$ 1,695,129,625				
Percentage Increase, FY 2015-16			2.20%			N/A	

Sources: City of San Marcos, Development Services Department, Building Division, & San Diego County Auditor-Controller – Property Tax Services, Community Redevelopment Assessed Valuations, July 5, 2014

Changes in Assessed Value Due to Construction							Exhibit 6B
San Marcos Redevelopment Agency - Project Area No. 2							
	January 2014 - December 2014			**January 2015 - March 2015**			
Type of Construction	# of Finaled Permits		Valuation	# of Finaled Permits		Valuation	
Commercial	-		-	-		-	
Multi Family	-		-	-		-	
Single Family	-		-	-		-	
Total	**-**	**$**	**-**	**-**	**$**	**-**	
Total Value Added to FY 2015-16			-			N/A	
Total Value Added to FY 2016-17			N/A			-	
Project Area No. 2 FY 2014-15 Secured Value			$ 1,191,585,130				
Percentage Increase, FY 2015-16			0.00%			N/A	

Sources: City of San Marcos, Development Services Department, Building Division, & San Diego County Auditor-Controller – Property Tax Services, Community Redevelopment Assessed Valuations, July 5, 2014

Changes in Assessed Value Due to Construction							Exhibit 6C
San Marcos Redevelopment Agency - Project Area No. 3							
	January 2014 - December 2014			**January 2015 - March 2015**			
Type of Construction	# of Finaled Permits		Valuation	# of Finaled Permits		Valuation	
Commercial	-		-	-		-	
Multi Family	10		9,457,103	2		917,361	
Single Family	128		47,008,356	11		5,410,503	
Total	**138**	**$**	**56,465,459**	**13**	**$**	**6,327,864**	
Total Value Added to FY 2015-16			56,465,459			N/A	
Total Value Added to FY 2016-17			N/A			6,327,864	
Project Area No. 3 FY 2014-15 Secured Value			$ 4,014,445,592				
Percentage Increase, FY 2015-16			1.41%			N/A	

Sources: City of San Marcos, Development Services Department, Building Division, & San Diego County Auditor-Controller – Property Tax Services, Community Redevelopment Assessed Valuations, July 5, 2014

Building permits finalized between January 1, 2014 and March 31, 2015 are projected to add $37.4 million, $0, and $56.5 million of value to the assessment roll in FY 2015-16 as well as $20.6 million, $0, and $6.3 million of value to the assessment roll in FY 2016-17 for Project Area Nos. 1, 2, and 3, respectively. The Revenue Projections (Exhibits 10A through 10D) include these increases in value.

Supplemental Tax Revenue

Supplemental Tax Revenue is revenue generated by the tax increment created when a sale takes place or a construction project is completed after January 1 of a given year (the statewide lien date used to establish property assessments) and reassessment occurs. In such instances, the owner is issued a supplemental tax bill for the period between the sale or completion and the next regular tax bill.

Because these costs/revenues/refunds cannot be accurately projected and the revenues have historically exceeded the costs (resulting in slightly higher revenues than anticipated), no projection of these revenues has been made in the Revenue Projections.

County Collections/Delinquencies

Delinquent property taxes will impact the Former Agency's tax increment revenues, but revenue generated by penalties and interest charged on delinquent property taxes will also be included in tax distributions. Historically, the delinquency rates have not negatively affected actual collections because of the upside caused by penalty and interest payments. The delinquency rate for FY 2014-15 is not yet available. For FY 2009-10 through FY 2013-14, the County-wide delinquency rate was 2.8%, 1.9%, 1.5%, 1.1%, and 0.9%, successively. The net impact of delinquencies and penalties is generally negligible and has therefore been excluded from the Revenue Projections.

LOW AND MODERATE INCOME HOUSING FUND DEPOSITS

HSC Section 33334.2 required the Former Agency to set aside 20% of the Project's tax increment revenue into a specific fund for the purpose of increasing and improving the supply of very low, low, and moderate income housing. However, the Former Agency agreed to set aside additional housing funds pursuant to a stipulation for entry and judgment regarding Case No. N44744 filed in the Superior Court of the State of California, County of San Diego. Pursuant to the judgment, the Former Agency was required to deposit into the housing fund an additional 2% of the revenues generated by Project Area Nos. 1 and 2 and 4.7% of Project Area No. 3 revenues.

It is important to note that with the Dissolution Act, the Low and Moderate Income Housing Set Aside requirements no longer exist and, in fact, are made illegal. Therefore, all remaining tax increment revenues generated within a redevelopment project area (housing and non-housing) can be used to satisfy bond debt obligations.

The Revenue Projections in this FCR identify the gross property tax revenues generated within the Project Areas, net of taxing entity pass-through payments and County administrative fees, and do not show Low and Moderate Income Housing Fund deposits as a separate source of revenue.

TAXING AGENCY PAYMENTS

Under the Dissolution Act, County Auditor-Controllers throughout California are legally required to calculate and pay all pass-through payments to taxing entities. Prior to redevelopment dissolution, these payments for the Project Areas were calculated and paid by the Former Agency. In 2014, City staff and RSG met with the County Auditor's staff in order to gain a clear understanding of the manner in which the County Auditor was calculating the pass-through payments going forward.

RSG continued this communication with the County Auditor in 2015. More specifically, RSG received the taxing entity pass through tax rates the County Auditor will utilize for future pass through calculations. The County Auditor notified all cities within the County in September 2014 that the tax rates used starting with the January 2015 distribution would be different than those used previously because of the final decision in *Los Angeles Unified School District v. County of Los Angeles et al.* The tax rates going forward, in accordance with the aforementioned court decision, will reflect the inclusion of the Educational Revenue Augmentation Fund's share of the property tax. This only affects statutory pass-through payments and negotiated pass-through payments that call for the taxing agency to receive its share of the incremental revenue without specifying that share. For the negotiated pass through agreements that identify a share, the specified share is used even if the taxing entity's actual share of the property tax changed since the agreement.

Additionally, RSG requested confirmation regarding the application of the Owner Participation Agreements and Disposition and Development Agreements ("OPAs/DDAs") utilized as part of the County Auditor's calculation of annual pass-through payments. Several taxing entities agreed to have the increases in incremental revenue resulting from the Former Agency's redevelopment efforts, in the form of the OPAs/DDAs, subtracted from the incremental revenue amounts used when calculating those taxing entities' pass-through payments. The application of the OPAs/DDAs by the County matches the methodology used in the Revenue Projections. RSG used the FY 2014-15 assessment roll to identify increases in incremental revenue resulting from the OPAs/DDAs.

The pass-through payments contained in the Revenue Projections are calculated based on RSG's understanding of the County Auditor's methodology as described in this FCR.

Negotiated Agreements and Inflationary 2% Pass-Through Payments

Prior to 1994, Section 33401 of the HSC allowed redevelopment agencies to pay to any other entity collecting property taxes within the redevelopment project area a portion of tax increment revenues to alleviate any financial burden related to the redevelopment project.

The Former Agency entered into several agreements in connection with the Project Areas, as described in this FCR. It should be noted that the complexity of each of these agreements results in the potential for varying interpretations of the calculations to each entity. RSG has utilized a conservative interpretation, informed heavily by RSG's communication with the County Auditor, to ensure that the Revenue Projections are not overstated.

The entities receiving payments, as well as a summary of the terms of each of the agreements, are provided on the following pages.

Definitions of terms used in the summary descriptions are as follows:

<u>Inflationary 2% Revenue</u>: Tax increment revenue attributable to annual increases not to exceed two percent (2%) in the valuation of real property pursuant to the Revenue and Taxation Code Section 110.1(f). The base year used to calculate the Inflationary 2% revenue includes the local secured value only. It does not include state-assessed secured or unsecured value.

<u>Special District Tax Revenues</u>: Tax increment revenue attributable to application of "override rates" or "voter approved or bonded indebtedness tax rates" pursuant to Section 1(b) and Section 4 of Article XIIIA of the California Constitution. Because the Revenue Projections do not assume a voter-approved indebtedness override rate, the Revenue Projections do not include payments of Special District Tax Revenues to any taxing entities.

Trigger Year: FY 2005-06, the year in which the cumulative amount of Project Area No. 1 tax increment revenue exceeded $100,000,000.

A calculation of the pass-through payments required under these agreements is included in Exhibits 10A through 10D.

Project Area No. 1

At the time the original Project Area No. 1 was adopted, the Former Agency entered into agreements with five taxing entities. In July 1993, the Agency adopted an Amendment to the Redevelopment Plan for Project Area No. 1 (primarily to increase the tax increment limit imposed by the Plan). As part of the Amendment process, the Former Agency was required to renegotiate with the affected taxing entities, which resulted in new agreements pertaining to Project Area No. 1. These agreements are summarized on the following pages.

Palomar Community College

Pursuant to clarification of the agreement negotiated in 2000, the Palomar Community College ("PCC") is entitled to receive:

- PCC Special District Tax Revenues; and
- 78% of its 6.64% share of the Inflationary 2% Revenue until the Trigger Year, at which time PCC is entitled to receive 50% of its portion of revenue, *after deduction of*:
    - 22% low and moderate income housing set-aside; and
    - 50% of the share of increment generated by increases in property value which are incident to or arising from redevelopment activities as evidenced by documents on file with the City/Former Agency related to the OPAs/DDAs prior to July 1, 2000 ("pre-2000 OPAs/DDAs"), which was $1,949,306 in Project Area No. 1 in FY 2014-15.

All pass-through payments are calculated after deduction of the housing fund allocation of 22%. To estimate the Revenue Projections conservatively, it is assumed that the revenues resulting from the pre-2000 OPAs/DDAs in FY 2014-15 will continue into the future at the same value.

Vallecitos Water District

The Vallecitos Water District ("VWD") is entitled to receive one-half of its 4.90% share of tax increment *except for* increment generated by increases in property value, which are incident to or arising from redevelopment activities as evidenced by documents on file with the City/Former Agency related to the OPAs/DDAs, and after deduction of the housing fund allocation of 22%.

For FY 2014-15, the tax increment generated by such properties subject to the OPAs/DDAs totaled $3,898,612 in Project Area No. 1. To estimate the Revenue Projections conservatively, it is assumed that the revenues resulting from the OPAs/DDAs in FY 2014-15 will continue into the future at the same value.

San Marcos Fire Protection District

The Former Redevelopment Agency entered into an agreement with the San Marcos Fire Protection District ("SMFPD") that entitles the SMFPD to receive its Special District Tax Revenue. However, because SMFPD does not have an override rate, it is not entitled to a payment pursuant to the agreement.

Due to the fact that the terms of the agreement do not result in a payment to the SMFPD, the District will receive its share of statutory pass-through payments discussed later in this FCR.

San Diego County Office of Education
The San Diego County Office of Education ("SDCOE") is entitled to receive:

- SDCOE Special District Tax Revenues; and
- 78% of its 2.90% share of the Inflationary 2% Revenue until the Trigger Year, at which time the SDCOE is also entitled to receive 39% of its portion of revenue ("39% Portion") above the Inflationary 2% Revenue.

The agreement also provides for the Former Agency to pay the SDCOE $1 million by the end of 1994 (which was paid), of which $800,000 is considered a loan to be repaid (with interest) from the 39% Portion. This 39% portion is shown as the SDCOE pass through until the time limit to collect tax increment for Project Area No. 1 (FY 2033-34) is reached since projections of the pass-through payments suggest repayment of the loan will not be complete at that time.

San Marcos Unified School District
The San Marcos Unified School District ("SMUSD") receives:

- SMUSD Special District Tax Revenues; and
- 78% of its 38.10% share of the Inflationary 2% Revenue (note: the Revenue Projections contained in this FCR do not assume a voter-approved indebtedness override rate).

The initial agreement also required the Former Redevelopment Agency to utilize:

- One-half of the SMUSD's share of revenue to provide $6 million for new school facilities by December 1994;
- $6 million to secure a site for a combined city park; and
- $7 million to construct a new school administration facility.

A total of $17 million was provided as of FY 1999-00 for these projects.

In 2000, the "Agreement for Cooperation Between the City of San Marcos, the Redevelopment Agency of the City of San Marcos, and the San Marcos Unified School District Relating to School Facilities Financing (San Elijo Hills) and Reaffirming and/or Modifying Certain Aspects of Agreements for Cooperation for Redevelopment Project Area Nos. 1, 2, and 3" ("SMUSD Modified Agreement") was approved. In accordance with the SMUSD Modified Agreement, a final payment of $1,257,814 was made toward, and thereby retired, this obligation.

Palomar Pomerado Health System
The Palomar Pomerado Health System ("PPHS") is entitled to receive:

- PPHS Special District Tax Revenues; and
- Beginning in the Trigger Year, one-half (50%) of its 2.42% share of revenue after deduction of the housing fund allocation of 22%.

The agreement also contains provisions pertaining to a new PPHS facility located within Project Area No. 2 (this will not affect the Project Area No. 1 pass-through payment).

County of San Diego
The County (including the General Fund and Library District) is entitled to receive:

- County Special District Tax Revenues;
- $3.5 million payment in FY 1993-94; and
- Beginning in the Trigger Year, 68% of the County's 28.82% portion after deducting a 20% housing set-aside amount.

The Trigger Year occurred in FY 2005-06 and the Former Agency subsequently commenced those payments.

Starting in FY 2012-13, the Former Agency must pay the County the following percentages of gross tax revenue until the County has been repaid its portion (after 20% housing set-aside deductions) of tax increment collected by the Former Agency since the plan adoption in 1983.

Fiscal Year	Percent
2012-13 through 2017-18	25%
2018-19 through 2022-23	30%
2023-24 through 2027-28	35%
2028-29 through 2032-33	40%
2033-34 through 2037-38	45%
2038-39 and thereafter	50%

The Former Agency and the County discussed the interpretation of this provision, Section 2.03, of the Agreement for Cooperation between the County of San Diego, and City of San Marcos and Former Agency (Project Area No. 1) ("County PA 1 Agreement") several times in 2014. The calculation of the County's pass-through payments for Project Area No. 1 used in this FCR follows the estimates provided by the County as part of those discussions that most closely match the Former Agency's estimates. Nothing in this FCR is meant, or shall be construed, to modify the County PA 1 Agreement.

Due to the structure of the County PA 1 Agreement, the Successor Agency will see a sharp rise in pass-through payments from FY 2017-18 to FY 2018-2019, and every five years after that until the time limit to collect increment is reached. Because these pass throughs are subordinate to debt service, there is no corresponding decline in Total Net Revenue in Project Area No. 1. However, it is important to note that the County's subordinate pass throughs, if diverted for debt service, are treated as an outstanding debt with accruing interest. According to language in the County PA 1 Agreement, the exception to this is in cases where the need for the diversion is beyond the Successor Agency's control, such as an earthquake or other major damage or destruction, a serious economic decline, a change in law which materially reduces the Successor Agency's tax increment revenues, or a similar occurrence.

North County Cemetery District
Beginning in the Trigger Year, the North County Cemetery District ("NCCD") is entitled to receive:

- NCCD Special District Tax Revenues; and

- One-half (50%) of its 0.51% portion of revenue after deduction of the 22% housing set-aside allocation.

Resource Conservation District
The Resource Conservation District ("RCD") is entitled to receive:

- RCD Special District Tax Revenues; and

- RCD's 0.01% portion of revenue after deduction of the housing set-aside fund allocation of 22%.

The revenue paid to the RCD prior to the Trigger Year constitutes a loan to the RCD, which the RCD will repay annually after the Trigger Year by application of a formula. To minimize complications and maintain conservative projections of Total Net Revenue, the Revenue Projections in this FCR assume a continued annual payment to the RCD without reduction of the loan repayment to the Former Agency.

Subordination to Bonded Debt
All Project Area No. 1 pass-through agreements, except for that of PCC, include provisions which give the Former Agency the unrestricted right to issue bonds and pledge tax revenue (including, without limitation, each taxing entity's portion). However, pursuant to the Dissolution Act, pass-through payments are no longer treated by the County Auditor and DOF as subordinate to bonded indebtedness unless a successor agency reports that there are insufficient funds to pay bonded debt service.

If an insufficiency exists, the Dissolution Act states that a successor agency must notify the county auditor-controller on December 1st and May 1st, prior to each six-month ROPS period that funds are insufficient. The county auditor-controller must then notify the California State Controller and DOF no later than 10 days from the date of the successor agency's report of the insufficiency. Once the county auditor-controller verifies that an insufficiency exists, the amount of the deficiency shall be deducted from the amount remaining to be disbursed to the taxing entities and, if needed, any funds that are to be disbursed to the successor agency for the administrative cost allowance.

The Revenue Projections for Project Area No. 1 show Total Net Revenue without subtracting subordinate pass-through payments. However, subordinate pass-through payments are shown in the projections in the column to the right of Total Net Revenue.

Project Area No. 2

The Former Agency entered into agreements with the following taxing entities as summarized below.

San Marcos Unified School District
The agreement provides for the SMUSD to receive:

- SMUSD Special District Tax Revenue; and

- SMUSD portion (indicated as 39.43%) of the Inflationary 2% Revenue, after deduction of the 22% low and moderate income housing set-aside.

Palomar Community College
The PCC is entitled to receive:

- PCC Special District Tax Revenues; and
- PCC's 6.64% portion of the Inflationary 2% Revenue after:
  - Deduction of the 22% low and moderate income housing set-aside; and
  - Deduction for revenues generated by projects where the Former Agency has OPAs/DDAs.

Vallecitos Water District
The VWD is entitled to receive its entire share (indicated as 3.29%) of tax increment (after the deduction of 22% low and moderate housing set-aside) *except for* increment generated by increases in property value which are incident to or arising from redevelopment activities as evidenced by the OPAs/DDAs.

For FY 2014-15, the tax increment generated by such properties subject to the OPAs/DDAs totaled $3,356,070 in Project Area No. 2. In order to estimate the Revenue Projections conservatively, it is assumed that the revenues resulting from the OPAs/DDAs in FY 2014-15 continue into the future at the same value.

Olivenhain Municipal Water District
The Olivenhain Municipal Water District ("OMWD") is entitled to receive its share (indicated as 0.01%) of tax increment (after the deduction of 22% low and moderate housing set-aside) *except for* increment generated by increases in property value which are incident to or arising from redevelopment activities as evidenced by the OPAs/DDAs.

For FY 2014-15, the tax increment generated by such properties subject to the OPAs/DDAs totaled $3,356,070 in Project Area No. 2. In order to estimate the Revenue Projections conservatively, it is assumed that the revenues resulting from the OPAs/DDAs in FY 2014-15 continue into the future at the same value.

Additionally, the OMWD is entitled to receive tax increment revenue associated with increases in value pertaining to real property commonly described as the San Marcos Landfill after conversion of the landfill to a taxable use including property being used as part of a resource recovery project within the OMWD's service area. Because the landfill has been reclaimed by the County for a wildlife habitat, no provision has been made for any pass-throughs associated with the landfill.

San Marcos Fire Protection District
Per the agreement with the Former Agency, the SMFPD is entitled to receive its entire share (indicated as 6.73%) of tax increment (after the deduction of the 22% low and moderate housing set-aside) *except for* increment generated by increases in property value which are incident to or arising from redevelopment activities as evidenced by the OPAs/DDAs.

For FY 2014-15, the tax increment generated by such properties subject to the OPAs/DDAs totaled $3,356,070 in Project Area No. 2. In order to estimate the Revenue Projections conservatively, it is assumed that the revenues resulting from the OPAs/DDAs in FY 2014-15 continue into the future at the same value.

North County Cemetery District
As stated in an agreement between the NCCD and the Former Agency, the NCCD is entitled to receive:

- NCCD Special District Tax Revenue; and
- NCCD portion (indicated as 0.42%) of the inflationary 2% Revenue after:
    - Deduction of the 22% low and moderate housing set-aside; and
    - Deduction for revenues generated by projects where the Former Agency has OPAs/DDAs.

San Diego County Office of Education
Pursuant to an agreement between the SDCOE and the Former Agency dated July 25, 1989, the SDCOE is entitled to receive its share (indicated as 3.00%) of the Inflationary 2% Revenue after deduction of 20% for the Low and Moderate Income Housing Fund pursuant to HSC Section 33334.2.

County of San Diego
The County is entitled to receive:

- County Special District Tax Revenue; and
- County's 28.8% portion of the Inflationary 2% Revenue (note: the Revenue Projections contained in this FCR do not assume a voter-approved indebtedness override rate).

The agreement states that once the Former Agency has received a total of $28,507,697 ("PA 2 Cap") of the County's share of tax increment revenue (including its share of the 20% Low and Moderate Income Housing Fund obligation and revenue to be used for mutually beneficial projects as outlined in the agreement), the County shall then begin receiving its 28.8% share of tax increment revenue after deduction of 20% for the Low and Moderate Income Housing Fund pursuant to HSC Section 33334.2.

City staff, RSG, and County Auditor's staff discussed the PA 2 Cap and the timing of when the County should receive its total share of tax increment revenue after deduction of 20% for the Low and Moderate Income Housing Fund in 2014. The calculation of the County's pass-through payments for Project Area No. 2 in this FCR estimates that the ***PA 2 Cap was already reached and that no payments are owed for previous pass throughs***.

Subordination to Bonded Debt
SMUSD and NCCD are the only taxing entities with pass-through agreements for Project Area No. 2 that include provisions which give the Former Agency the unrestricted right to issue bonds and pledge tax revenue (including, without limitation, each taxing entity's portion).

As mentioned in the Project Area No. 1 pass through agreements summary section, pass-through payments are no longer treated by the County Auditor and DOF as subordinate to bonded indebtedness unless a successor agency reports that there are insufficient funds to pay bonded debt service.

The Revenue Projections for Project Area No. 2 show Total Net Revenue without subtracting subordinate pass-through payments. However, subordinate pass-through payments are shown in the projections in the column to the right of Total Net Revenue.

Project Area No. 3

The Former Agency has entered into agreements with the following taxing entities as summarized below.

San Marcos Unified School District
The SMUSD Modified Agreement provides for SMUSD to receive:

- SMUSD's share (indicated as 39.16%) of the Inflationary 2% Revenue (after deduction of the 24.7% housing set-aside funds); and
- 50% of SMUSD's share of the remaining Tax Increment Revenue (after deduction of the 24.7% set-aside funds).

These combined funds have been pledged to pay debt service on Tax Allocation Bonds issued for school facilities.

Palomar Community College
Pursuant to clarification of the agreement negotiated in 2000, PCC is entitled to receive:

- PCC Special District Tax Revenues;
- PCC's 6.64% share of the Inflationary 2% Revenue (after deduction of the 24.7% housing set-aside funds); and
- 50% of PCC's share of revenue, after deduction of:
    - The 24.7% low and moderate income housing set-aside, and
    - 50% of the share of increment generated by increases in property value which are incident to or arising from redevelopment activities as evidenced by documents on file with the City/Former Agency related to the pre-2000 OPAs/DDAs, which as of FY 2014-15 equals $10,091,644 in Project Area No. 3.

To estimate the Revenue Projections conservatively, it is assumed that the revenues resulting from the pre-2000 OPAs/DDAs in FY 2014-15 continue into the future at the same value.

San Diego County Office of Education
The SDCOE is entitled to receive:

- SDCOE Special District Tax Revenues;
- SDCOE's share (indicated as 2.93%) of the Inflationary 2% Revenue; and
- 50% of SDCOE's share of revenue above the Inflationary 2% Revenue.

Vallecitos Water District
The VWD is entitled to receive its entire share (indicated as 2.77%) of tax increment *except for* increment generated by increases in property value which are incident to or arising from redevelopment activities as evidenced by the OPAs/DDAs.

For FY 2014-15, the tax increment generated by such properties subject to the OPAs/DDAs totaled $21,251,506 in Project Area No. 3. In order to estimate the Revenue Projections conservatively, it is assumed that the revenues resulting from the OPAs/DDAs in FY 2014-15 continue into the future at the same value. The legally-required affordable housing funds (24.7%) have been deducted.

San Marcos Fire Protection District

The SMFPD agreement has the same provisions as the VWD agreement described above for VWD. The SMFPD's portion is indicated as 6.43%.

North County Cemetery District

The NCCD is entitled to receive its portion (indicated as 0.19%) of the tax revenue in excess of that attributable to the first three percent (3%) annual increase in valuation of real property. The NCCD is also entitled to receive its Special District Tax Revenue; however, none is projected, therefore there is no corresponding pass-through.

County of San Diego

The Former Agency and the County entered into an initial pass-through agreement for Project Area No. 3 in 1989. Because of conflicting interpretations of certain aspects of the initial agreement, the agreement was mutually amended by a Settlement Agreement in July 1998 ("1998 Settlement Agreement"). There are three separate streams of pass-through payments that accrue to the County from Project Area No. 3 pursuant to the Settlement Agreement, as follows:

1. **August Payments (Completed and no longer required):**

The 1998 Settlement Agreement required the Former Agency to remit four annual payments of $564,690, beginning on August 1, 1998. All installments have been paid by the Former Agency.

2. **Annual Payments Based on Revenue:**

The County is entitled to receive:

- The County's 29.95% share of the Inflationary 2% Revenue;
- Any County Special District Tax Revenue; and
- 15% of the County's share of an agreed upon tax increment schedule ("Forecast Revenue") less the Inflationary 2% Revenue through the earlier of (a) the thirtieth (30th) year of the redevelopment plan or (b) until the Former Agency has received a total of $88,000,000 of the County's share of tax increment revenue (including its share of the 20% Low and Moderate Income Housing Fund obligation and revenue to be used for mutually beneficial projects as outlined in the agreement). After this occurrence, the County will receive 100% of its portion of revenue.

This agreement also requires that until the Former Agency is required to make full pass-through payments of the County's share, the Former Agency must also pay the County's share of the tax increment revenue above the forecast revenue identified in Exhibit 2 of the 1998 Settlement Agreement. This payment is referred to as the "Undisputed Share of Above Forecast Revenue" in the Settlement Agreement.

According to RSG's records, the Former Agency has retained approximately $40 million of the County's share through FY 2013-14. Based on the growth rates assumed in the Revenue Projections, RSG does not expect the $88,000,000 threshold to be reached by the thirtieth (30th) year of the Redevelopment Plan, FY 2018-19. With these growth assumptions, the pass-through based on "Forecast Revenue" is applied through FY 2018-19. All payments to the County shall be calculated after deduction of 24.7% for the Low and Moderate Income Housing Fund.

Because of this stream of payments, the Successor Agency will see a sharp rise in pass-through payments from FY 2018-19 to FY 2019-2020 and a correspondingly sharp decline in revenue net of all pass throughs in Project Area No. 3.

3. Payments Due December 15, 1998 through December 15, 2019:

Pursuant to the 1998 Settlement Agreement, the Former Agency is to pay to the County a scheduled "Settlement Payment" by December 15 for the preceding FY. These payments are shown on the Revenue Projections as "Settlement Payment." The payments are subordinate to existing and future bond debt services but are not included in the projections of Total Net Revenue.

Subordination to Bonded Debt

SMUSD and the County are the only taxing entities that have pass-through agreements for Project Area No. 3 that include provisions to give the Former Agency the unrestricted right to issue bonds and pledge tax revenue (including, without limitation, each taxing entity's portion). This applies to all of SMUSD's pass throughs in Project Area No. 3 and to the County's Settlement Payment. As with the County's subordinate pass throughs in Project Area No. 1, the County's Settlement Payment, if diverted for debt service, is treated as an outstanding debt with accruing interest. According to language in the 1998 Settlement Agreement, the exception to this is in cases where the need for the diversion is beyond the Successor Agency's control, such as an earthquake or other major damage or destruction, a serious economic decline, a change in law which materially reduces the Successor Agency's tax increment revenues, or a similar occurrence.

As mentioned in the Project Area No. 1 and 2 pass through agreements summary sections, pass-through payments are no longer treated by the County Auditor and DOF as subordinate to bonded indebtedness unless a successor agency reports that there are insufficient funds to pay bonded debt service.

The Revenue Projections for Project Area No. 3 show Total Net Revenue without subtracting subordinate pass-through payments. However, subordinate pass-through payments are shown in the projections in the column to the right of Total Net Revenue.

AB 1290 Statutory Pass-Through Payments

The Former Agency triggered statutory pass-through payments to taxing entities in Project Area Nos. 1, 2, and 3 when the time limits to incur debt in the Project Areas were eliminated in 2003, 2005, and 2009, respectively. These payments must be made to taxing entities that did not have an existing tax sharing agreement in place. The statutory pass throughs are not subordinate to bonded debt. The calculation of these pass-through payments, pursuant to HSC Sections 33607.5 and 33607.7, is included in Exhibits 10A through 10D.

Developer Agreement Payments

The Former Agency entered into agreements with various property owners and developers (the OPAs/DDAs) in each Project Area. It is important to note the following:

- Payments required by developer agreements are subordinate to debt service on bond debt pursuant to the Dissolution Act;
- None of these agreements represent a pledge of annual tax increment revenue; and
- None of the agreements require payments from the Low and Moderate Income Housing Fund.

Although not tax increment pledges, some of these agreements require payments or other performance by the Former Agency.

These agreements include the following:

- The First Amended and Restated Development Agreement and Owner Participation Agreement, dated August 15, 1997 (“Development Agreement”), by and among the City, the Former Agency, and San Elijo Ranch, Inc. (“San Elijo”); and
- The First Amended and Restated Development Agreement and Owner Participation Agreement between the City, the Former Agency, Brookfield University Commons, LLC, and Birchwood Associates LLC (also known as University Commons).

TOP TEN TAXPAYERS

Utilizing the County's FY 2014-15 Secured and Unsecured Assessment Rolls, a summary of the 10 largest taxpayers within the Project Areas is provided below and on the following pages. Detailed summaries of the top 10 taxpayers for each of the Project Areas are provided in Exhibits 7A through 7D.

Fiscal Year 2014-15 Top Ten Secured and Unsecured Taxpayers — **Exhibit 7A**

San Marcos Redevelopment Agency - All Project Areas

	Taxpayer	# of Parcels	Land Use(s)	Assessed Value[1]	% of Total AV
1	World Premier Investments[3]	27	Commercial	$ 141,170,150	2.0%
2	Willmark Communities Inc	2	Residential	90,403,601	1.3%
3	Hunter Industries Inc[4]	10	Industrial / Commercial	88,327,689	1.2%
4	Urban Villages San Marcos LLC[5]	63	Residential / Industrial	87,004,913	1.2%
5	Ralphs Grocery Co	1	Commercial	36,513,433	0.5%
6	Costco Wholesale Corporation[2,6]	3	Commercial	33,714,111	0.5%
7	Weingarten Realty Investors[7]	11	Commercial	30,849,890	0.4%
8	HomeFed Corporation[8]	94	Residential / Commercial	30,234,951	0.4%
9	University of St. Augustine for Health Sciences	2	Commercial	29,609,596	0.4%
10	Ryland Homes of California, Inc[9]	70	Residential / Commercial	28,950,401	0.4%
	Top 10 Taxpayer Total	283		$ 596,778,735	8.3%
	Total Assessed Value for Project Areas			$ 7,194,818,359	

[1] The assessed values represented above are net of all exemptions except the Homeowner's Exemption.

[2] Taxpayers identifed above have pending assessment appeals as of March 2015.

[3] Includes "3 Imperial Promenade <LF>Nordahl Marketplace L L C et al", "Grand Las Posas L L C", "Grand Plaza LLC", "Kohls Department Stores Inc <LF> Nordahl Marketplace L L C", "Nordahl Marketplace L L C", "Sprouts Farmers Market L L C <LF> Grand Plaza LLC", and "Wal-Mart Real Estate Business Trust <LF> Nordahl Marketplace L L C", as listed on the Assessment Roll due to factors suggesting these property owners are the same entity or affiliated for property tax purposes.

[4] Includes "Hunter Industries Inc", "Hunter Industries L P", and "Hunter Industries", as listed on the Assessment Roll due to factors suggesting these property owners are the same entity or affiliated for property tax purposes.

[5] Includes "Quad Housing L L C", "Urban Villages San Marcos L L C", "Urban Villages San Marcos LLC", and "Urban Villages Sanmarcos L L C", as listed on the Assessment Roll due to factors suggesting these property owners are the same entity or affiliated for property tax purposes.

[6] Includes Assessor's Roll as "Costco Wholesale Corp" and "Costco Wholesale Corporation", as listed on the Assessment Roll due to factors suggesting these property owners are the same entity or affiliated for property tax purposes.

[7] Includes "Vons Companies <LF> Weingarten Nostat Inc", "W R I Golden State L L C", and "Weingarten Nostat Inc", as listed on the Assessment Roll due to factors suggesting these property owners are the same entity or affiliated for property tax purposes.

[8] Includes "San Elijo Hills Community Assn", "San Elijo Hills Community Assocation", "San Elijo Hills Development L L C", "San Elijo Hills Estates L L C", "San Elijo Hills Town Center L L C", and "The Estates at San Elijo Hills L L C", as listed on the Assessment Roll due to factors suggesting these property owners are the same entity or affiliated for property tax purposes.

[9] Includes "Ryland Homes of California Inc", "San Elijo Hills Community Assn", and "San Elijo Hills Community Association", as listed on the Assessment Roll due to factors suggesting these property owners are the same entity or affiliated for property tax purposes.

Sources: San Diego County Assessor's Office, 2014-15 Equalized Assessment Roll & San Diego County Auditor-Controller – Property Tax Services, Community Redevelopment Assessed Valuations, July 5, 2014

Fiscal Year 2014-15 Top Ten Secured and Unsecured Taxpayers — **Exhibit 7B**

San Marcos Redevelopment Agency - Project Area No. 1

	Taxpayer	# of Parcels	Land Use(s)	Assessed Value[1]	% of Total AV
1	World Premier Investments[3]	27	Commercial	$ 141,170,150	7.5%
2	Urban Villages San Marcos LLC[4]	31	Residential / Industrial	54,588,224	2.9%
3	Costco Wholesale Corporation[2,5]	3	Commercial	33,714,111	1.8%
4	MG Properties Group	1	Residential	28,688,377	1.5%
5	BLC of California - San Marcos LP[2,6]	2	Commercial	27,288,260	1.5%
6	Avalon Communities, Inc	1	Residential	27,262,026	1.5%
7	Edwards Theatres, Inc	1	Commercial	25,474,011	1.4%
8	Autumn Terraces, LLC	3	Residential / Commercial	25,083,225	1.3%
9	Lost Continent, LP	1	Commercial	24,549,438	1.3%
10	R&V Management Corporation[7]	4	Residential / Commercial	24,023,903	1.3%
	Top 10 Taxpayer Total	74		$ 411,841,725	22.0%
	Total Project Area Assessed Value			$ 1,874,245,231	

[1] The assessed values represented above are net of all exemptions except the Homeowner's Exemption.

[2] Taxpayers identifed above have pending assessment appeals as of March 2015.

[3] Includes "3 Imperial Promenade <LF>Nordahl Marketplace L L C et al", "Grand Las Posas L L C", "Grand Plaza LLC", "Kohls Department Stores Inc <LF> Nordahl Marketplace L L C", "Nordahl Marketplace L L C", "Sprouts Farmers Market L L C <LF> Grand Plaza LLC", and "Wal-Mart Real Estate Business Trust <LF> Nordahl Marketplace L L C", as listed on the Assessment Roll due to factors suggesting these property owners are the same entity or affiliated for property tax purposes.

[4] Includes "Quad Housing L L C", "Urban Villages San Marcos L L C", "Urban Villages San Marcos LLC", and "Urban Villages Sanmarcos L L C", as listed on the Assessment Roll due to factors suggesting these property owners are the same entity or affiliated for property tax purposes.

[5] Includes "Costco Wholesale Corp" and "Costco Wholesale Corporation", as listed on the Assessment Roll due to factors suggesting these property owners are the same entity or affiliated for property tax purposes.

[6] Includes "BLC of California-San Marcos LP" and "DBF San Marcos Owner L L C", as listed on the Assessment Roll due to factors suggesting these property owners are the same entity or affiliated for property tax purposes.

[7] Includes "Casa Vallecitos LTD", "First Interstate Bank TR <LF> Galleria Vera Cruz L P", "Galleria Vera Cruz L P", and "Hacienda Vallecitos L P", as listed on the Assessment Roll due to factors suggesting these property owners are the same entity or affiliated for property tax purposes.

Sources: San Diego County Assessor's Office, 2014-15 Equalized Assessment Roll & San Diego County Auditor-Controller – Property Tax Services, Community Redevelopment Assessed Valuations, July 5, 2014

As shown in Exhibit 7A, the top 10 taxpayers within all of the Project Areas represent 8.3% of the combined total assessed value of the Project Areas in FY 2014-15. Furthermore, Exhibits 7B through 7D reveal that the top 10 taxpayers for Project Area Nos. 1, 2, and 3 comprise 22.0%, 23.4%, and 6.5%, respectively, of the total assessed value in those individual areas.

Fiscal Year 2014-15 Top Ten Secured and Unsecured Taxpayers **Exhibit 7C**

San Marcos Redevelopment Agency - Project Area No. 2

	Taxpayer	# of Parcels	Land Use(s)	Assessed Value[1]	% of Total AV
1	Willmark Communities Inc	2	Residential	$ 90,403,601	7.3%
2	Ralphs Grocery Co	1	Commercial	36,513,433	3.0%
3	Urban Villages San Marcos LLC[3]	32	Residential	32,416,689	2.6%
4	Weingarten Realty Investors[4]	11	Commercial	30,849,890	2.5%
5	University of St. Augustine for Health Sciences	2	Commercial	29,609,596	2.4%
6	Providence Royal Oaks San Marcos, LLC	1	Residential	18,915,150	1.5%
7	San Marcos Village, LLC	11	Commercial	14,006,536	1.1%
8	NAPP Systems, Inc	1	Industrial	13,851,143	1.1%
9	Supervalu, Inc	1	Commercial	11,250,848	0.9%
10	JFW Investments, LP	1	Commercial	10,000,000	0.8%
	Top 10 Taxpayer Total	63		$ 287,816,886	23.4%
	Total Project Area Assessed Value			$ 1,230,319,313	

[1] The assessed values represented above are net of all exemptions except the Homeowner's Exemption.

[2] None of the taxpayers identifed above have pending assessment appeals as of March 2015.

[3] Includes "Urban Villages San Marcos L L C" and "Urban Villages Sanmarcos L L C", as listed on the Assessment Roll due to factors suggesting these property owners are the same entity or affiliated for property tax purposes.

[4] Includes "Vons Companies <LF> Weingarten Nostat Inc", "W R I Golden State L L C", and "Weingarten Nostat Inc", as listed on the Assessment Roll due to factors suggesting these property owners are the same entity or affiliated for property tax purposes.

Sources: San Diego County Assessor's Office, 2014-15 Equalized Assessment Roll & San Diego County Auditor-Controller – Property Tax Services, Community Redevelopment Assessed Valuations, July 5, 2014

Some of the top 10 taxpayers within the Project Areas own highly valued unsecured property. In Project Area No. 1, World Premier Investments, Costco Wholesale Corporation, BLC of California – San Marcos LP, Avalon Communities, Autumn Terraces LLC, Edwards Theatres Inc., and R&V Management Corporation own approximately $7.8 million in unsecured property. For Project Area No. 2, Willmark Communities Inc., Ralphs Grocery Company, Weingartern Realty Investors, University of St. Augustine for Health Sciences, and Providence Royal Oaks San Marcos LLC own approximately $3.6 million in unsecured assessed value. In Project Area No. 3, Hunter Industries Inc. is the highest taxpayer and owns approximately $44 million in unsecured value. HomeFed Corporation, Ryland Homes of California Inc., 830 RSF Road LLC, and D R Horton Holding Company own an additional $600,000 in unsecured property in Project Area No. 3.

Fiscal Year 2014-15 Top Ten Secured and Unsecured Taxpayers — **Exhibit 7D**

San Marcos Redevelopment Agency - Project Area No. 3

	Taxpayer	# of Parcels	Land Use(s)	Assessed Value[1]	% of Total AV
1	Hunter Industries Inc[3]	10	Industrial / Commercial	$ 88,327,689	2.2%
2	HomeFed Corporation[4]	94	Residential / Commercial	30,234,951	0.7%
3	Ryland Homes of California, Inc[5]	70	Residential / Commercial	28,950,401	0.7%
4	Wood Partners	1	Residential	21,268,670	0.5%
5	Supervalu, Inc[2]	1	Commercial	17,077,180	0.4%
6	Northwoods Apartment Homes, LP	2	Residential	16,968,030	0.4%
7	830 RSF Road LLC	1	Residential	16,826,062	0.4%
8	D R Horton Holding Company[6]	41	Residential	16,554,726	0.4%
9	Richmond American Homes, Inc.[7]	44	Residential	15,600,000	0.4%
10	George McElroy & Associates, Inc.	1	Residential	14,161,161	0.3%
	Top 10 Taxpayer Total	265		$ 265,968,870	6.5%
	Total Project Area Assessed Value			$ 4,090,253,815	

[1] The assessed values represented above are net of all exemptions except the Homeowner's Exemption.

[2] Taxpayers identifed above have pending assessment appeals as of March 2015.

[3] Includes "Hunter Industries Inc", "Hunter Industries L P", and "Hunter Industries", as listed on the Assessment Roll due to factors suggesting these property owners are the same entity or affiliated for property tax purposes.

[4] Includes "San Elijo Hills Community Assn", "San Elijo Hills Community Assocation", "San Elijo Hills Development L L C", "San Elijo Hills Estates L L C", "San Elijo Hills Town Center L L C", and "The Estates at San Elijo Hills L L C", as listed on the Assessment Roll due to factors suggesting these property owners are the same entity or affiliated for property tax purposes.

[5] Includes "Ryland Homes of California Inc", "San Elijo Hills Community Assn", and "San Elijo Hills Community Association", as listed on the Assessment Roll due to factors suggesting these property owners are the same entity or affiliated for property tax purposes.

[6] Includes "D R Horton Los Angeles Holding Company Inc", "Horton D R SD Holding Co Inc", and "San Elijo Hills Community Association", as listed on the Assessment Roll due to factors suggesting these property owners are the same entity or affiliated for property tax purposes.

[7] Includes "Richmond American Homes of Maryland Inc" and "San Elijo Hills Community Assn", as listed on the Assessment Roll due to factors suggesting these property owners are the same entity or affiliated for property tax purposes.

Sources: San Diego County Assessor's Office, 2014-15 Equalized Assessment Roll & San Diego County Auditor-Controller – Property Tax Services, Community Redevelopment Assessed Valuations, July 5, 2014

LAND USE

Exhibit 8A summarizes the combined FY 2014-15 total secured assessed value (net of exemptions other than the Homeowner's Exemption) by land use category for all of the Project Areas. Exhibits 8B, 8C, and 8D provide an individual summary of the FY 2014-15 total secured assessed values by land use category for Project Area Nos. 1, 2, and 3, respectively. The exhibits and associated pie charts depicting the data are contained on the following pages.

Fiscal Year 2014-15 Secured Assessed Value by Land Use — **Exhibit 8A**

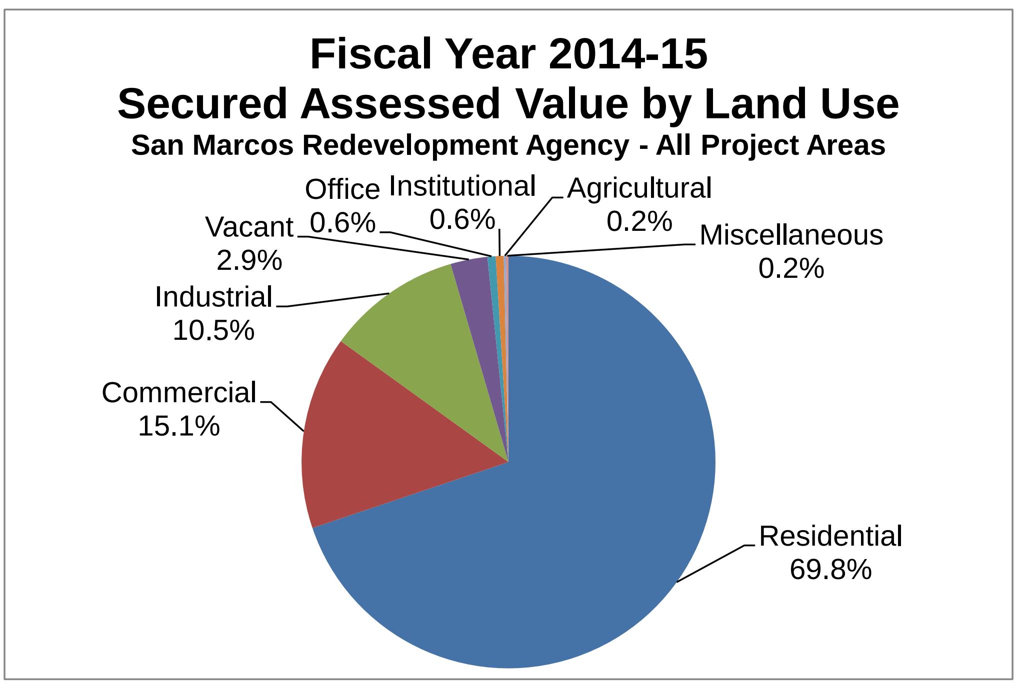
San Marcos Redevelopment Agency - All Project Areas

Land Use	No. of Parcels	Secured Assessed Value[1]	% of Value
Residential	14,018	$ 4,818,338,071	69.82%
Commercial	375	1,045,123,503	15.14%
Industrial	593	726,154,961	10.52%
Vacant	653	199,324,414	2.89%
Office	65	44,174,608	0.64%
Institutional	29	42,943,803	0.62%
Agricultural	29	11,539,490	0.17%
Miscellaneous	365	13,561,497	0.20%
Total	16,127	$ 6,901,160,347	100.00%

[1] The assessed values represented above are net of all exemptions except the Homeowner's Exemption.

Sources: San Diego County Assessor's Office, 2014-15 Equalized Assessment Roll & San Diego County Auditor-Controller – Property Tax Services, Community Redevelopment Assessed Valuations, July 5, 2014

Exhibit 8A above reveals that the Project Areas, as a whole, are primarily comprised of residential land uses, which represent approximately 70% of the total combined secured assessed value of the Project Areas.



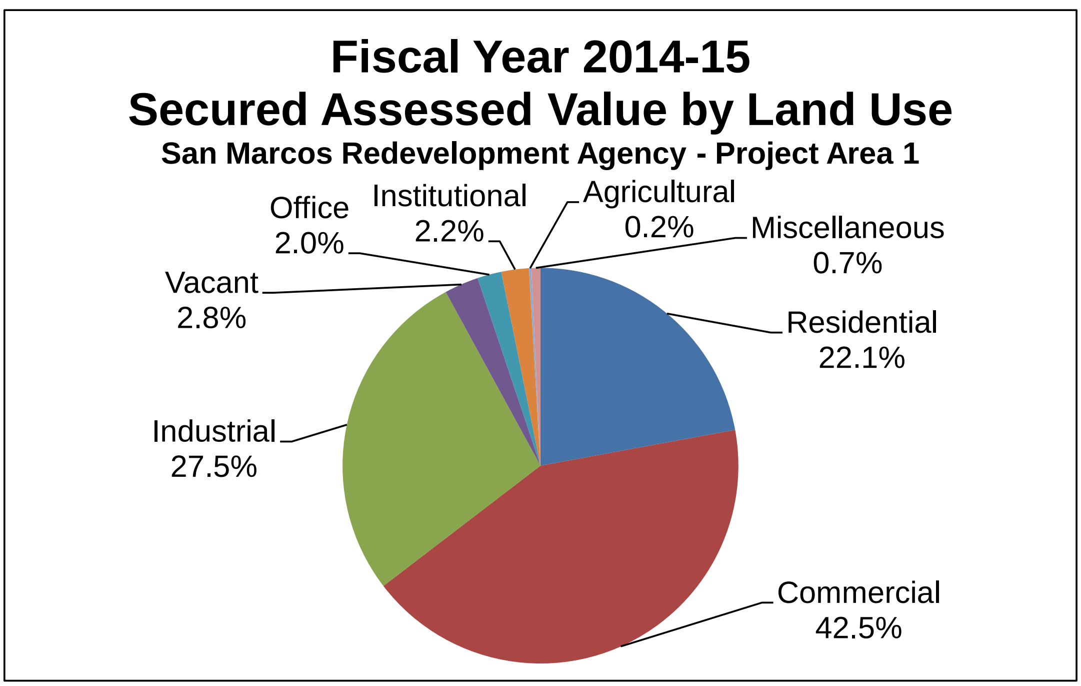
Fiscal Year 2014-15 Secured Assessed Value by Land Use — **Exhibit 8B**

San Marcos Redevelopment Agency - Project Area No. 1

Land Use	No. of Parcels	Secured Assessed Value[1]	% of Value
Residential	1,356	$ 374,668,820	22.10%
Commercial	218	720,287,966	42.49%
Industrial	366	465,514,371	27.46%
Vacant	160	47,438,465	2.80%
Office	48	33,408,191	1.97%
Institutional	15	38,137,817	2.25%
Agricultural	3	3,330,000	0.20%
Miscellaneous	12	12,343,995	0.73%
Total	2,178	$ 1,695,129,625	100.00%

[1] The assessed values represented above are net of all exemptions except the Homeowner's Exemption.
Sources: San Diego County Assessor's Office, 2014-15 Equalized Assessment Roll & San Diego County Auditor-Controller – Property Tax Services, Community Redevelopment Assessed Valuations, July 5, 2014

Exhibit 8B above indicates that Project Area No. 1 is primarily comprised of commercial and industrial uses, which together represent about 70% of the total secured assessed value of the Project Area.



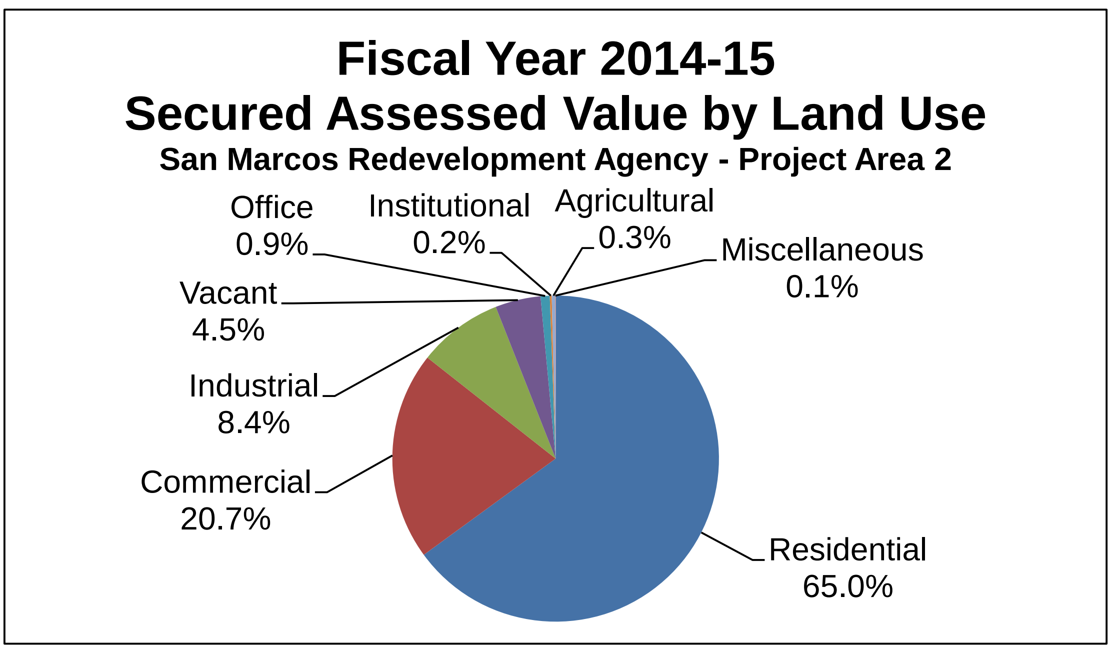
Exhibits 8C and 8D below and on the following page reveal that Project Area Nos. 2 and 3 are primarily comprised of residential land uses, composing 65%, and 91% of the total secured assessed value of those Project Areas, respectively.

Fiscal Year 2014-15 Secured Assessed Value by Land Use — **Exhibit 8C**

San Marcos Redevelopment Agency - Project Area No. 2

Land Use	No. of Parcels		Secured Assessed Value[1]	% of Value
Residential	1,949	$	773,990,744	64.95%
Commercial	122		246,354,847	20.67%
Industrial	133		100,019,778	8.39%
Vacant	85		53,618,261	4.50%
Office	17		10,766,417	0.90%
Institutional	6		2,282,995	0.19%
Agricultural	3		3,863,546	0.32%
Miscellaneous	65		688,542	0.06%
Total	2,380	$	1,191,585,130	100.00%

[1] The assessed values represented above are net of all exemptions except the Homeowner's Exemption.
Sources: San Diego County Assessor's Office, 2014-15 Equalized Assessment Roll & San Diego County Auditor-Controller – Property Tax Services, Community Redevelopment Assessed Valuations, July 5, 2014

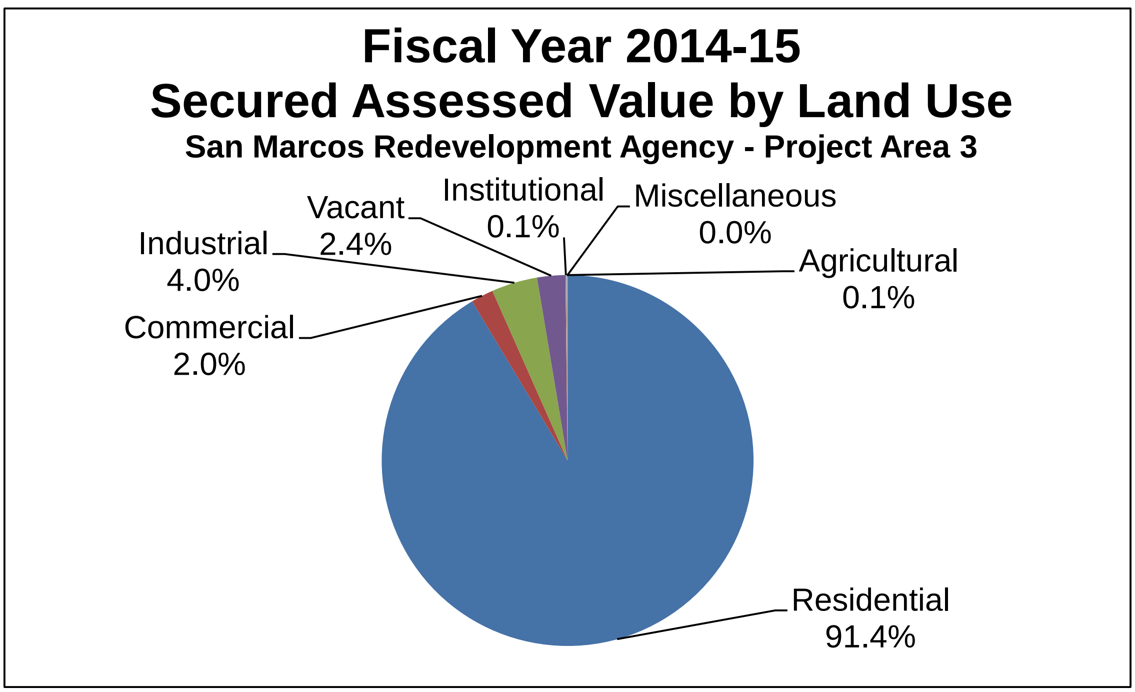


Fiscal Year 2014-15 Secured Assessed Value by Land Use **Exhibit 8D**

San Marcos Redevelopment Agency - Project Area No. 3

Land Use	No. of Parcels	Secured Assessed Value[1]		% of Value
Residential	10,713	$	3,669,678,507	91.41%
Commercial	35		78,480,690	1.95%
Industrial	94		160,620,812	4.00%
Vacant	408		98,267,688	2.45%
Office	-		-	0.00%
Institutional	8		2,522,991	0.06%
Agricultural	23		4,345,944	0.11%
Miscellaneous	288		528,960	0.01%
Total	11,569	$	4,014,445,592	100.00%

[1] The assessed values represented above are net of all exemptions except the Homeowner's Exemption.
Sources: San Diego County Assessor's Office, 2014-15 Equalized Assessment Roll & San Diego County Auditor-Controller – Property Tax Services, Community Redevelopment Assessed Valuations, July 5, 2014



ASSESSMENT APPEALS

In conjunction with the preparation of the Revenue Projections, RSG obtained information on assessment appeals. Property taxpayers who wish to dispute the value of their property may file an assessment appeal with the County Clerk of the Board of Supervisors. In most cases, an assessment appeal is filed because the applicant believes that present market conditions cause the property to be worth less than its assessed value.

Exhibits 9A through 9D on the following pages summarize the assessment appeal history of all of the Project Areas together and each one individually (through March 24, 2015), as provided by the County Assessor's Office.

It should be noted that the number and requested value change of appeals have significantly declined in all project areas over the last five years, as shown in Exhibits 9A through 9D. Although many of the more recent appeals are still pending, the total assessed value of all appeals represented is on track to be lower in FY 2014-15 than it was in each of the previous four years.

Review of the secured and unsecured roll assessment appeal history of the last five years shows the historical rate of appeals being granted is approximately 38%, 47%, and 58% in Project Area Nos. 1, 2, and 3, respectively, and approximately 49% for all of the Project Areas together. Furthermore, approximately 37%, 57%, and 65% of the requested reduction amount in Project Area Nos. 1, 2, and 3, respectively, has been granted to appealing property owners, equal to approximately 46% of the requested reduction amount in the Project Areas together granted to property owners.

The appeals history reveals that there are 116 pending appeals for the five years in the Project Areas, but the pending value reduction in all Project Areas is less than 2.7% of the FY 2014-15 total assessed value. If all pending appeals were granted in Project Area Nos. 1, 2, and 3 and values reduced by the average granted reduction percentage for each Project Area, the Former Agency's gross tax revenues would be reduced (based on a 1% general levy rate) by approximately $506,000, $166,000, and $193,000, respectively.

The vast majority of the closed and pending appeals are Proposition 8 appeals, which only apply to a single tax year. Proposition 8 appeals are market driven; in most cases, the applicant or property owner believes that the present market conditions (i.e., comparable sales prices, decreased lease rates, excessive vacancies) cause the property to have a lower value than its assessed value. Because Proposition 8 appeals do not have a sustaining effect on future tax rolls, and because of the estimated minimal impacts of pending appeals based on historical appeal adjustments, the assessed values used to generate tax increment revenue in the attached Revenue Projections are not adjusted for pending appeals.

RSG did not assume any reduction in value due to pending appeals in the Revenue Projections presented in Exhibits 10A through 10D.

Top Ten Taxpayer Appeals

Only one of the top 10 taxpayers for the combined Project Areas has filed appeals that are still pending. A comparison of the assessor value to the applicant opinion shows that Costco Wholesale Corporation, the sixth-largest taxpayer out of all three Project Areas, seeks a reduction in value of approximately $5.9 million.

Among the top 10 taxpayers for each individual Project Area, two additional large taxpayers have pending appeals. In Project Area No. 1, in addition to Costco Wholesale Corporation, BLC of California – San Marcos LP, the fifth-largest taxpayer in the Project Area, has requested a total reduction of $13.5 million. In Project Area No. 2, none of the top 10 taxpayers have outstanding appeals. In Project Area No. 3, Supervalu, Inc., the fifth-largest taxpayer in the Project Area, seeks a total reduction of $4.3 million in assessed value. RSG did not assume any reduction in value due to these appeals in Exhibits 10A through 10D.

Assessment Appeal History — **Exhibit 9A**

San Marcos Redevelopment Agency - All Project Areas

Fiscal Year	Stipulated/ Reduced	Withdrawn/ Denied/ No Change	Pending	Total	AV of All Appeals (% of Project Area)		Requested Reductions[1] (% of Project Area)		Granted Reductions[2] (% of Project Area)		Average Reduction	Pending Reductions[3] (% of Project Area)		Total Project Area Value
2010-11	176	152	2	330	$ 755,490,578	11.9%	$ 185,733,734	2.9%	$ 85,847,353	1.4%	$ 487,769	$ 4,337,320	0.1%	$ 6,323,035,498
2011-12	204	161	2	367	555,738,690	8.7%	110,057,848	1.7%	49,788,475	0.8%	244,061	4,663,754	0.1%	6,371,689,484
2012-13	126	146	2	274	394,727,832	6.2%	33,398,435	0.5%	15,948,486	0.3%	126,575	6,779,282	0.1%	6,356,206,713
2013-14	27	93	11	131	320,888,520	4.9%	16,219,265	0.2%	6,954,612	0.1%	257,578	56,181,316	0.8%	6,610,604,725
2014-15	1	9	99	109	210,375,312	2.9%	215,000	0.0%	15,000	0.0%	15,000	122,025,162	1.7%	7,194,818,359
Totals	534	561	116	1,211			$ 345,624,282		$ 158,553,926		$ 296,917	$ 193,986,834		

Historical Rate of Stipulated/Reduced Appeals **49%**
Granted Reduction as a Percentage of Requested Reduction[4] **46%**

[1] *Reflects total requested reductions for all stipulated/reduced appeals.*
[2] *Assumed no reduction in assessed value for those appeals for which the board value was zero.*
[3] *Pending appeals are those appeals that did not display a Final Action Code and where the Board value was zero.*
[4] *Reflects the total granted reduction as a percentage of total requested reduction for all stipulated/reduced appeals.*
Sources: San Diego County Assessor's Office & San Diego County Auditor-Controller – Property Tax Services, Community Redevelopment Assessed Valuations, July 5, 2014

Assessment Appeal History — **Exhibit 9B**

San Marcos Redevelopment Agency - Project Area No. 1

Fiscal Year	Stipulated/ Reduced	Withdrawn/ Denied/ No Change	Pending	Total	AV of All Appeals (% of Project Area)		Requested Reductions[1] (% of Project Area)		Granted Reductions[2] (% of Project Area)		Average Reduction	Pending Reductions[3] (% of Project Area)		Total Project Area Value
2010-11	63	72	0	135	$ 414,363,789	23.7%	$ 107,804,965	6.2%	$ 40,951,683	2.3%	$ 650,027	$ -	0.0%	$ 1,750,316,516
2011-12	40	72	1	113	303,823,294	17.3%	73,683,766	4.2%	27,230,767	1.6%	680,769	2,475,000	0.1%	1,756,188,325
2012-13	34	54	1	89	256,838,725	14.4%	23,325,815	1.3%	8,964,632	0.5%	263,666	2,475,000	0.1%	1,782,039,313
2013-14	10	45	9	64	204,502,752	11.1%	13,132,554	0.7%	4,315,564	0.2%	431,556	54,521,316	3.0%	1,837,660,619
2014-15	0	1	41	42	163,218,311	8.7%	-	0.0%	-	0.0%	-	75,785,182	4.0%	1,874,245,231
Totals	147	244	52	443			$ 217,947,100		$ 81,462,646		$ 554,168	$ 135,256,498		

Historical Rate of Stipulated/Reduced Appeals **38%**
Granted Reduction as a Percentage of Requested Reduction[4] **37%**

[1] *Reflects total requested reductions for all stipulated/reduced appeals.*
[2] *Assumed no reduction in assessed value for those appeals for which the board value was zero.*
[3] *Pending appeals are those appeals that did not display a Final Action Code and where the Board value was zero.*
[4] *Reflects the total granted reduction as a percentage of total requested reduction for all stipulated/reduced appeals.*
Sources: San Diego County Assessor's Office & San Diego County Auditor-Controller – Property Tax Services, Community Redevelopment Assessed Valuations, July 5, 2014

Assessment Appeal History | **Exhibit 9C**

San Marcos Redevelopment Agency - Project Area No. 2

Fiscal Year	Stipulated/ Reduced	Withdrawn/ Denied/ No Change	Pending	Total	AV of All Appeals (% of Project Area)		Requested Reductions[1] (% of Project Area)		Granted Reductions[2] (% of Project Area)		Average Reduction	Pending Reductions[3] (% of Project Area)		Total Project Area Value
2010-11	53	32	2	87	$ 259,760,529	22.4%	$ 65,590,450	5.7%	$ 36,966,347	3.2%	$ 697,478	$ 4,337,320	0.4%	$ 1,157,656,432
2011-12	25	27	1	53	90,845,496	7.9%	5,700,083	0.5%	3,413,237	0.3%	136,529	2,188,754	0.2%	1,147,731,809
2012-13	18	31	0	49	81,267,695	7.3%	3,812,220	0.3%	2,422,240	0.2%	134,569	-	0.0%	1,110,934,597
2013-14	2	21	2	25	64,927,946	5.6%	122,656	0.0%	90,000	0.0%	45,000	1,660,000	0.1%	1,152,590,944
2014-15	0	0	22	22	42,935,127	3.5%	-	0.0%	-	0.0%	-	20,950,858	1.7%	1,230,319,313
Totals	98	111	27	236			$ 75,225,409		$ 42,891,824		$ 437,672	$ 29,136,932		

Historical Rate of Stipulated/Reduced Appeals **47%**
Granted Reduction as a Percentage of Requested Reduction[4] **57%**

[1] *Reflects total requested reductions for all stipulated/reduced appeals.*
[2] *Assumed no reduction in assessed value for those appeals for which the board value was zero.*
[3] *Pending appeals are those appeals that did not display a Final Action Code and where the Board value was zero.*
[4] *Reflects the total granted reduction as a percentage of total requested reduction for all stipulated/reduced appeals.*
Sources: San Diego County Assessor's Office & San Diego County Auditor-Controller – Property Tax Services, Community Redevelopment Assessed Valuations, July 5, 2014

Assessment Appeal History | **Exhibit 9D**

San Marcos Redevelopment Agency - Project Area No. 3

Fiscal Year	Stipulated/ Reduced	Withdrawn/ Denied/ No Change	Pending	Total	AV of All Appeals (% of Project Area)		Requested Reductions[1] (% of Project Area)		Granted Reductions[2] (% of Project Area)		Average Reduction	Pending Reductions[3] (% of Project Area)		Total Project Area Value
2010-11	60	48	0	108	$ 81,366,260	2.4%	$ 12,338,319	0.4%	$ 7,929,323	0.23%	$ 132,155	$ -	0.0%	$ 3,415,062,550
2011-12	139	62	0	201	161,069,900	4.6%	30,673,999	0.9%	19,144,471	0.6%	137,730	-	0.0%	3,467,769,350
2012-13	74	61	1	136	56,621,412	1.6%	6,260,400	0.2%	4,561,614	0.1%	61,643	4,304,282	0.1%	3,463,232,803
2013-14	15	27	0	42	51,457,822	1.4%	2,964,055	0.1%	2,549,048	0.1%	169,937	-	0.0%	3,620,353,162
2014-15	1	8	36	45	4,221,874	0.1%	215,000	0.0%	15,000	0.0%	15,000	25,289,122	0.6%	4,090,253,815
Totals	289	206	37	532			$ 52,451,773		$ 34,199,456		$ 118,337	$ 29,593,404		

Historical Rate of Stipulated/Reduced Appeals **58%**
Granted Reduction as a Percentage of Requested Reduction[4] **65%**

[1] *Reflects total requested reductions for all stipulated/reduced appeals.*
[2] *Assumed no reduction in assessed value for those appeals for which the board value was zero.*
[3] *Pending appeals are those appeals that did not display a Final Action Code and where the Board value was zero.*
[4] *Reflects the total granted reduction as a percentage of total requested reduction for all stipulated/reduced appeals.*
Sources: San Diego County Assessor's Office & San Diego County Auditor-Controller – Property Tax Services, Community Redevelopment Assessed Valuations, July 5, 2014

TAX INCREMENT REVENUE PROJECTIONS

Exhibits 10A through 10D present the Revenue Projections for all of the Project Areas together and for Project Area Nos. 1, 2, and 3 separately based upon the assumptions described in this FCR.

Pledged Revenues

As discussed earlier in this FCR, the Low and Moderate Income Housing Set Aside requirements no longer exist and are made illegal under the Dissolution Act. Therefore, all remaining tax increment revenues generated within a project area (housing and non-housing) can be used to satisfy outstanding bond debt obligations. Exhibits 10A through 10D reflect the Total Revenue net of the County admin fees and unsubordinate pass-through payments, without subtracting the Low and Moderate Income Housing Set Aside or subordinate pass-through payments. In addition, Exhibit 10A shows Total Revenue net of the 2010 Bond Debt Service payments, which are excluded from the Prior Bonds to be refinanced.

The Dissolution Act requires the County Auditor be the responsible party for the calculation of all pass-through payments to affected taxing entities. The Revenue Projections were prepared with extensive communication with the County Auditor to ensure that the methodology used in calculating the pass-through payments matches the methodology used by the County Auditor as closely as possible except for the subordinate negotiated pass-through payments. Unless the Successor Agency files a notice of insufficiency, the County Auditor calculates all pass through payments before providing net revenue to the Successor Agency. This is important to maximizing the accuracy of the Total Net Revenue estimates. Specifically, RSG confirmed the application of the OPA/DDAs, the tax rates for each of the taxing entities, and the types of pass throughs with the County.

Subordinate negotiated pass-through payments are not subtracted in the calculation of Total Net Revenue. Pursuant to the Dissolution Act, pass-through payments are no longer treated by the County Auditor and DOF as subordinate to bonded indebtedness unless a successor agency reports that there are insufficient funds to pay bonded debt service. But if there are insufficient funds to pay the Bonds and all pass-through payments, the debt service payments would be paid first, before subordinate pass-through payments.

If an insufficiency exists, the Dissolution Act states that a successor agency must notify the county auditor-controller on December 1st and May 1st, prior to each six-month ROPS period that funds are insufficient. The county auditor-controller must then notify the California State Controller and DOF no later than 10 days from the date of the successor agency's report of the insufficiency. Once the county auditor-controller verifies that an insufficiency exists, the amount of the deficiency shall be deducted from the amount remaining to be disbursed to the taxing entities and, if needed, any funds that are to be disbursed to the successor agency for the administrative cost allowance.

The Revenue Projections represented in Exhibits 10A through 10D attempt to show the most conservative outlook for the impact on net tax increment revenues for Project Area Nos. 1, 2, and 3, separately and together, by projecting assessed valuation and tax increment to increase at modest rates while administrative fees and pass throughs increase more quickly.

We trust that this information provides the bond financing team with an adequate basis for determining the Former Agency's ability to meet debt service requirements for the Series 2015A and Series 2015B Bonds.

Tax Increment Projections - Summary — **Exhibit 10A**

San Marcos Redevelopment Agency - All Project Areas

							Unsubordinate Pass Throughs					
Fiscal Year	Assessed Valuation	Sales and Construction Assessed Valuation[4]	Estimated Tax Increment Revenue	Unitary Utility Revenue	Total Gross Revenue	County Admin Fees	Total Statutory Pass Throughs	Total Unsubordinate Negotiated Pass Throughs	Total Unsubordinate Pass Through Payments	2010 Bond Debt Service Payments[5]	Total Revenue Net of Admin Fees, Unsubordinate Pass Throughs, and 2010 Bond Debt Service Payments[6]	Total Subordinate Negotiated Pass Through Payments
2014-15[1]	7,194,818,359		64,760,635	581,898	65,342,533	836,813	133,379	11,763,204	11,896,583	5,590,963	47,018,174	12,568,234
2015-16	7,338,570,830	256,464,947	68,762,809	581,898	69,344,707	888,180	146,481	12,505,910	12,652,391	5,591,938	50,212,199	13,096,670
2016-17	7,670,986,135	54,517,002	70,067,483	581,898	70,649,381	905,041	178,850	12,513,279	12,692,129	5,591,175	51,461,036	13,298,996
2017-18	7,802,758,168		70,840,033	581,898	71,421,931	915,025	194,146	12,408,544	12,602,690	5,588,369	52,315,847	13,451,476
2018-19	7,958,813,332		72,400,585	581,898	72,982,483	935,194	209,213	12,491,276	12,700,488	5,588,213	53,758,589	14,415,530
2019-20	8,117,989,598		73,992,348	581,898	74,574,246	955,765	227,024	17,467,309	17,694,333	5,591,638	50,332,510	14,459,834
2020-21	8,280,349,390		75,615,946	581,898	76,197,844	976,748	245,192	17,895,224	18,140,415	5,589,300	51,491,380	14,792,538
2021-22	8,445,956,378		77,272,015	581,898	77,853,913	998,150	263,723	18,331,697	18,595,420	5,589,750	52,670,593	15,131,896
2022-23	8,614,875,506		78,961,207	581,898	79,543,105	1,019,981	282,625	18,776,900	19,059,524	5,590,150	53,873,449	15,478,041
2023-24	8,787,173,016		80,684,182	581,898	81,266,080	1,042,248	301,904	19,231,006	19,532,911	5,587,950	55,102,971	16,629,185
2024-25	8,962,916,476		82,441,616	581,898	83,023,514	1,064,961	321,570	19,694,195	20,015,765	5,591,950	56,350,838	17,005,276
2025-26	9,142,174,806		84,234,200	581,898	84,816,098	1,088,128	341,628	20,166,648	20,508,277	5,590,150	57,629,544	17,388,888
2026-27	9,325,018,302		86,062,635	581,898	86,644,533	1,111,758	362,088	20,648,550	21,010,638	5,591,350	58,930,787	17,780,173
2027-28	9,511,518,668		87,927,638	581,898	88,509,536	1,135,860	382,957	21,140,090	21,523,047	5,588,375	60,262,254	18,179,284
2028-29	9,701,749,041		89,829,942	581,898	90,411,840	1,160,445	404,244	21,641,460	22,045,704	5,591,500	61,614,191	19,467,517
2029-30	9,895,784,022		91,770,292	581,898	92,352,190	1,185,522	425,956	22,152,858	22,578,814	5,587,750	63,000,104	19,900,375
2030-31	10,093,699,703		93,749,449	581,898	94,331,347	1,211,100	448,102	22,674,484	23,122,587	0	69,997,660	20,341,889
2031-32	10,295,573,697		95,768,189	581,898	96,350,087	1,237,189	470,692	23,206,543	23,677,234	0	71,435,663	20,792,234
2032-33	10,501,485,170		97,827,303	581,898	98,409,201	1,263,801	493,733	23,749,242	24,242,975	0	72,902,426	21,251,586
2033-34	10,711,514,874		99,927,600	581,898	100,509,498	1,290,944	517,235	24,302,796	24,820,031	0	74,398,523	22,692,976
2034-35[2]	8,053,024,505		75,582,401	369,065	75,951,466	966,723	178,518	24,226,468	24,404,987	0	50,579,756	12,272,642
2035-36	8,214,084,996		77,193,006	369,065	77,562,071	987,330	188,234	24,787,507	24,975,741	0	51,599,000	12,545,812
2036-37[3]	6,488,644,122		61,272,270	276,023	61,548,292	763,777	149,102	19,921,074	20,070,176	0	40,714,339	9,801,567
2037-38	6,618,417,004		62,569,998	276,023	62,846,021	779,954	156,746	20,379,996	20,536,743	0	41,529,325	10,017,713
2038-39	6,750,785,344		63,893,682	276,023	64,169,705	796,454	164,544	20,848,097	21,012,641	0	42,360,610	10,238,181
2039-40	6,885,801,051		65,243,839	276,023	65,519,862	813,284	174,918	21,325,560	21,500,477	0	43,206,100	10,463,059

[1] The growth rates applied to assessed value are as follows: 1.998% for FY 2015-16, 1.0% for FY 2016-17 and FY 2017-18, and 2.0% for all following fiscal years.

[2] Marks first year after expiration of time limit to collect tax increment for Project Area No. 1.

[3] Marks first year after expiration of time limit to collect tax increment for Project Area No. 2.

[4] Sales and construction value shown for FY 2016-17 reflects activity through March 31, 2015. Sales and construction during the remainder of 2015 will add to this value.

[5] Though these payments are made in April and October of each year and thereby split across different fiscal years, the Successor Agency requests the funds to be distributed from the same fiscal year, in accordance with the ROPS process. The payments are therefore listed in these projections with the fiscal year from which revenues are used for the indicated payments.

[6] Some net revenue amounts may not equal the difference of gross revenue minus county admin fees, unsubordinate pass throughs, and 2010 Bond Debt Service payments exactly due to rounding.

Tax Increment Projections — Exhibit 10B

San Marcos Redevelopment Agency - Project Area No. 1

Fiscal Year	Assessed Valuation	Sales and Construction Assessed Valuation[2]	Estimated Tax Increment Revenue	Unitary Utility Revenue	Total Gross Revenue	County Admin Fees	Unsubordinate Pass Throughs: Total Statutory Pass Throughs	Unsubordinate Pass Throughs: Total Unsubordinate Negotiated Pass Throughs	Unsubordinate Pass Throughs: Total Unsubordinate Pass Through Payments	Total Revenue Net of Admin Fees and Unsubordinate Pass Through Payments[3]	Total Subordinate Negotiated Pass Through Payments
Base Year	223,970,420										
2014-15[1]	1,874,245,231		16,502,748	212,833	16,715,581	219,252	106,597	382,387	488,984	16,007,345	4,394,651
2015-16	1,911,692,651	72,903,300	17,606,255	212,833	17,819,088	233,913	116,201	410,964	527,165	17,058,010	4,527,081
2016-17	2,004,441,910	26,834,874	18,073,064	212,833	18,285,897	240,115	139,990	423,052	563,042	17,482,739	4,636,170
2017-18	2,051,589,552		18,276,191	212,833	18,489,024	242,814	152,082	428,313	580,395	17,665,816	4,736,669
2018-19	2,092,621,343		18,686,509	212,833	18,899,342	248,265	162,606	438,938	601,544	18,049,533	5,570,035
2019-20	2,134,473,770		19,105,033	212,833	19,317,867	253,826	173,341	449,776	623,117	18,440,924	5,697,226
2020-21	2,177,163,245		19,531,928	212,833	19,744,761	259,497	184,290	460,831	645,121	18,840,143	5,826,960
2021-22	2,220,706,510		19,967,361	212,833	20,180,194	265,282	195,458	472,107	667,565	19,247,347	5,959,289
2022-23	2,265,120,640		20,411,502	212,833	20,624,335	271,183	206,849	483,609	690,458	19,662,694	6,094,265
2023-24	2,310,423,053		20,864,526	212,833	21,077,359	277,202	218,469	495,340	713,809	20,086,349	7,030,017
2024-25	2,356,631,514		21,326,611	212,833	21,539,444	283,341	230,320	507,306	737,627	20,518,476	7,186,407
2025-26	2,403,764,145		21,797,937	212,833	22,010,770	289,603	242,409	519,512	761,921	20,959,247	7,345,925
2026-27	2,451,839,428		22,278,690	212,833	22,491,523	295,990	254,739	531,961	786,701	21,408,832	7,508,633
2027-28	2,500,876,216		22,769,058	212,833	22,981,891	302,505	267,317	544,660	811,976	21,867,410	7,674,596
2028-29	2,550,893,740		23,269,233	212,833	23,482,066	309,150	280,145	557,612	837,758	22,335,158	8,725,019
2029-30	2,601,911,615		23,779,412	212,833	23,992,245	315,928	293,230	570,824	864,054	22,812,262	8,915,309
2030-31	2,653,949,848		24,299,794	212,833	24,512,627	322,842	306,577	584,300	890,877	23,298,908	9,109,405
2031-32	2,707,028,844		24,830,584	212,833	25,043,417	329,894	320,191	598,045	918,236	23,795,287	9,307,383
2032-33	2,761,169,421		25,371,990	212,833	25,584,823	337,087	334,077	612,065	946,143	24,301,593	9,509,321
2033-34	2,816,392,810		25,924,224	212,833	26,137,057	344,424	348,241	626,366	974,607	24,818,026	10,688,148

[1] The growth rates applied to assessed value are as follows: 1.998% for FY 2015-16, 1.0% for FY 2016-17 and FY 2017-18, and 2.0% for all following fiscal years.
[2] Sales and construction value shown for FY 2016-17 reflects activity through March 31, 2015. Sales and construction during the remainder of 2015 will add to this value.
[3] Some net revenue amounts may not equal the difference of gross revenue minus county admin fees and unsubordinate pass throughs exactly due to rounding.

Tax Increment Projections — **Exhibit 10C**

San Marcos Redevelopment Agency - Project Area No. 2

Fiscal Year	Assessed Valuation	Sales and Construction Assessed Valuation[2]	Estimated Tax Increment Revenue	Unitary Utility Revenue	Total Gross Revenue	County Admin Fees	Unsubordinate Pass Throughs: Total Statutory Pass Throughs	Unsubordinate Pass Throughs: Total Unsubordinate Negotiated Pass Throughs	Unsubordinate Pass Throughs: Total Unsubordinate Pass Through Payments	Total Revenue Net of Admin Fees and Unsubordinate Pass Through Payments[3]	Total Subordinate Negotiated Pass Through Payments
Base Year	133,367,243										
2014-15[1]	1,230,319,313		10,969,521	93,042	11,062,563	152,750	6,786	3,261,963	3,268,749	7,641,063	1,835,869
2015-16	1,254,901,093	14,673,116	11,362,070	93,042	11,455,112	158,216	7,667	3,386,301	3,393,968	7,902,928	1,900,124
2016-17	1,282,269,951	2,050,546	11,509,533	93,042	11,602,575	160,270	9,451	3,437,180	3,446,631	7,995,674	1,929,358
2017-18	1,297,163,702		11,637,965	93,042	11,731,007	162,058	10,421	3,482,293	3,492,714	8,076,234	1,955,798
2018-19	1,323,106,976		11,897,397	93,042	11,990,439	165,671	12,112	3,567,948	3,580,060	8,244,709	2,002,517
2019-20	1,349,569,115		12,162,019	93,042	12,255,061	169,356	13,837	3,655,315	3,669,152	8,416,553	2,050,170
2020-21	1,376,560,498		12,431,933	93,042	12,524,975	173,114	15,596	3,744,430	3,760,027	8,591,834	2,098,776
2021-22	1,404,091,708		12,707,245	93,042	12,800,287	176,948	17,391	3,835,328	3,852,718	8,770,621	2,148,354
2022-23	1,432,173,542		12,988,063	93,042	13,081,105	180,858	19,221	3,928,043	3,947,264	8,952,983	2,198,924
2023-24	1,460,817,013		13,274,498	93,042	13,367,540	184,847	21,088	4,022,613	4,043,700	9,138,993	2,250,505
2024-25	1,490,033,353		13,566,661	93,042	13,659,703	188,915	22,992	4,119,074	4,142,065	9,328,722	2,303,118
2025-26	1,519,834,020		13,864,668	93,042	13,957,710	193,065	24,934	4,217,464	4,242,398	9,522,247	2,356,783
2026-27	1,550,230,700		14,168,635	93,042	14,261,677	197,298	26,915	4,317,822	4,344,737	9,719,642	2,411,521
2027-28	1,581,235,314		14,478,681	93,042	14,571,723	201,615	28,936	4,420,187	4,449,123	9,920,985	2,467,354
2028-29	1,612,860,021		14,794,928	93,042	14,887,970	206,019	30,997	4,524,600	4,555,597	10,126,354	2,524,304
2029-30	1,645,117,221		15,117,500	93,042	15,210,542	210,511	33,099	4,631,100	4,664,200	10,335,831	2,582,393
2030-31	1,678,019,566		15,446,523	93,042	15,539,565	215,092	35,244	4,739,731	4,774,975	10,549,498	2,641,643
2031-32	1,711,579,957		15,782,127	93,042	15,875,169	219,766	37,431	4,850,535	4,887,966	10,767,438	2,702,079
2032-33	1,745,811,556		16,124,443	93,042	16,217,485	224,532	39,662	4,963,554	5,003,216	10,989,737	2,763,723
2033-34	1,780,727,787		16,473,605	93,042	16,566,648	229,394	41,938	5,078,834	5,120,772	11,216,481	2,826,600
2034-35	1,816,342,343		16,829,751	93,042	16,922,793	234,354	44,259	5,196,419	5,240,678	11,447,761	2,890,735
2035-36	1,852,669,190		17,193,019	93,042	17,286,062	239,412	46,627	5,316,356	5,362,983	11,683,666	2,956,152

[1] The growth rates applied to assessed value are as follows: 1.998% for FY 2015-16, 1.0% for FY 2016-17 and FY 2017-18, and 2.0% for all following fiscal years.
[2] Sales and construction value shown for FY 2016-17 reflects activity through March 31, 2015. Sales and construction during the remainder of 2015 will add to this value.
[3] Some net revenue amounts may not equal the difference of gross revenue minus county admin fees and unsubordinate pass throughs exactly due to rounding.

Tax Increment Projections **Exhibit 10D**

San Marcos Redevelopment Agency - Project Area No. 3

							Unsubordinate Pass Throughs				Subordinate Pass Throughs		
Fiscal Year	**Assessed Valuation**	**Sales and Construction Assessed Valuation[2]**	**Estimated Tax Increment Revenue**	**Unitary Utility Revenue**	**Total Gross Revenue**	**County Admin Fees**	**Total Statutory Pass Throughs**	**Total Unsubordinate Negotiated Pass Throughs**	**Total Unsubordinate Pass Through Payments**	**Total Revenue Net of Admin Fees and Unsubordinate Pass Through Payments[3]**	**Negotiated Settlement Payment (Subordinate)**	**Other Subordinate Negotiated Pass Throughs**	**Total Subordinate Negotiated Pass Through Payments**
Base Year	361,417,171												
2014-15[1]	4,090,253,815		37,288,366	276,023	37,564,389	464,811	19,997	8,118,854	8,138,850	28,960,728	510,420	5,827,293	6,337,713
2015-16	4,171,977,086	168,888,531	39,794,484	276,023	40,070,507	496,050	22,613	8,708,645	8,731,258	30,843,199	456,600	6,212,865	6,669,466
2016-17	4,384,274,273	25,631,582	40,484,887	276,023	40,760,910	504,656	29,410	8,653,046	8,682,456	31,573,798	402,444	6,331,024	6,733,468
2017-18	4,454,004,914		40,925,877	276,023	41,201,900	510,153	31,642	8,497,939	8,529,581	32,162,166	346,276	6,412,733	6,759,009
2018-19	4,543,085,013		41,816,678	276,023	42,092,701	521,257	34,494	8,484,390	8,518,884	33,052,560	281,876	6,561,103	6,842,979
2019-20	4,633,946,713		42,725,295	276,023	43,001,318	532,584	39,846	13,362,217	13,402,063	29,066,671	0	6,712,439	6,712,439
2020-21	4,726,625,647		43,652,085	276,023	43,928,108	544,136	45,306	13,689,962	13,735,268	29,648,703	0	6,866,802	6,866,802
2021-22	4,821,158,160		44,597,410	276,023	44,873,433	555,920	50,874	14,024,262	14,075,137	30,242,376	0	7,024,253	7,024,253
2022-23	4,917,581,323		45,561,642	276,023	45,837,664	567,940	56,554	14,365,248	14,421,803	30,847,922	0	7,184,852	7,184,852
2023-24	5,015,932,950		46,545,158	276,023	46,821,181	580,199	62,348	14,713,054	14,775,402	31,465,579	0	7,348,664	7,348,664
2024-25	5,116,251,609		47,548,344	276,023	47,824,367	592,704	68,258	15,067,816	15,136,073	32,095,590	0	7,515,751	7,515,751
2025-26	5,218,576,641		48,571,595	276,023	48,847,618	605,460	74,285	15,429,673	15,503,958	32,738,200	0	7,686,181	7,686,181
2026-27	5,322,948,174		49,615,310	276,023	49,891,333	618,470	80,434	15,798,767	15,879,200	33,393,663	0	7,860,019	7,860,019
2027-28	5,429,407,137		50,679,900	276,023	50,955,922	631,740	86,705	16,175,243	16,261,948	34,062,235	0	8,037,334	8,037,334
2028-29	5,537,995,280		51,765,781	276,023	52,041,804	645,276	93,101	16,559,248	16,652,350	34,744,178	0	8,218,195	8,218,195
2029-30	5,648,755,186		52,873,380	276,023	53,149,403	659,083	99,626	16,950,934	17,050,560	35,439,760	0	8,402,673	8,402,673
2030-31	5,761,730,289		54,003,131	276,023	54,279,154	673,165	106,281	17,350,453	17,456,734	36,149,254	0	8,590,841	8,590,841
2031-32	5,876,964,895		55,155,477	276,023	55,431,500	687,530	113,069	17,757,963	17,871,032	36,872,938	0	8,782,772	8,782,772
2032-33	5,994,504,193		56,330,870	276,023	56,606,893	702,181	119,993	18,173,623	18,293,616	37,611,096	0	8,978,542	8,978,542
2033-34	6,114,394,277		57,529,771	276,023	57,805,794	717,126	127,056	18,597,596	18,724,652	38,364,016	0	9,178,228	9,178,228
2034-35	6,236,682,162		58,752,650	276,023	59,028,673	732,369	134,259	19,030,049	19,164,308	39,131,995	0	9,381,907	9,381,907
2035-36	6,361,415,806		59,999,986	276,023	60,276,009	747,918	141,607	19,471,150	19,612,757	39,915,334	0	9,589,659	9,589,659
2036-37	6,488,644,122		61,272,270	276,023	61,548,292	763,777	149,102	19,921,074	20,070,176	40,714,339	0	9,801,567	9,801,567
2037-38	6,618,417,004		62,569,998	276,023	62,846,021	779,954	156,746	20,379,996	20,536,743	41,529,325	0	10,017,713	10,017,713
2038-39	6,750,785,344		63,893,682	276,023	64,169,705	796,454	164,544	20,848,097	21,012,641	42,360,610	0	10,238,181	10,238,181
2039-40	6,885,801,051		65,243,839	276,023	65,519,862	813,284	174,918	21,325,560	21,500,477	43,206,100	0	10,463,059	10,463,059

[1] The growth rates applied to assessed value are as follows: 1.998% for FY 2015-16, 1.0% for FY 2016-17 and FY 2017-18, and 2.0% for all following fiscal years.

[2] Sales and construction value shown for FY 2016-17 reflects activity through March 31, 2015. Sales and construction during the remainder of 2015 will add to this value.

[3] Some net revenue amounts may not equal the difference of gross revenue minus county admin fees and unsubordinate pass throughs exactly due to rounding.

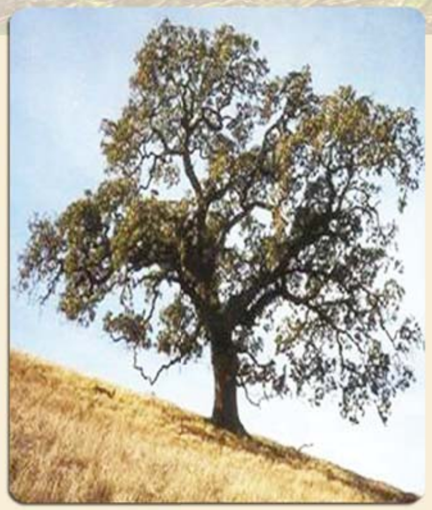
APPENDIX C

AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR ENDED JUNE 30, 2014

(THIS PAGE INTENTIONALLY LEFT BLANK)

City of SAN MARCOS
California

Comprehensive Annual Financial Report
For Fiscal Year Ending
June 30, 2014



This page intentionally left blank.

City of SAN MARCOS California

Comprehensive Annual Financial Report For Fiscal Year Ending June 30, 2014

City Manager Jack Griffin

Finance Director Laura Rocha

Prepared by the City of San Marcos Finance Department

City of SAN MARCOS California

Mission Statement

To improve the quality of life for those who live, work or visit San Marcos by providing a safe, family-oriented atmosphere that is rich and diverse in cultural and nautral resources and promotes economic and educational opportunities.

City of San Marcos

TABLE OF CONTENTS

TABLE OF CONTENTS, (Continued)

TABLE OF CONTENTS, (Continued)

STATISTICAL SECTION (UNAUDITED):

This page intentionally left blank.

January 22, 2015

Honorable Mayor, Members of the City Council
and Citizens of the City of San Marcos:

It is our pleasure to present the City of San Marcos (City) fiscal year 2013-14 Comprehensive Annual Financial Report (CAFR). This report has been prepared in conformity with generally accepted accounting principles (GAAP) and has been audited in accordance with generally accepted auditing standards by Rogers, Anderson, Malody & Scott, 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 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, if any, and evaluating the overall financial statement presentation. The auditors concluded that there was a reasonable basis for rendering an unqualified opinion. The independent auditors' report is presented as the first component of the financial section of this report.

The CAFR consists of management's representations concerning the finances of the City. 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 has established a comprehensive internal control framework that is designed both to protect the City's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City'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 misstatements. We assert that, to the best of our knowledge and belief, this report is complete and reliable in all material respects.

GAAP require that a narrative introduction, overview, and analysis be provided along with the financial statements in the form of Management's Discussion and Analysis (MD&A). The City's MD&A can be found immediately following the report of the independent auditors. This letter of transmittal is designed to complement MD&A and should be read in conjunction with it.

PROFILE OF THE GOVERNMENT

San Marcos is located approximately twenty-four miles north of downtown San Diego and ninety miles south of Los Angeles, in the northern coastal/inland region of San Diego County. The Cerros Las Posas, Merriam and San Marcos foothills and a series of valleys are the chief topographic features. The City is accessible to San Diego, Orange, Imperial, San Bernardino, Riverside and Los Angeles counties. It is situated along the State Highway 78 corridor and is bordered by Escondido to the east, Vista to the north and west, Carlsbad to the south and west, and unincorporated areas of the County to the north and south. The City covers approximately 33.07 square miles including the City's sphere of influence.

For the last two decades, North San Diego County has been the fastest growing area in the County. With the largest amount of available residential land in North County, San Marcos has been the fastest growing area in the region since the early 1980's. Over the past 10 years, San Marcos has seen its population increase from 72,564 to 90,179, for an average annual growth of 3.03%. San Marcos continues to be one of the fastest growing cities in San Diego County.

San Marcos is a charter city, incorporated in 1963 and chartered on July 4, 1994. The City operates under a council/manager form of government. The City Council is comprised of five council members, elected at large on a staggered basis for a term of four years. The Mayor is directly elected for a four-year term. The City Council appoints the City Manager and the City Attorney.

The City provides its residents a full range of services including community development, police and fire protection, the construction and maintenance of highways, streets, and other infrastructure, and recreational activities and cultural events. Water and sewage treatment services are provided by the Vallecitos Water District, a special district located within the City.

These financial statements present the financial position of the City and its components units, entities for which the City is considered to be financially accountable. The component units of the City are the San Marcos Public Financing Authority, the California Mobilehome Financing Authority, and the San Marcos Community Foundation. On February 1, 2012, the San Marcos Redevelopment Agency, along with all redevelopment agencies in the State of California, was dissolved and all assets and liabilities were transferred to the City of San Marcos Successor Agency and the City of San Marcos Housing Successor Agency. Additional information on these entities can be found in the notes to the basic financial statements.

The budget is enacted legally through adoption of an appropriation resolution prior to July 1 of the fiscal year. This annual budget serves as the foundation for the City's financial planning and control. The budget is prepared by fund, function, and department. The City Manager is authorized to transfer budgeted amounts between departments/functions as long as the total City budget is not exceeded.

LOCAL ECONOMY

The City of San Marcos has a well-balanced land use mix as a result of a comprehensive general plan update completed during fiscal year 1987-88 and subsequently a second update in 2013. The ten top employers within the City in 2014 were Hunter Industries Inc., United Parcel Service, Southern California Permanente Medical Group, Wal-Mart, Lusardi Construction Co., Aerotek Inc., Costco Wholesale, RB III Associates, Inc., Fluid Components Intl, LLC, and Oncore Manufacturing Svcs, LLC.

The City's total labor force (the number of persons who work or are available for work) averaged 31,740 from January through October 2014. The number of employed workers in the labor force during that same period averaged 29,780, resulting in an unemployment rate of 6.34% compared to the State's unemployment rate of 7.65%.

San Marcos is known as the educational hub of North San Diego County. California State University San Marcos, which opened in the fall of 1992 on 305 acres less than one-half mile south of city hall, currently serves approximately 11,300 students. Ultimate enrollment at this four-year school is estimated at 35,000 students. Palomar Community College, where students can complete a two-year degree, obtain vocational training or take general education courses, has an enrollment in excess of 30,000 full and part-time students. Additionally, there are several vocational/trade schools including the San Diego County Continuing Teacher Education Facility, University of Phoenix, University of St. Augustine, and ITT Tech.

LONG-TERM FINANCIAL PLANNING

The City annually prepares an adopted fiscal year budget, two subsequent fiscal years spending plans, and a five-year capital improvement projects budget. The fiscal year 2014-15 operating budget as adopted, projects that, barring any further major reductions in City revenues, the City will maintain a balanced budget with revenues slightly exceeding operating expenditures for fiscal year 2014-15. Reserves are not expected to be utilized unless authorized by City Council in accordance with the City's reserve policy. Projected ending reserves of $51.2 million represent approximately 80.3% of total projected expenditures.

Over the last decades, the City has developed thoughtfully and diligently with a focus on creating a strong economic base and safe, well-rounded neighborhoods. The City is currently working on the San Marcos Downtown Creek District project that will include upscale retail, fine dining, entertainment and lifestyle options, and live-work housing units. Other projects, such as the Palomar Station and University District, will bring smart growth developments to the community, providing distinct neighborhoods tailored specifically for San Marcos' diverse population.

RELEVANT FINANCIAL POLICIES

The City's policy is to maintain operating expenditures at or slightly under projected revenues. The City commits to maintaining reserves (total unassigned fund balance) at a minimum of 50% of General Fund annual operating expenditures allocated between Catastrophic/Emergency Reserve (50%), One-time Recurring Savings/Opportunity Reserve (30%), and Economic Contingency/Budget Stabilization Reserve (20%). The General Fund Reserve Policy is reviewed by the City Council as part of the annual operating budget review and adoption process.

MAJOR INITIATIVES

San Marcos' capital improvement projects program for the next five years includes a variety of projects to enhance street circulation, parks and recreation, drainage systems, and traffic improvements.

Street and bridge projects planned throughout the City make up the single largest allocation with more than $69 million budgeted over the next five years. Street projects planned to improve mobility throughout the City include a San Marcos High School pedestrian bridge and an extension of the Inland Rail Trail. Interchange improvements slated at Woodland Parkway and SR78 will help accommodate the City's anticipated growth near California State University San Marcos and the University District.

Laying the groundwork for the 214-acre San Marcos Downtown Creek District is central to the capital improvement program with an allocation of approximately $47 million budgeted over the next five years. A new four-lane bridge will be built to span the San Marcos Creek on Via Vera Cruz, and a two-lane bridge will do the same on Bent Avenue. The bridges will provide flood relief during the rainy season. It is anticipated that this public infrastructure will interest private development for the downtown plan. Full build out of the San Marcos Downtown Creek District is expected to take 15 to 20 years.

Other projects include the conversion of the Civic Center and San Marcos Boulevard medians and parkways to water-wise landscape, conversion of City streetlights to L.E.D for reduced energy usage and improved light quality, and the development of three parks – Richmar Community Park, South Lake Community Park, and Rancho Coronado Regional Park.

The Cities of San Marcos, Carlsbad, Escondido, Oceanside, and Vista have embarked on a strategic research and branding initiative to strategically position North County as a place for business and job creation. The unprecedented joint effort will pinpoint the greatest assets from each community and synthesize them into one regional identity with the overall goal of attracting business retention and job opportunity. Cooperation among the five cities will convey to businesses both locally and out of area that the Highway 78 Corridor is a great place to do business in San Diego County.

AWARDS AND ACKNOWLEDGEMENTS

Award Programs.... The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of San Marcos for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2013. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to receive this award a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. The CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

The certificate is valid for a period of one year only. The City has received this award for the past fourteen consecutive years. We believe the current report continues to conform to the program requirements and are submitting it to GFOA for its consideration.

Acknowledgements.... 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 in particular Stacey Tang, Accounting Manager and Marina Crandall, Senior Accountant. Our sincere appreciation goes to the City Council for their unfailing support for maintaining the highest standards of professionalism in the management of the City's finances.

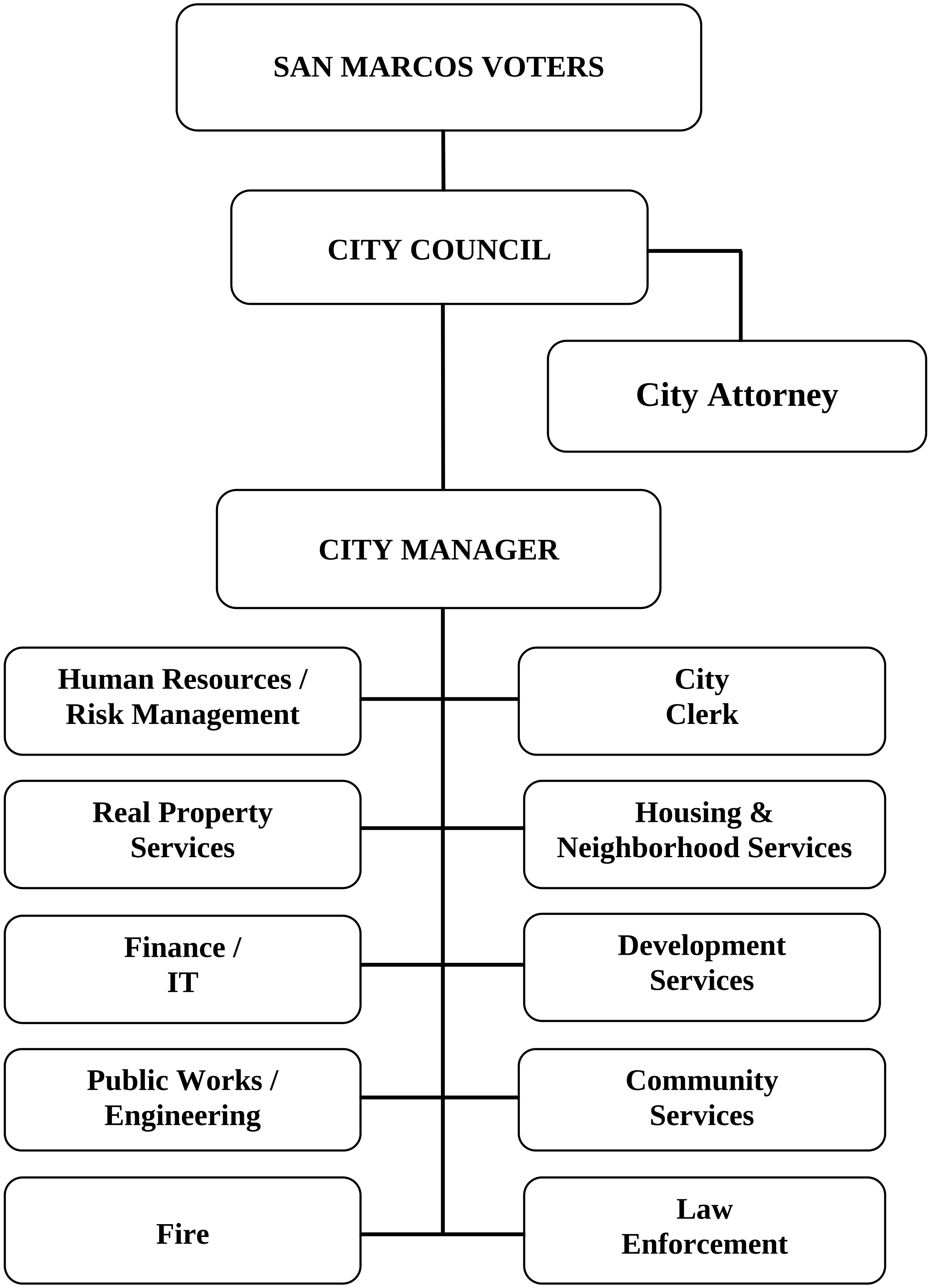
Respectfully submitted,

Laura Rocha

Jack Griffin
City Manager

Laura Rocha, CPA
Finance Director

CITY OF SAN MARCOS
Organizational Chart
June 30, 2014



CITY OF SAN MARCOS
LIST OF PRINCIPAL OFFICIALS
June 30, 2014

City Council

Mayor	Jim Desmond
Vice Mayor	Rebecca Jones
Councilmember	Kristal Kritzer-Jabara
Councilmember	Chris Orlando
Councilmember	Sharon Jenkins

Administration

City Manager	Jack Griffin
Deputy City Manager	Lydia Romero
City Attorney	Helen Holmes Peak
City Clerk	Phillip Scollick

Department/Division Heads

Public Works Director/City Engineer	Mike Edwards
Finance Director	Laura Rocha
Human Resources/Risk Management Director	Michelle Miller
Community Services Director	Buck Martin
Fire Chief	Brett VanWey
Planning Division Director	Jerry Backoff
Real Property Services Director	Ellen Hegarty
Housing & Neighborhood Services Director	Karl Schwarm
Sheriff Station Captain	Scott Ybarrando

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of San Marcos

California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2013

Jeffrey R. Emer

Executive Director/CEO

This page intentionally left blank.

ROGERS, ANDERSON, MALODY & SCOTT, LLP
CERTIFIED PUBLIC ACCOUNTANTS, SINCE 1948

735 E. Carnegie Dr. Suite 100
San Bernardino, CA 92408
909 889 0871 T
909 889 5361 F
ramscpa.net

The Honorable City Council
of the City of San Marcos
San Marcos, California

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of San Marcos, California (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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of San Marcos, 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.

Emphasis of Matter

Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2014 the City adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, the schedule of funding progress, and budgetary comparison information as noted 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 of San Marcos's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, and the 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 the nonmajor fund budgetary comparison 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 it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards,* we have also issued our report dated January 22, 2015 on our consideration of the City of San Marcos’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 City of San Marcos's internal control over financial reporting and compliance.

Rogers Anderson Malody & Scott, LLP

San Bernardino, California
January 22, 2015

This page intentionally left blank.

Management's Discussion and Analysis (MD&A) provides an overview of the City of San Marcos's financial performance for the fiscal year ended June 30, 2014. To obtain a complete understanding of the City's financial condition, this document should be read in conjunction with the accompanying Transmittal Letter and Basic Financial Statements.

Using the Accompanying Financial Statements

This annual report consists of a series of financial statements. The Government-Wide Statement of Net Position and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Also included in the accompanying report are fund financial statements. For governmental activities, the fund financial statements tell how these services were financed in the short-term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The remaining statements provide financial information about activities for which the City acts solely as an agent for the benefit of those outside of the government.

FINANCIAL HIGHLIGHTS

Financial highlights include the following:

- The assets and deferred outflows of resources of the City of San Marcos (City) exceeded its liabilities at the close of Fiscal Year (FY) 2013-14 by $966.8 million. Of this amount, $64.4 million represents unrestricted net position, which may be used to meet the government's ongoing obligations to citizens and creditors.

- At the close of FY 2013-14, the City's governmental funds reported combined fund balances of $144.7 million, an increase of $2.7 million from prior year. Approximately 35.3 percent of this amount, or $51.1 million, is unassigned fund balance and available for spending at the government's discretion.

- At the end of the current fiscal year, unassigned fund balance for the General Fund was $51.1 million, or 81.0 percent of total general fund expenditures, including transfers.

- The City's total outstanding long-term debt decreased by $0.2 million during the current fiscal year due primarily to scheduled debt retirement.

- As of July 1, 2013, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities.* FY 2012-13 balances were restated to reflect the impact, as detailed in note 17.

OVERVIEW OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR)

The annual CAFR consists of six parts – *introductory section* (includes Transmittal Letter and general information), *management's discussion and analysis* (this section), the *basic financial statements*, *required supplementary information*, an optional supplementary schedules section that presents *combining statements* for non-major governmental funds, and lastly the *statistical section*. The basic financial statements include two kinds of statements that present different views of the City:

➢ The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the City's overall financial status.

➢ The remaining statements are *fund financial statements* that focus on *individual parts* of the City government, reporting the City's operations in *more detail* than the government-wide financial statements.

- The *governmental funds* statements tell how *general government* services like public safety were financed in the *short-term* as well as what remains for future spending.

- *Proprietary funds* statements offer *short* and *long-term* financial information about the activities the City operates like a business, i.e. the Creekside Marketplace and the Municipal Utility Fund.

- *Fiduciary funds* statements provide information about fiduciary relationships and account for resources held by the City as trustee on behalf of other agencies or individuals. Fiduciary funds are not presented in the government-wide financial statements, as their resources are not available to support the operations of the City.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that provides additional financial and budgetary information.

<u>Reporting the City as a Whole</u>

The accompanying **government-wide financial statements** include two statements that present financial data for the City as a whole. One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include *all* assets, deferred outflows of resources, liabilities and deferred inflows of resources using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Reporting the City as a Whole, continued

These two statements report the City's net position and changes in them. The City's net position – the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources – is one way to measure the City's financial health, or *financial position*. Over time, *increases and decreases* in the City's net position are an indicator of whether its *financial health* is improving or deteriorating. Other non-financial factors, however, should be considered such as changes in the City's property tax base and the condition of the City's roads, to assess the *overall health* of the City.

The two government-wide financial statements of the City are divided into two categories:

- Governmental activities – Most of the City's basic services are reported in this category, such as general government, community development, public safety, highways and streets, and culture and recreation. Sales taxes, property taxes, state subventions, charges for services and other revenues finance most of these activities.

- Business-type activities – The City accounts for the Creekside Marketplace Shopping Center and the Discovery Valley Utility activities as business enterprises. The shopping center is owned and operated by the City and its principal source of income is rental revenue. The Discovery Valley Utility Enterprise Fund is non-operational at this time as the original business intent is no longer being considered.

Reporting the City's Most Significant Funds

The **fund financial statements** provide detailed information about each of the City's most significant funds – called major funds. The concept of major funds and the determination of which are major funds, was established by GASB Statement No. 34 and replaced the concept of combining like funds and presenting them in total. Therefore, each major fund is presented individually, with all non-major funds combined in a single column on each fund statement. Subordinate schedules display these non-major funds in more detail. Major funds present the major activities of the City for the year. The General Fund is always considered a major fund, but other funds may change from year to year as a result of changes in the pattern of City activities.

The fund financial statements display the City's operations in more detail than the government-wide financial statements. Their focus is primarily on the short-term activities of the City's General Fund and other major funds such as Affordable Housing and Capital Projects.

Reporting the City's Most Significant Funds, (continued)

The City's two kinds of funds – *governmental* and *proprietary* – use different accounting approaches.

- *Governmental funds* – Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *current financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The relationship or differences between *governmental activities* (reported in the Statement of Net Position and the Statement of Activities) and *governmental funds* are described in detail in the Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets and the Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities, which are part of the fund financial statements.

- *Proprietary funds* – When the City charges customers for the services it provides – whether to outside customers or to other units of the City – these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are the same as the business-type activities the City reports in the government-wide financial statements but provide more detail and additional information, such as cash flows, for proprietary funds.

Reporting the City's Fiduciary Responsibilities

The City is an agent for certain assets held for, and under the control of, other organizations and individuals. All of the City's fiduciary activities are reported in a separate Statement of Fiduciary Net Position. The City excludes these activities from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The City has presented its financial statements under the reporting model required by Governmental Accounting Standards Board Statement No. 34. (GASB 34). The following analysis of the government-wide financial statements include a comparison of current and prior year results of operations and year-end balances.

Statement of Net Position

Below summarizes the Statement of Net Position for Governmental and Business-Type Activities as of June 30, 2014, with comparative totals as of June 30, 2013. As previously stated, net position at year-end serves as a useful indicator of a government's financial position.

STATEMENT OF NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**
Current and other assets	$ 279,126,469	$ 293,773,537	$ 4,421,949	$ 5,824,397	$ 283,548,418	$ 299,597,934
Capital assets, net	678,001,410	657,345,582	27,160,354	27,542,709	705,161,764	684,888,291
Total assets	957,127,879	951,119,119	31,582,303	33,367,106	988,710,182	984,486,225
Deferred outflows of resources	80,710	84,219	-	-	80,710	84,219
Long-term debt	11,718,694	11,187,541	-	-	11,718,694	11,187,541
Other Liabilities	10,226,415	13,296,482	68,998	63,226	10,295,413	13,359,708
					-	-
Total Liabilities	21,945,109	24,484,023	68,998	63,226	22,014,107	24,547,249
Net position						
Net investment in capital assets	671,633,533	651,372,393	27,160,354	27,542,709	698,793,887	678,915,102
Restricted	203,555,514	202,457,395	-	-	203,555,514	202,457,395
Unrestricted	60,074,433	72,889,527	4,352,951	5,761,171	64,427,384	78,650,698
Total net position	$ 935,263,480	$ 926,719,315	$ 31,513,305	$ 33,303,880	$ 966,776,785	$ 960,023,195

At June 30, 2014, the City's net position totaled $966.8 million. The largest portion of the City's net position ($698.8 million or 72.3 percent) reflects its investment in capital assets (i.e., land, building, infrastructure); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending.

An additional portion of the City's net position ($203.6 million or 21.1 percent) represents resources that are subject to external restrictions on how they may be used. The unrestricted portion - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, had a balance of $64.4 million at the end of the fiscal year. Overall, the City's net position increased by $6,753,590 or 0.7 percent, during the current fiscal year.

Statement of Activities

As discussed earlier, the Statement of Net Position provides a measure of the financial health of an entity at a specific date in time (i.e. year-end). In contrast, the Statement of Activities provides for details of how the City's net position changed from year to year. Generally, it indicates whether the financial health of the City as a whole is better or worse at June 30, 2014, in relation to a year earlier. For the fiscal year ended June 30, 2014, total net position increased by $6,753,590 due to revenues exceeding expenditures.

Below summarizes the Statement of Activities for Governmental and Business-Type Activities for fiscal year ended June 30, 2014, with comparative totals for fiscal year ended June 30, 2013.

STATEMENT OF ACTIVITIES

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues						
Program revenues:						
Charges for services	$ 22,906,502	$ 30,497,654	$ 3,470,369	$ 4,103,722	$ 26,376,871	$ 34,601,376
Operating contributions and grants	16,811,189	24,338,152	-	-	16,811,189	24,338,152
Capital contributions and grants	9,843,740	2,125,409	-	-	9,843,740	2,125,409
General revenues:						
Property taxes	14,730,525	19,036,135	-	-	14,730,525	19,036,135
Sales taxes	15,840,511	14,596,011	-	-	15,840,511	14,596,011
Transient occupancy taxes	794,846	736,035	-	-	794,846	736,035
Franchise taxes	3,520,613	2,582,279	-	-	3,520,613	2,582,279
Motor vehicle license fees	-	80,791	-	-	-	80,791
Rental income	6,260,337	6,261,951	-	-	6,260,337	6,261,951
Investment income, restricted	171,445	105,218	-	-	171,445	105,218
Investment income, unrestricted	937,260	557,640	50,190	5,469	987,450	563,109
Loss on disposal of capital assets	(659,841)	-	-	-	(659,841)	-
Other	489,778	1,869,742	-	817,083	489,778	2,686,825
Total Revenues	91,646,905	102,787,017	3,520,559	4,926,274	95,167,464	107,713,291
Expenses						
General government	16,447,263	15,885,771	-	-	16,447,263	15,885,771
Community development	3,431,959	4,589,991	-	-	3,431,959	4,589,991
Public safety	31,398,530	27,904,872	-	-	31,398,530	27,904,872
Highways, streets and parks	32,779,655	33,147,826	-	-	32,779,655	33,147,826
Culture and recreation	3,022,930	5,027,938	-	-	3,022,930	5,027,938
Interest on long-term debt	272,403	457,681	-	-	272,403	457,681
Creekside Marketplace	-	-	1,061,134	866,501	1,061,134	866,501
Total Expenses	87,352,740	87,014,079	1,061,134	866,501	88,413,874	87,880,580
Increase in Net Position Before Transfers	4,294,165	15,772,938	2,459,425	4,059,773	6,753,590	19,832,711
Transfers	4,250,000	(5,674,712)	(4,250,000)	(5,000,000)	-	(10,674,712)
Change in Net Position	8,544,165	10,098,226	(1,790,575)	(940,227)	6,753,590	9,157,999
Net Position, Beginning, as Restated	926,719,315	916,621,089	33,303,880	34,244,107	960,023,195	950,865,196
Net Position, Ending	$ 935,263,480	$ 926,719,315	$ 31,513,305	$ 33,303,880	$ 966,776,785	$ 960,023,195

Governmental Activities

Revenue Highlights

Total revenues for governmental activities were $91.6 million. The largest component of total revenue is taxes at $34.9 million, making up 38.1 percent of total revenue in the governmental funds. This is consistent with the nature and purpose of governmental funds, particularly in the General Fund, where programs are largely supported by general taxes. The highest tax revenues received by the General Fund include sales and property taxes.

- Sales tax revenues increased by $1.2 million compared to the prior year. After a few rough years of a downward trend, the City is finally seeing recovery of this major revenue source.

- Property taxes decreased by $4.3 million related mostly to the continued effects of the dissolution of the former Redevelopment Agency. One-time residual tax increment payments were made to the City as well as the Fire Protection District in the prior years that did not occur in the current fiscal year.

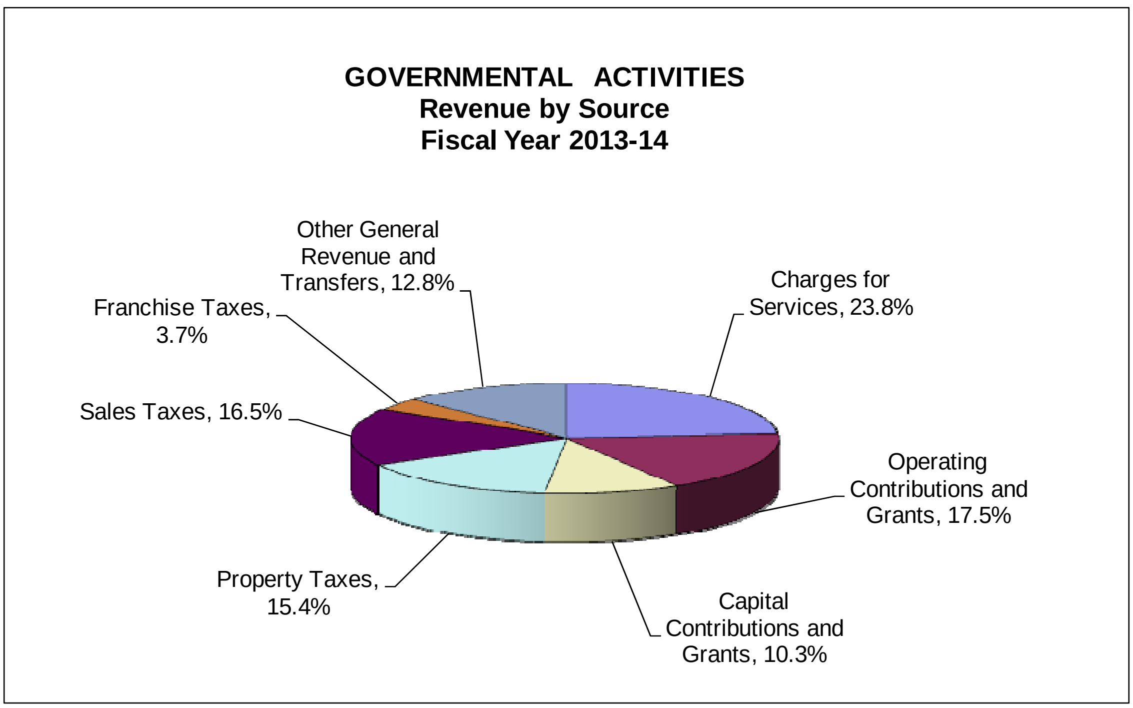
- Charges for services decreased by $7.6 million due to less developer fee activity occurring in the fiscal year than prior year. Building and plan check permits fees were up significantly over budget, as well as ambulance fees and other staff and project development reimbursement fees, however, the prior year included large development projects such as Palomar Station and other housing developments.

- Operating Contributions and Grants decreased by $7.5 million as grant activity related to capital projects was not as active as the prior year due to project completions such as Connors Park and/or less construction activity.

- Capital Contributions and Grants increased by $7.7 million mostly due to capital contributions from the Successor Agency and the San Diego Association of Governments (SANDAG).

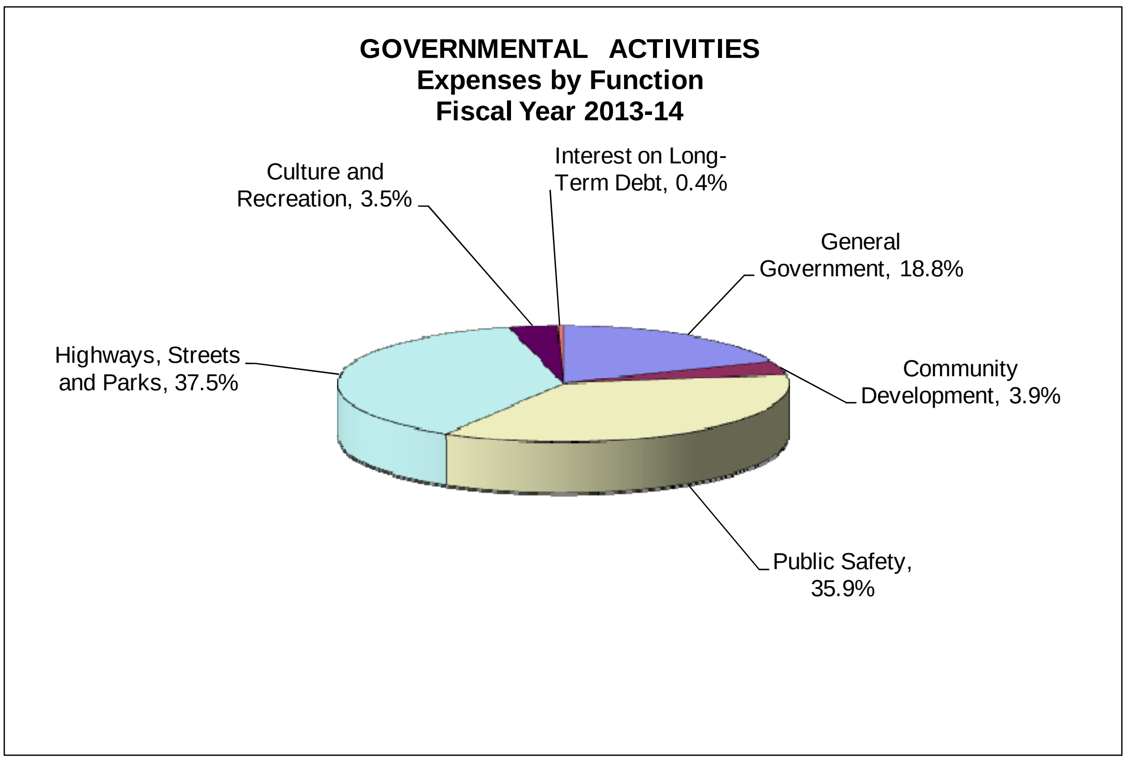
GOVERNMENTAL ACTIVITIES
Revenue by Source

Revenue Source	Fiscal Year 2013-14	Percent of Total	Increase (Decrease) From 2012-13	Percent Increase (Decrease)
Charges for services	$ 22,906,502	23.8%	$ (7,591,152)	-33.1%
Operating contributions and grants	16,811,189	17.5%	(7,526,963)	-44.8%
Capital contributions and grants	9,843,740	10.3%	7,718,331	78.4%
Property taxes	14,730,525	15.4%	(4,305,610)	-29.2%
Sales taxes	15,840,511	16.5%	1,244,500	7.9%
Franchise taxes	3,520,613	3.7%	938,334	26.7%
TOT taxes	-	0.0%	(80,791)	0.0%
Other general revenue and transfers	12,243,825	12.8%	8,387,951	68.5%
Total revenue	$ 95,896,905	100.0%	$ (1,215,400)	**-1.3%**



GOVERNMENTAL ACTIVITIES
Expense by Function

Function	Fiscal Year 2013-14	Percent of Total	Increase (Decrease) From 2012-13	Percent Increase (Decrease)
General government	$ 16,447,263	18.8%	$ 561,492	3.4%
Community development	3,431,959	3.9%	(1,158,032)	-33.7%
Public safety	31,398,530	35.9%	3,493,658	11.1%
Highways, streets and parks	32,779,655	37.5%	(368,171)	-1.1%
Culture and recreation	3,022,930	3.5%	(2,005,008)	-66.3%
Interest on long-term debt	272,403	0.4%	(185,278)	-68.0%
Total expenses	$ 87,352,740	100.0%	$ 338,661	**0.4%**



Expense Highlights

Functional expenses for the year totaled approximately $87.4 million, an increase of $0.4 million from the prior year. The largest components of total expenses were for Highway, Streets and Parks and Public Safety (police and fire), representing $64.2 million (73.4 percent) of the total. A large portion of public safety costs are funded from general revenues, primarily taxes but also Community Facilities Districts which are special taxes levied specifically to help finance police and/or fire protection facilities and services. In contrast, Public Works expenses, which total $32.8 million, are funded from general and restricted revenues, including Gas Tax, Transnet, and Community Facility Districts levied specifically for maintenance of street lights, traffic signals, parks, trails, and landscaping. Increased costs over the prior year resulted primarily from an increase in the County of San Diego Sheriff's contract for public safety as well as additional street maintenance projects that did not occur in the prior year.

Business-Type Activities

The City's business-type activities consists of the Creekside Marketplace Enterprise Fund which accounts for the activity of a City-owned shopping center, and the Municipal Utility Enterprise Fund which was created a number of years ago to account for the Discovery Valley Utility activities. Net position decreased by $1.8 million or 5.4 percent in the Enterprise Funds mainly as a result of the closure of Lowes and other tenant vacancies at Creekside Marketplace. The original business intent of the City Council in regards to the Municipal Utility Fund was that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. To date only start-up costs have been incurred in this Fund with no further operational activity.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to provide proper financial management of the City's resources and to 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, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

Governmental Funds, (continued)

As of the end of the fiscal year, the City's governmental funds reported combined ending fund balances of $144.7 million, an increase of $2.7 million from the previous year. Of this total amount, $51.1 million constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved for items such as noncurrent assets, debt service, capital projects, and affordable housing.

Major Funds

The **General Fund** is the chief operating fund of the City and for CAFR purposes includes the City's activities and funds set-aside for vehicle, equipment, facilities, and infrastructure replacement and rehabilitation purchases. It represents $63 million or 43.6 percent of the combined fund balances of the governmental funds. At the end of the current fiscal year, unassigned fund balance of the General Fund of $51.1 million constituted 81.1 percent of total fund balance. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 81.0 percent of total General Fund expenditures and transfers out, while total fund balance represents 99.9 percent of that same amount.

The fund balance of the City's General Fund increased by $1.5 million during the current year due to one-time revenues from a tax settlement agreement and transfers from the Creekside Marketplace Fund to fund operations incurred on behalf of the General Fund.

	General Fund Revenue			
	Fiscal Year 2013-14	**Fiscal Year 2012-13**	**Increase (Decrease)**	**% Increase (Decrease)**
Revenue:				
Taxes and special assessments	$ 31,518,221	$ 34,514,920	$ (2,996,699)	-8.7%
Licenses and permits	4,834,181	5,031,124	(196,943)	-3.9%
Intergovernmental	402,100	849,331	(447,231)	-52.7%
Charges for services/developer fees	14,062,102	14,474,222	(412,120)	-2.8%
Fines and forfeitures	379,517	171,675	207,842	121.1%
Investment and rental income	6,726,845	6,540,320	186,525	2.9%
Miscellaneous	2,078,727	522,304	1,556,423	298.0%
Total Revenue	$ 60,001,693	$ 62,103,896	$ (2,102,203)	**-3.4%**

Major Funds, (continued)

	General Fund Expenditures			
	Fiscal Year 2013-14	Fiscal Year 2012-13	Increase (Decrease)	% Increase (Decrease)
Expenditures:				
General government	$ 14,985,010	$ 14,813,846	$ 171,164	1.2%
Community development	2,396,085	3,950,624	(1,554,539)	-39.3%
Public safety	30,863,346	27,694,879	3,168,467	11.4%
Highways, streets and parks	11,777,248	13,588,347	(1,811,099)	-13.3%
Culture and recreation	2,789,230	4,702,488	(1,913,258)	-40.7%
Debt service:				
Principal	71,512	-	71,512	100.0%
Interest and fiscal charges	7,175	-	7,175	100.0%
Total Expenditures	$ 62,889,606	$ 64,750,184	$ (1,860,578)	**-2.9%**

Taxes and special assessments, including property taxes, property tax in-lieu of motor vehicle license fees, and sales tax came in at $1.6 million under budget. In total, this was a decrease of $2.9 million over prior fiscal year attributable to the inconsistent tax increment residual payments flowing to the City from the former Redevelopment activity each year. Sales tax, representing 50.2 percent of total taxes and special assessment revenue, increased by $1.2 million (8.5 percent) over prior fiscal year and is continuing to show steady signs of growth.

Property taxes represented 43.2 percent ($13.6 million) of total revenues and ended the year with a net increase from the previous year of $512,630. Property taxes received from the County for both the City and Fire District were slightly below budget. These property tax amounts include the tax increment pass through payments from the former Redevelopment Agency paid to the San Marcos Fire Protection District. Countywide, assessed valuation increased by 3.5 percent in FY 2013-14, San Marcos, in particular increased by 4.1 percent. Property taxes tend to be a lagging revenue source. In the prior year, the City and Fire District did receive large one-time property tax revenue residual distributions from the former Redevelopment Agency that did not occur in the current fiscal year.

Charges for services/developer fees decreased by $412,120 (2.8 percent) from the prior year, and at $14.0 million represent 23.4 percent of General Fund total revenues. Actual Charges for Services came in at $1.5 million over budget. Development throughout the City is trending steady and continues to remain positive with increased developer impact fees and permitted activity.

Miscellaneous revenues include one-time reimbursements and other various unanticipated revenues that do not occur on a regular basis and thus will vary year to year based on the nature of the revenue. The current year included a one-time sales tax revenue settlement from a previous business operator within the City.

Major Funds, (continued)

On the expenditure side, the total cost of all General Fund programs and services was just over $62.8 million for FY 2013-14. This was $1.9 million, or 2.9 percent less than prior year. During the current fiscal year, expenditure categories above were revised to clearly reflect accurate functional descriptions and therefore increases and/or decreases reflected above do not represent actual cost increases or decreases for that particular expenditure category. Overall, as noted on page 94, actual costs were $2.5 million less than budget as reflected in the functional areas.

The **San Marcos Affordable Housing Special Revenue Fund** accounts for funds to improve or preserve the community's supply of affordable housing. This fund ended the year with a $40.1 million fund balance. Approximately $690,610 was made during the fiscal year to housing corporations to assist with the construction of affordable housing projects. Overall, developer loan activity was significantly down from prior year.

The **Public Facilities Capital Projects Fund** accounts for the accumulation of resources for the payment of public facility related costs. The primary funding source is developer fees which constitutes a funding source for future public facility related improvement projects. Developer fees were significantly less as expected than prior year due to a few large development projects like Palomar Station that occurred towards the end of the prior fiscal year.

GENERAL FUND BUDGETARY HIGHLIGHTS

Differences in appropriations between the original budget and the final amended budget of $1,283,204 in the General Fund for the current fiscal year represent City Council approved mid-year budget amendments and carry-overs from the prior fiscal year.

Ending fund balance in the General Fund was $5.1 million more than projected. Revenues and transfers in were $2.7 million (4.3 percent) over budget and expenditures and transfers out were $2.8 million (4.3 percent) under budget. The most significant revenue increases were due to Charges for Services related to development activity and one-time revenues from a tax settlement agreement.

Budgetary savings were realized in salaries through attrition, consulting services, and other contract services primarily within the public works/public safety general government function.

CAPITAL ASSETS

The City's investment in capital assets net of accumulated depreciation for its governmental activities as of June 30, 2014, amounted to $678.0 million. This included land, land improvements, buildings, furniture and equipment, and infrastructure. The total net increase in capital assets was $20.7 million or 3.1 percent. The major additions and deletions to capital assets were as follows:

- The City re-acquired a number of land parcels related to previous affordable housing projects associated with development agreements that became disallowed under the dissolution act of the former Redevelopment Agency including the Promenade at Creekside and the Richmar Senior Project. The City is currently working on new development agreements for these affordable housing projects.

- Construction in progress including right of way of $10.0 million were constructed/completed by the City. This included continued construction for Connors Park, Bradley Park Channel Improvements, and Montiel Park Enhancements.

A summary of capital assets follows. Additional information can be found in note 7 of the notes to the financial statements.

Capital Assets
(Net of Depreciation)
Governmental Activities

	Fiscal Year 2013-14	Fiscal Year 2012-13	Net Change
Land	$ 295,700,506	$ 273,169,294	$ 22,531,212
Land and improvements	57,088,520	57,088,520	-
Buildings	49,832,955	50,851,342	(1,018,387)
Furniture and equipment	4,514,265	4,082,385	431,880
Infrastructure	239,154,462	250,624,539	(11,470,077)
Construction in progress	31,710,702	21,529,503	10,181,199
Total	$ 678,001,410	$ 657,345,583	$ 20,655,827

For the business-type activities, capital assets totaled $27.2 million at June 30, 2014. There were no significant changes from the previous year.

DEBT ADMINISTRATION

At year-end, the City had $11.7 million outstanding in long-term debt including one bond issue, a note payable, compensated absences, workers compensation claims, a capital lease, and one loan payable. Payments were made on the City's outstanding debt creating a reduction in the debt for the current fiscal year.

A summary of the City's long-term debt is as follows:

LONG-TERM DEBT OUTSTANDING
Governmental Activities

	Fiscal Year 2013-14	Fiscal Year 2012-13	Net Change
Bonds payable, net	$ 4,901,333	$ 5,144,000	$ (242,667)
Note payable	521,949	635,884	(113,935)
Compensated absences	4,605,623	4,805,469	(199,846)
Workers compensation claims	745,194	719,831	25,363
Capital leases payable	413,919	-	413,919
Loans payable - CEC	530,676	602,188	(71,512)
Total	$ 11,718,694	$ 11,907,372	$ (188,678)

Additional information on the City's long-term debt can be found in note 8 of the notes to the basic financial statements.

FACTORS AFFECTING NEXT YEAR'S BUDGET

From a big picture economic perspective, it appears the City continues to slowly recover from the recessionary period of the past several years. The City is seeing small to moderate growth in a number of the City's major revenue categories including property and sales tax. At the same time, the City is seeing a drop in revenue from rental income as a result of the combination of increased vacancies, particularly at City Hall, and re-leasing at rates below prior tenants. This drop was not unexpected. The City also sees a drop in development related revenue. This is more a function of timing as opposed to activity as the Palomar Station project obtained all of their building permits and paid building permit fees late in FY 2013-14. Actual workload relative to development projects has actually increased.

National, statewide and regional economic indicators are mixed. While unemployment rates still remain at relatively high levels, they seem to have leveled off and shown signs of improvement. At the same time, workforce participation levels remain very low which tends to under-report the unemployment rate. Last year at this time, consumer confidence was increasing at a fairly high level. This is an important metric for the City to consider as it is a guide to possible sales tax generation changes. Consumer confidence appears to be gradually trending positive. As the recovery continues on a slow to neutral path and economic reports are mixed and sometimes even contradictory, the need to continue to project revenue growth conservatively is imperative.

FACTORS AFFECTING NEXT YEAR'S BUDGET, (continued)

The City benefits from a diverse revenue base. Although, the City is projecting a slight lag in rental revenue for FY 2014-15, rental revenue still accounts for 9.0 percent of General Fund revenue, behind only sales tax and property tax.

In developing the budget for FY 2014-15, there were a number of challenges. The largest single issue was the increase the City saw in costs with respect to its law enforcement contract with the San Diego County Sheriff's Department. In the fall of 2012, the City, along with 8 other cities in the County, entered into a new five year contract with the Sheriff's Department. Per the contract, costs will increase by 3.0 percent in FY 2014-15. The City's cost for law enforcement, despite the increases, continue to be below what cities with their own police department's experience.

Despite these financial challenges, the City remains fiscally strong. The City is projecting an increase in taxes and special assessments of 4.5 percent for Fiscal Year 2014-15. This increase is offset somewhat by a decrease in rental revenues of approximately 8.0 percent. The City also entered into new memorandums of understandings (MOU) with its employee groups in 2013. Per those MOU's upward salary adjustments were limited to 1 percent for the coming fiscal year, which compares favorably with the San Diego Region Consumer Price Index which rose 1.7 percent in 2013.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the City's citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Department, 1 Civic Center Drive, San Marcos, California, 92069. This report and other financial reports can be viewed on the City of San Marcos website at: www.san-marcos.net.

Statement of Net Position
June 30, 2014

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments (note 2)	$ 95,165,015	$ 3,612,644	$ 98,777,659
Cash and investments with fiscal agents (note 2)	10,299,352	-	10,299,352
Receivables:			
Taxes and special assessments	2,200,105	-	2,200,105
Accounts	1,696,349	-	1,696,349
Interest	54,095	4,466	58,561
Notes (note 3)	121,268,964	-	121,268,964
Other (note 4)	1,120,905	797,590	1,918,495
Due from other governments	6,908,094	-	6,908,094
Advances to Successor Agency (note 16)	24,383,743	-	24,383,743
Deposits	2,449,212	7,249	2,456,461
Prepaids	40,631	-	40,631
Land held for resale	12,398,689	-	12,398,689
Investment in joint venture (note 12)	1,141,315	-	1,141,315
Capital assets, not depreciated (note 7)	384,499,728	11,865,697	396,365,425
Capital assets, net of depreciation (note 7)	293,501,682	15,294,657	308,796,339
Total Assets	957,127,879	31,582,303	988,710,182
DEFERRED OUTFLOWS OF RESOURCES			
Loss on defeasance of debt	80,710	-	80,710
LIABILITIES			
Accounts payable	6,472,657	-	6,472,657
Accrued liabilities	1,872,352	-	1,872,352
Unearned revenue (note 6)	77,636	-	77,636
Deposits payable	1,803,770	68,998	1,872,768
Noncurrent liabilities (note 8):			
Due within one year	2,944,867	-	2,944,867
Due in more than one year	8,773,827	-	8,773,827
Total Liabilities	21,945,109	68,998	22,014,107
NET POSITION			
Net investment in capital assets	671,633,533	27,160,354	698,793,887
Restricted (note 9)	203,555,514	-	203,555,514
Unrestricted	60,074,433	4,352,951	64,427,384
Total Net Position	$ 935,263,480	$ 31,513,305	$ 966,776,785

The accompanying notes are an integral part of these financial statements.

Statement of Activities
For the Year Ended June 30, 2014

		Program Revenues		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	$ 16,447,263	$ 1,483,859	$ 1,547,436	$ -
Community development	3,431,959	2,997,665	324,077	1,314,694
Public safety	31,398,530	8,888,703	1,024,547	89,247
Highways, streets, and parks	32,779,655	7,455,240	13,436,336	8,439,799
Culture and recreation	3,022,930	2,081,035	478,793	-
Interest on long-term debt	272,403	-	-	-
Total governmental activities	87,352,740	22,906,502	16,811,189	9,843,740
Business-type activities:				
Creekside Marketplace	1,061,134	3,470,369	-	-
Total	$ 88,413,874	$ 26,376,871	$ 16,811,189	$ 9,843,740

General revenues:
Taxes:
Property taxes
Sales taxes
Transient occupancy taxes
Franchise taxes
Rental income
Investment income, restricted
Investment income, unrestricted
Loss on disposal of capital assets
Miscellaneous income
Transfers (note 5)

Total general revenues and transfers

Change in Net Position

Net Position, Beginning as Previously Reported

Prior Period Adjustment

Net Position, Beginning, as Restated

Net Position, Ending

The accompanying notes are an integral part of these financial statements.

Net (Expense) Revenue and Changes in Net Position		
Governmental Activities	Business-Type Activities	Total
$ (13,415,968)	$ -	$ (13,415,968)
1,204,477	-	1,204,477
(21,396,033)	-	(21,396,033)
(3,448,280)	-	(3,448,280)
(463,102)	-	(463,102)
(272,403)	-	(272,403)
(37,791,309)	-	(37,791,309)
-	2,409,235	2,409,235
(37,791,309)	2,409,235	(35,382,074)
14,730,525	-	14,730,525
15,840,511	-	15,840,511
794,846	-	794,846
3,520,613	-	3,520,613
6,260,337	-	6,260,337
171,445	-	171,445
937,260	50,190	987,450
(659,841)	-	(659,841)
489,778	-	489,778
4,250,000	(4,250,000)	-
46,335,474	(4,199,810)	42,135,664
8,544,165	(1,790,575)	6,753,590
906,478,667	32,486,797	938,965,464
20,240,648	817,083	21,057,731
926,719,315	33,303,880	960,023,195
$ 935,263,480	$ 31,513,305	$ 966,776,785

Balance Sheet – Governmental Funds
June 30, 2014

		Special Revenue	Capital Projects
	General	San Marcos Affordable Housing	Public Facility
ASSETS			
Cash and investments (note 2)	$ 51,033,993	$ 6,516,029	$ 20,386,146
Cash and investments with fiscal agents (note 2)	-	9,129,197	-
Receivables:			
Taxes and special assessments	2,182,285	-	-
Accounts	1,553,410	81,418	-
Interest	28,243	3,649	11,552
Notes, net (note 3)	-	118,970,435	-
Other, net (note 4)	1,000,390	-	120,515
Due from other governments	711,728	-	-
Due from other funds (note 5)	3,221,734	-	-
Advances to Successor Agency (note 16)	-	24,383,743	-
Deposits	1,148,671	-	-
Land held for resale	10,789,838	750,503	858,348
Total Assets	$ 71,670,292	$ 159,834,974	$ 21,376,561
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities:			
Accounts payable	$ 4,344,341	$ 34,164	$ 305,512
Accrued liabilities	1,726,947	22,123	-
Due to other funds (note 5)	-	-	-
Unearned revenue (note 6)	77,636	-	-
Deposits payable	964,140	34,498	-
Total Liabilities	7,113,064	90,785	305,512
Deferred Inflows of Resources:			
Unavailable revenue	1,502,821	118,970,435	120,516
Fund Balances:			
Nonspendable:			
Land held for resale	10,789,838	-	858,348
Deposits	1,148,671	-	-
Permanent fund	-	-	-
Restricted:			
Affordable housing	-	40,773,754	-
Debt service	-	-	-
Transportation	-	-	-
Lighting and landscape	-	-	-
Capital improvements	-	-	
Public facilities	-	-	20,092,185
Other purposes	-	-	-
Unassigned	51,115,898	-	-
Total Fund Balances	63,054,407	40,773,754	20,950,533
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 71,670,292	$ 159,834,974	$ 21,376,561

The accompanying notes are an integral part of these financial statements.

Total Non-Major Governmental Funds	Total
$ 17,228,847	$ 95,165,015
1,170,155	10,299,352
17,820	2,200,105
61,521	1,696,349
10,651	54,095
2,298,529	121,268,964
-	1,120,905
6,196,366	6,908,094
-	3,221,734
-	24,383,743
1,300,541	2,449,212
-	12,398,689
$ 28,284,430	$ 281,166,257
$ 1,788,640	$ 6,472,657
74,323	1,823,393
3,221,734	3,221,734
-	77,636
805,132	1,803,770
5,889,829	13,399,190
2,460,515	123,054,287
-	11,648,186
-	1,148,671
1,000,000	1,000,000
-	40,773,754
137,240	137,240
5,386,577	5,386,577
10,123,779	10,123,779
1,095,303	1,095,303
-	20,092,185
2,191,412	2,191,412
(225)	51,115,673
19,934,086	144,712,780
$ 28,284,430	$ 281,166,257

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
June 30, 2014

Fund balances of governmental funds		$ 144,712,780
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Certain prepaid insurance costs assoicated with the issuance of long-term debt are amortized over the period which the debt is outstanding. The costs are reported as expenditures of the current period in the governmental funds.		40,631
The investment in joint venture is not an available resource and, therefore, is not reported in the governmental funds.		1,141,315
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the governmental funds.		
Capital assets, not depreciated	$ 384,499,728	
Capital assets, being depreciated	462,738,802	
Less: accumulated depreciation	(169,237,120)	678,001,410
Deferred loss on defeasance of debt is deferred and amortized over the life of bonds in the Statement of Net Position.		80,710
Accrued interest payable for the current portion of interest due on long-term debt has not been reported in the governmental funds. Therefore, interest payable is not reported as a liability in governmental funds.		(48,959)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Bonds payable	$ (4,901,333)	
Note payable	(521,949)	
Compensated absences	(4,605,623)	
Claims payable	(745,194)	
Capital lease financing	(413,919)	
Loan payable	(530,676)	(11,718,694)
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.		123,054,287
Net position of governmental activities		$ 935,263,480

The accompanying notes are an integral part of these financial statements.

This page intentionally left blank.

Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
For the Year Ended June 30, 2014

	General	Special Revenue San Marcos Affordable Housing	Capital Projects Public Facility
REVENUES			
Taxes and special assessments	$ 31,518,221	$ -	$ -
Licenses and permits	4,834,181	-	-
Intergovernmental	402,100	-	-
Charges for services	14,014,737	-	-
Developer fees	47,365	78,000	478,960
Fines and forfeitures	379,517	-	-
Investment and rental income	6,726,845	708,901	146,630
Miscellaneous	2,078,727	136,292	-
Total Revenues	60,001,693	923,193	625,590
EXPENDITURES			
Current:			
General government	14,985,010	698,529	-
Community development	2,396,085	1,042,128	-
Public safety	30,863,346	-	-
Highways, streets and parks	11,777,248	-	-
Culture and recreation	2,789,230	-	-
Capital outlay	-	-	452,438
Debt service:			
Principal	71,512	-	113,935
Interest and fiscal charges	7,175	-	34,974
Total Expenditures	62,889,606	1,740,657	601,347
Excess (Deficiency) of Revenues Over (Under) Expenditures	(2,887,913)	(817,464)	24,243
OTHER FINANCING SOURCES (USES)			
Sale of land held for resale	(848,963)	189,122	-
Acquisition under capital lease	427,300	-	-
Transfers in (note 5)	5,003,292	-	-
Transfers out (note 5)	(224,195)	-	-
Total Other Financing Sources (Uses)	4,357,434	189,122	-
Net Change in Fund Balances	1,469,521	(628,342)	24,243
Fund Balances, Beginning, as Previously Reported	60,332,252	41,402,096	20,320,721
Prior period adjustment (note 17)	1,252,634	-	605,569
Fund Balances, Beginning, as Restated	61,584,886	41,402,096	20,926,290
Fund Balances, Ending	$ 63,054,407	$ 40,773,754	$ 20,950,533

The accompanying notes are an integral part of these financial statements.

Total Non-Major Governmental Funds	Total
$ 5,981,231	$ 37,499,452
-	4,834,181
14,477,776	14,879,876
-	14,014,737
-	604,325
-	379,517
808,149	8,390,525
569,318	2,784,337
21,836,474	83,386,950
-	15,683,539
771,426	4,209,639
-	30,863,346
10,098,126	21,875,374
159,329	2,948,559
8,009,648	8,462,086
245,000	430,447
226,890	269,039
19,510,419	84,742,029
2,326,055	(1,355,079)
-	(659,841)
-	427,300
224,195	5,227,487
(753,292)	(977,487)
(529,097)	4,017,459
1,796,958	2,662,380
19,896,000	141,951,069
(1,758,872)	99,331
18,137,128	142,050,400
$ 19,934,086	$ 144,712,780

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

Net change in fund balances - total governmental funds		$ 2,662,380
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 those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.		
Capital asset expenditures	$ 9,209,037	
Depreciation expense, net of deletions	(13,296,736)	(4,087,699)
Certain revenues in the governmental funds are deferred inflow of resources because they are measurable but not available under the modified accrual basis of accounting. However, the revenues are included on the accrual basis used in the government-wide statements. This amount represents the change during the year.		
Contributed capital	8,222,807	
Grant and other reimbursement revenue	638,462	
Long-term loans receivable	862,041	
Investment in joint venture revenue	58,527	9,781,837
The issuance of long-term debt (i.e. bonds, capital leases) 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 position. Also, governmental funds report the effect of premiums, discounts, and similar items when the debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.		
Acquisition under capital lease	(427,300)	
Principal payments on long-term debt	443,828	16,528
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Change in compensated absences	199,846	
Change in claims payable	(25,363)	
Change in accrued interest	4,245	
Amortization of prepaid insurance	(1,767)	
Amortization of bond discount	(2,333)	
Amortization of loss on defeasance of debt	(3,509)	171,119
Change in net position of governmental activities		$ 8,544,165

Statement of Net Position
Proprietary Funds
June 30, 2014

	Enterprise Funds		
	Creekside Marketplace	Municipal Utility	Total
ASSETS			
Current Assets:			
Cash and investments (note 2)	$ 3,547,089	$ 65,555	$ 3,612,644
Receivables:			
Interest	4,428	38	4,466
Deposits	7,249	-	7,249
Total Current Assets	3,558,766	65,593	3,624,359
Noncurrent Assets:			
Other receivable (note 4)	797,590	-	797,590
Capital assets (note 7):			
Land	11,865,697	-	11,865,697
Buildings, net of depreciation	15,294,657	-	15,294,657
Total Noncurrent Assets	27,957,944	-	27,957,944
Total Assets	31,516,710	65,593	31,582,303
LIABILITIES			
Current Liabilities:			
Deposits payable	68,998	-	68,998
Total Liabilities	68,998	-	68,998
NET POSITION			
Net investment in capital assets	27,160,354	-	27,160,354
Unrestricted	4,287,358	65,593	4,352,951
Total Net Position	$ 31,447,712	$ 65,593	$ 31,513,305

The accompanying notes are an integral part of these financial statements.

Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2014

	Enterprise Funds		
	Creekside Marketplace	Municipal Utility	Total
OPERATING REVENUES			
Rental income	$ 3,084,305	$ -	$ 3,084,305
Common area maintenance charges	386,064	-	386,064
Total Operating Revenues	3,470,369	-	3,470,369
OPERATING EXPENSES			
Property management	289,630	-	289,630
Janitorial	106,238	-	106,238
Repair and maintenance	282,911	-	282,911
Depreciation	382,355	-	382,355
Total Operating Expenses	1,061,134	-	1,061,134
Operating Income	2,409,235	-	2,409,235
NON-OPERATING REVENUE			
Investment income	49,706	484	50,190
Income Before Transfer	2,458,941	484	2,459,425
TRANSFERS			
Transfer out (note 5)	(4,250,000)	-	(4,250,000)
Change in Net Position	(1,791,059)	484	(1,790,575)
Net Position, Beginning, as Previously Reported	32,421,688	65,109	32,486,797
Prior period adjustment (note 17)	817,083	-	817,083
Net Position, Beginning, as Restated	33,238,771	65,109	33,303,880
Net Position, Ending	$ 31,447,712	$ 65,593	$ 31,513,305

The accompanying notes are an integral part of these financial statements.

City of San Marcos

Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2014

	Enterprise Funds		
	Creekside Marketplace	Municipal Utility	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	$ 3,476,141	$ -	$ 3,476,141
Payments to suppliers for goods and services	(678,779)	-	(678,779)
Net cash provided by operating activities	2,797,362	-	2,797,362
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Receipts from settlement agreement	19,493	-	19,493
Transfer to General Fund	(4,250,000)	-	(4,250,000)
Net cash used for noncapital financing activities	(4,230,507)	-	(4,230,507)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	45,550	448	45,998
Net increase (decrease) in cash and cash equivalents	(1,387,595)	448	(1,387,147)
Cash and cash equivalents, beginning	4,934,684	65,107	4,999,791
Cash and cash equivalents, ending	$ 3,547,089	$ 65,555	$ 3,612,644
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income	$ 2,409,235	$ -	$ 2,409,235
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	382,355	-	382,355
Increase (decrease) in operating liabilities:			
Deposits payable	5,772	-	5,772
Net cash provided by for operating activities	$ 2,797,362	$ -	$ 2,797,362

The accompanying notes are an integral part of these financial statements.

Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2014

	Agency Funds	Private-Purpose Trust Funds
ASSETS		
Cash and investments (note 2)	$ 1,990,211	$ 19,805,230
Receivables:		
Accounts	-	679
Notes	-	285,620
Special assessments	27,493	-
Interest	118	15,361
Direct financing lease	-	3,210,773
Prepaid expenses	-	2,709,600
Restricted Assets:		
Cash and investments with fiscal agents (note 2)	16,492,526	66,939,656
Capital Assets:		
Land	-	3,907,369
Total Assets	$ 18,510,348	96,874,288
DEFERRED OUTFLOWS OF RESOURCES		
Loss on defeasance of debt		4,387,043
LIABILITIES		
Accounts payable	$ -	806,483
Accrued liabilities	-	32,482
Accrued interest payable	-	5,827,532
Due to other governments	-	5,764
Deposits payable	1,890,108	-
Due to bondholders	16,620,240	-
Noncurrent Liabilities:		
Due within one year	-	10,598,556
Due in more than one year	-	356,248,041
Total Liabilities	$ 18,510,348	373,518,858
NET POSITION (DEFICIT)		
Held in trust for other taxing entities		$ (272,257,527)

The accompanying notes are an integral part of these financial statements.

Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2014

		Private-Purpose Trust Funds
ADDITIONS		
Tax	$	33,928,897
Income from property and investments		252,339
Total Additions		34,181,236
DEDUCTIONS		
General and administrative		647,504
Community development		6,359,237
Interest expense and fees		19,946,167
Total Deductions		26,952,908
Change in Net Position		7,228,328
Net Position, Beginning, as Previously Reported		(278,492,524)
Prior period adjustment (note 17)		(993,331)
Net Position (Deficit), Beginning, as Restated		(279,485,855)
Net Position (Deficit), Ending	$	(272,257,527)

The accompanying notes are an integral part of these financial statements.

This page intentionally left blank.

Index to Notes to Basic Financial Statements
For the Year Ended June 30, 2014

Index to Notes to Basic Financial Statements
For the Year Ended June 30, 2014

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A) Description of Reporting Entity

The City of San Marcos, California (the City) was incorporated on January 25, 1963 and became a Charter City on July 4, 1994. The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: general government, public safety, public works, culture and recreation, and community development.

These financial statements present the financial status of the City and its component units, which are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

Blended Component Units

Component units are entities for which the City is considered to be financially accountable, in accordance with generally accepted accounting principles. The City is considered to be financially accountable for an organization if the City appoints a voting majority of that organization's governing body and (1) it is able to impose its will on that organization, or (2) there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on the City. The City is also considered to be financially accountable if an organization is fiscally dependent (i.e., it is unable to adopt its budget, levy taxes, set rates or charges, or issue bonded debt without approval from the City). In certain cases, other organizations are included as component units if the nature and significance of their relationship with the City are such that their exclusion would cause the City's financial statements to be misleading or incomplete. Blended component units, although legally separate entities, are, in substance, part of the City's operations, and data from these units are combined with data of the primary government.

Based on the criteria above, the City has four component units, all of which are considered to be blended component units. These component units are described as follows:

- The *San Marcos Public Facilities Authority* (Facilities Authority) is a joint powers authority organized pursuant to the State of California Government Code, Section 6500. The Facilities Authority exists under a Joint Exercise of Power Agreement dated June 1989, between the City of San Marcos and the former Redevelopment Agency of the City of San Marcos (now the Successor Agency). Its purpose is to facilitate financing for public capital improvements of the City and the Agency.

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

A) Description of Reporting Entity, (continued)

Blended Component Units, (continued)

- The *California Mobilehome Financing Authority* (CAMPFA) is a joint powers authority organized pursuant to the State of California Government Code, Section 6500. CAMPFA exists under a Joint Exercise of Powers Agreement dated May 9, 1995, between the City of San Marcos and the former Redevelopment Agency of the City of San Marcos (now the Successor Agency). Its purpose is to facilitate financing for public capital improvements to be owned by its members and to establish a vehicle which may reduce local borrowing costs and promote the greater use of existing and new financial instruments and mechanisms.

- The *San Marcos Community Foundation* (Foundation) was established, and by-laws were adopted on October 27, 1987. On June 10, 1988, the San Marcos Community Foundation was incorporated and organized under the California Nonprofit Public Benefit Corporation Law for public and charitable purposes. The Foundation provides financial and other assistance to worthy programs which benefit the City and residents of San Marcos. Assets of the Foundation are reported in a Permanent Fund as only the interest earnings on the original principal of $1,000,000 can be spent on Foundation activity. The amount that is available for spending is the balance over the original endowment and is reported on the balance sheet as restricted fund balance. No less than 4% or more than 5% of total assets may be distributed in any one year as long as total assets do not fall below the original principal.

- The *San Marcos Public Financing Authority* (Financing Authority) was established pursuant to a Joint Exercise of Powers Agreement, dated December 14, 1993, a subsequently amended and restated by an Amended and Restated Joint Exercise of Powers Agreement, dated January 10, 2012, each by and between the City and the Fire Protection District (FPD). The Financing Authority was created for the purpose of financing and refinancing of public capital improvements for, and working capital requirements of, the City, the FPD or any other local agency, including community facilities districts created by the City of the FPD, through the construction and/or acquisition by the Financing Authority of such public capital improvements and/or by the Financing Authority of bonds of the City, FPD or any other local agency pursuant the bond purchase agreements and/or the lending of funds by the Financing Authority to the City, the FPD or any other local agency. The Financing Authority is governed by a board of five directors, which is composed of the member of the City Council.

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

A) Description of Reporting Entity, (continued)

Blended Component Units, (continued)

San Marcos Public Financing Authority (continued)

The executive Director of the Financing Authority is the City Manager of the City. The Financing Authority is specifically granted all of the powers specified in the Bond Law, including but not limited to the power to issue bonds and to sell such bonds to public or private purchasers at public or negotiated sale. The Financing Authority is entitled to exercise powers common to its members and necessary to accomplish the purpose for which it was formed. The Financing Authority has no independent staff, and consequently it will be completely dependent upon the officers and employees of the City to administer its program.

Separate financial statements are not prepared for these entities.

The City Council serves as the governing body for all of these blended component units, except for the Foundation, whose governing body is appointed by the City Council. Although the Foundation does not provide direct financial benefits to the City, its activities do directly benefit the City's constituents, which are considered to be an indirect financial benefit to the City in accordance with GASB Statement No. 14.

B) Basis of Presentation

The City's basic financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States of America.

Government-Wide 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 City and its blended component units. For the most part, the effect of interfund activity has been removed from these statements. 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 user fees and charges for support.

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

B) Basis of Presentation, (continued)

Government-Wide Financial Statements, (continued)

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable to 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 classified as program revenues are reported as general revenues.

Fund Financial Statements

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 in separate columns in the Fund Financial Statements.

C) Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Government-Wide Financial Statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the Proprietary Fund Financial Statements. Agency funds use the accrual basis of accounting, but have no measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the individual programs are used as guidance. Property taxes are recognized as revenues in the year for which they are levied.

Governmental Fund Financial Statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Reimbursements under state and federal grants are accrued if received within 180 days. Revenues that are accrued generally include real property taxes, sales tax, transient occupancy taxes, franchise fees, vehicle license fees, highway users tax, interest, and some state and federal grants.

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

C) Measurement Focus, Basis of Accounting, and Financial Statement Presentation, (continued)

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

D) Fund Classifications

The City reports the following major governmental funds:

General Fund

The General Fund is the City's primary operating fund. It accounts for all financial resources of the City, except those required to be accounted for in another fund.

San Marcos Affordable Housing Fund

The San Marcos Affordable Housing Fund accounts for the in-lieu revenue received from developers to provide for affordable housing. Also accounts for the low and moderate income housing receivables of the former San Marcos Redevelopment Agency.

Public Facility Fund

The Public Facility Fund accounts for the accumulation of resources for the payment of public facility related costs. The primary funding source is developer fees. The Public Facility Fund is not required to be reported as a major fund in the current year but reported as such for comparative purpose.

The City reports the following major proprietary fund:

Creekside Marketplace Fund

The Creekside Marketplace Fund accounts for the activities of a City-owned shopping center.

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

D) Fund Classifications, (continued)

Additionally, the City reports the following fund types:

Agency Funds

The Agency Funds account for assets held by the City in a custodial capacity. These funds include refundable deposits and also account for the collection of special assessments levied on various Assessment Districts and Community Facilities Districts property owners for the payment of debt service on no commitment debt.

Private-Purpose Trust Fund

The Private-Purpose Trust Fund accounts for the activities of the Redevelopment Obligation Retirement Funds, which accumulates resources for obligations previously incurred by the former City of San Marcos Redevelopment Agency.

E) Financial Statement Elements

1) Cash and Investments

The City follows the practice of pooling cash and investments of all funds except for funds required to be held by outside fiscal agents under the provisions of bond indentures. Each fund's share in this pool is displayed in the accompanying financial statements as cash and investments. Interest income earned on pooled cash and investments is allocated monthly to the various funds based on the month-end cash and investment balances. Interest income from cash and investments with fiscal agents is credited directly to the related fund.

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments are reported at fair value. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

E) Financial Statement Elements, (continued)

2) Receivables and Payables

Activity 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). 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 fund balance reserve in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

3) Prepaid Items

Certain payments to vendors for costs applicable to future accounting periods are recorded as prepaid items in both government-wide and fund financial statements using the consumption method.

4) Land Held for Resale

Land held for resale is valued at the lower of cost or market once such amount becomes determinable upon entering into a contract for sale. Land held for resale is reflected as nonspendable or restricted fund balance in the fund financial statements to indicate that the asset does not constitute available, spendable resources.

5) Notes Receivable

The accompanying financial statements reflect the recording of certain notes receivable that represent loans made to private developers and other parties. In certain cases, the amount of collection is dependent upon future residual receipts to be generated by the property or contingent upon the ability of the owner to sell the property at an amount sufficient to pay all liens against the property.

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

E) Financial Statement Elements, (continued)

6) Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position (balance sheet) will sometimes report a separate section for deferred outflows of resources. This separate financial element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City only has one item that qualifies for reporting in this category. It is the loss on defeasance of debt reported in the government-wide statement of net position. A loss on defeasance of debt 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 (balance sheet) will sometimes report a separate section for deferred inflows of resources. This separate financial element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The City only has one type of this 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: grants and other reimbursements. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

7) Program Revenues

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

8) Property Taxes

Property taxes attach as an enforceable lien on property as of March 1. Taxes are levied on July 1 and are payable in two installments on December 10 and April 10. The County of San Diego (the 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.

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

E) Financial Statement Elements, (continued)

The County is permitted by State Law (Proposition 13) to levy taxes at 1% of assessed value. The assessed value can only increase each year by inflation with a maximum of 2%. The City receives a share of this basic levy proportionate to what it received in the 1976 to 1978 period.

9) Proprietary Funds Operating and Nonoperating Revenues and Expenses

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 City's proprietary funds are charges to customers for sales and services and lease revenue. The City also recognizes new account charges, late fees and contributions from other agencies as operating revenues. Operating expenses for the enterprise funds include the cost of sales and services, and general and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

10) Capital Assets

Capital assets, which include property, buildings, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and the enterprise funds in the fund financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than $5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets are depreciated using the straight-line method over the following estimated useful lives. Depreciation starts the year following acquisition.

	Years
Buildings	50
Furniture and Equipment	5-10
Infrastructure	20-50

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

E) Financial Statement Elements, (continued)

11) Compensated Absences

Vacation pay is payable to employees at the time used or upon termination of employment. Sick leave accrued but unused is cumulative from year to year. Employees are allowed to cash out sick leave hours over certain balances once a year and upon termination. All vacation pay and applicable sick leave is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. All compensated absences are liquidated in the General Fund.

12) Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts 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. Bond issuance costs are expensed during the current period.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, 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. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

13) Postemployment Benefits other than Pensions

The City does not provide postemployment benefits, other than pensions, that are material to the financial statements.

14) Reclassifications and Eliminations

Interfund balances must generally be eliminated in the government-wide statements, except for net residual amounts due between governmental activities. Amounts involving fiduciary funds should be reported as external transactions. Any allocations must reduce the expenses of the function from which the expenses are being allocated, so that the expenses are reported only once in the function in which they are allocated.

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

E) Financial Statement Elements, (continued)

15) Use of Estimates

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and necessarily include amounts based on estimates and assumptions by management. Actual results could differ from those amounts.

16) Fund Equity

Fund balances are reported in the fund financial statements in the following classifications:

Nonspendable Fund Balance – this includes amounts that cannot be spent because they are either not spendable in physical form (such as inventory) or that are legally or contractually required to be maintained intact (such as endowments).

Restricted Fund Balance – this includes amounts that can be spent only for specific purposes stipulated by external legal requirements imposed by other governments, external resource providers, or creditors. Restrictions imposed by the City Council do not create restricted fund balance unless the legal document that initially authorized the revenue (associated with that portion of fund balance) also included language that specified the limited use for which the authorized revenues were to be expended.

Committed Fund Balance – this includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City Council. Those committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action that it employed to previously commit those amounts. If the Council action that limits the use of the funds was separate from the action that initially created the revenues that form the basis for the fund balance, then the resultant fund balance is considered to be committed, not restricted. The City Council considers a resolution to constitute a formal action of the City Council for the purposes of establishing committed fund balance.

Assigned Fund Balance – this includes amounts that are intended to be used for specific purposes as indicated either by the City Council or by persons to whom the City Council has delegated the authority to assign amounts for specific purposes. The City Council has not delegated such authority to others in the City, and therefore retains its authority to assign fund balance.

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

E) Financial Statement Elements, (continued)

16) Fund Equity, (continued)

Unassigned Fund Balance – this includes the remaining spendable amounts which are not included in one of the other classifications.

It is the City's policy that restricted resources will be applied first, followed by (in order of application) committed, assigned, and unassigned resources, in the absence of a formal policy adopted by the City Council.

17) Implementation of New Accounting Principle

Effective July 1, 2013, the City adopted the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Deferred amounts resulting from the refundings of debt are reported as a deferred outflow of resources or a deferred inflow of resources and recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter. Accordingly, the City's deferred amount on refunding of debt has been classified as a deferred outflow of resources in the statement of net position in conformity with GASB 65. GASB 65 amended prior guidance with respect to the treatment of debt issuance costs. Under GASB 65, debt issuance costs, except any portion related to prepaid insurance costs, are recognized as an expense in the period incurred rather than reported as an asset on the statement of net position and recognized as an expense in a systematic and rational manner over the duration of the related debt. Accordingly, as noted in note 17 of the basic financial statements, the City has restated beginning net position for any unamortized debt issuance costs previously reported on the statement of net position in conformity with GASB 65.

2) CASH AND INVESTMENTS

Cash and investments are classified in the accompanying financial statements as follows:

Statement of net position:		
Cash and investments	$	98,777,659
Cash and investments with fiscal agents		10,299,352
Statement of fiduciary net position:		
Cash and investments		21,795,441
Cash and investments with fiscal agents		83,432,182
Total Cash and Investments	$	214,304,634

Cash and investments at June 30, 2014 consisted of the following:

Demand deposits	$	2,801,947
Local Agency Investment Pool (LAIF)		39,719,330
California Asset Management Pool (CAMP)		30,059,186
Federal Agency Securities		34,454,305
U.S. Treasury		12,728,608
U.S. Corporate		4,000,605
Asset Backed Securities		1,904,484
Commercial Paper		799,164
Money Market Mutual Funds		87,837,005
Total Cash and Investments	$	214,304,634

2) CASH AND INVESTMENTS, (continued)

Investments Authorized by the California Government Code and the City's Investment Policy

The table below identifies the investment types that are authorized by the California Government Code and the City's investment policy. The table also identifies certain provisions of the City's investment policy that address interest rate risk and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements rather than the general provisions of the California Government Code or the City's investment policy.

Investment Type Authorized by State Law	Authorized By City 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
Federal Agency Securities	Yes	5 years	None	None
Bankers' Acceptances	Yes	180 days	40%	10%
Commercial Paper	Yes	270 days	15%	10%
Negotiable Certificates of Deposit	Yes	5 years	30%	None
Repurchase Agreements	Yes	30 days	50%	None
Reverse Repurchase Agreements	No	1 year	20%	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
Local Agency Investment Fund (LAIF)	Yes	N/A	None	$50 Million per entity
California Asset Management Program (CAMP)	Yes	N/A	None	None
County Pooled Investment Funds	No	N/A	None	None

2) CASH AND INVESTMENTS, (continued)

Investments Authorized by Debt Agreements

Investments of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the City's investment policy. The table below identifies the investment types that are 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.

Authorized Investment Type	Maximum Maturity	Maximum Percentage Allowed	Maximum Investment in One Issuer
U.S. Treasury Obligations	None	None	None
Federal Agency Securities	None	None	None
Bankers' Acceptances	180 days	None	None
Commercial Paper	270 days	None	None
Repurchase Agreements	180 days	None	None
Money Market Mutual Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	$50 Million per entity
Investment Contracts	None	None	None

2) CASH AND INVESTMENTS, (continued)

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater is 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	Total	12 Months or Less	13 to 36 Months	37-60 Months
Federal Agency Securities	$ 30,006,958	$ 3,652,559	$ 19,148,004	$ 7,206,395
U.S. Treasury Obligations	11,191,763	-	3,407,499	7,784,264
U.S. Corporate	4,000,605	-	195,761	3,804,844
ABS	1,904,484	-	467,835	1,436,649
Commercial Paper	799,164	799,164	-	-
Money Market Mutual Funds	89,663	89,663	-	-
LAIF	39,719,330	39,719,330	-	-
CAMP	30,059,186	30,059,186	-	-
Held by bond trustees:				
Money Market Mutual Funds	87,747,342	87,747,342	-	-
U.S. Treasury	1,536,845	1,536,845	-	-
Federal Agency Securities	4,447,347	2,075,186	2,372,161	-
Total	$ 211,502,687	$ 165,679,275	$ 25,591,260	$ 20,232,152

2) CASH AND INVESTMENTS, (continued)

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 the California Government Code, the City's investment policy, or debt agreements and the actual rating as of year-end for each investment type.

Investment Type	Total	Minimum Legal Rating	Standard & Poor's Rating as of Year End
Federal Agency Securities	$ 30,006,958	N/A	AA+
U.S. Treasury	11,191,763	N/A	AA+
U.S. Corporate	4,000,605	N/A	A+
ABS	1,904,484	N/A	AAA
Commercial Paper	799,164	N/A	A-1+
Money Market	89,663	N/A	AAA
LAIF	39,719,330	N/A	Not Rated
CAMP	30,059,186	N/A	AAAm
Held by bond trustees:			
Money market mutual funds	87,747,342	A	AAA
U.S. Treasury	1,536,845	N/A	Not Rated
Federal Agency Securities	4,447,347	N/A	AA+
Total	$ 211,502,687		

Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer other than external investment pools and mutual funds that represent 5% or more of the total City investments (or 5% or more of any major fund or non-major funds in the aggregate) must be disclosed. There are no investments at June 30, 2014 that meet the above criteria.

2) CASH AND INVESTMENTS, (continued)

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 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. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. The City's investment policy requires that all securities owned by the City be held in safekeeping by a third party bank trust department acting as agent for the City under the terms of a custody agreement executed by the bank and by the City. At June 30, 2014, the City deposits (bank balances) were collateralized under California Law.

Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF), which is part of the Pooled Money Investment Account that is regulated by the California Government Code under the oversight of the State Treasurer, Director of Finance and State Controller. The City may invest up to $50 million in LAIF funds. Investments in LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. All investments with LAIF are secured by the full faith and credit of the State of California. Separate LAIF financial statements are available from the California State Treasurer's Office on the Internet at http://www.treasurer.ca.gov.

2) CASH AND INVESTMENTS, (continued)

Investment in State Investment Pool, (continued)

The City's investment in this pool is reported in the accompanying City's financial statements at cost which approximate fair value 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). Included in LAIF's investment portfolio are certain derivative securities or similar products in the form of asset-backed securities totaling $1,206 million, which represent 1.86% of the total LAIF portfolio of $64.8 billion as of June 30, 2014. LAIF's (and the City's) exposure to risk (credit, market or legal) is not currently available.

Investment in California Asset Management Program Pool

The City is a voluntary participant in the California Asset Management Program (CAMP). CAMP is an investment pool offered by the California Asset Management Trust (the Trust). The Trust is a joint powers authority and public agency created by the Declaration of Trust and established under the provisions of the California Joint Exercise of Powers Act (California Government Code Sections 6500 et seq., or the "Act") for the purpose of exercising the common power of its Participants to invest certain proceeds of debt issues and surplus funds. The Trust's activities are directed by a Board of Trustees, all of whom are employees of the California public agencies which are participants in the Trust. The Pool's investments are limited to investments permitted by subdivision (a) to (n), inclusive, of Section 53601 of the California Government Code. The City reports investments in CAMP at the fair value amounts provided by CAMP, which is the same as the value of the pool share. CAMP is not registered with the Securities and Exchange Commission.

3) NOTES RECEIVABLE

At June 30, 2014, notes receivable consisted of the following:

The City of San Marcos affordable housing program has made various loans to individuals to acquire and own property within mobile home parks. These loans are at various low simple interest rates. Principal and interest are due in 30 years from the date of the note unless the property is sold or the individual no longer qualifies under low or moderate income requirements. Due to the long-term nature of the loans, deferred revenue has been recorded in the Affordable Housing Special Revenue Fund.	$ 2,088,471
The City and former City of San Marcos Redevelopment Agency made several loans to various housing developers for the acquisition, construction or rehabilitation of low and moderate housing. Upon the dissolution of the Redevelopment Agency, these loans were transferred to the City's affordable housing program. The loans were made in fiscal years 1997 through 2011 at various amounts and at interest rates ranging from 3% to 5.9% per annum. Principal and interest are due at various maturity dates but no later than 55 years from the date of the note. Due to the long-term nature of the loans, deferred revenue has been recorded in the Affordable Housing Special Revenue Fund.	111,197,093
In June 2001, the City loaned $1,320,000 to a developer for the acquisition, development and construction of a commercial pad. The loan has a term of thirty years and bears an interest rate of 3%. Payments from residual receipts, if any, are to be made on an annual basis beginning with May 15 of the year first following the date the project is completed. Due to the long-term nature of the loan, deferred revenue has been recorded in the Affordable Housing Special Revenue Fund. The balance at June 30, 2014 includes accrued interest of $352,157.	1,672,157
In December 2004, the City loaned $700,000 to Assisted Living Foundation of America (ALFA), a non-profit corporation, to assist with the development of a 120-unit senior housing project. The loan is payable in full on June 1, 2038 and bears an interest rate of 1%. Due to the long-term nature of the loan, deferred revenue has been recorded in the Affordable Housing Special Revenue Fund. The balance at June 30, 2014 includes accrued interest of $58,722.	758,722

3) NOTES RECEIVABLE, (continued)

The City made two loans for a total amount of $1,845,625 to ALFA to assist with the development of a 100-unit affordable rental housing project. The loan is payable in full on June 1, 2040 and bears an interest rate of 3%. Due to the long-term nature of the loan, deferred revenue has been recorded in the Affordable Housing Special Revenue Fund. The balance at June 30, 2014 includes accrued interest of $263,910.	$ 2,109,535
The City has provided loans to several individuals under a Federal (HOME) and a State (CalHOME) mortgage assistance loan programs. The loans are to be repaid in 30 years and bear an interest rate of 3%. Due to the long-term nature of these loans, deferred revenue has been recorded in the HOME Grant and the CalHOME Grant Special Revenue Funds.	2,298,529
The former City of San Marcos Redevelopment Agency provided loans to individuals under a mortgage assistance program. The loans are to be repaid in 30 years and bear an interest of 3%. Upon the dissolution of the Redevelopment Agency, these loans were transferred to the City's affordable housing program. Due to the long-term nature of the loans, deferred revenue has been recorded in the Affordable Housing Special Revenue Fund.	1,144,457
Total notes receivable	$ 121,268,964

4) OTHER RECEIVABLES

At June 30, 2014, other receivables consisted of the following:

Governmental Funds:

In fiscal year 1992-93, the City entered into an agreement whereby Scripps Memorial Hospital agreed to pay $300,000 per year in public facilities fees for eight years. The City has recorded a receivable and deferred revenue for the future payments.	$	600,000
The City has entered into an agreement with a property owner whereby certain public facilities fees are being deferred. The revenue has been deferred in the governmental funds.		120,515
Other miscellaneous receivables		400,390
Total other receivables – governmental funds	$	1,120,905

Proprietary Funds:

In June 2004, the City entered into a Release and Settlement Agreement with a contractor whereby $974,652 is to be remitted to the City over the next fifty years as compensation for the loss of lease space. Payments of $1,624 are to be made on the fifteenth day of each month beginning on or about June 15, 2005 through May 15, 2055.	$	797,590

5) INTERFUND RECEIVABLES AND TRANSFERS

Loans between funds (Due to/Due from) were as follows at June 30, 2014:

Receivable Fund	Payable Fund	Amount
General Fund	Non-Major Governmental Funds	$ 3,221,734

The loans from the General Fund to the Non-Major Governmental Funds were made to eliminate short-term cash deficits.

Interfund transfers were as follows:

	Transfers In		
	General Fund	Non-Major Governmental Funds	Total Transfers Out
Transfers Out:			
General Fund	$ -	$ 224,195	$ 224,195
Creekside Marketplace Enterprise Fund	4,250,000	-	4,250,000
Non-major Governmental Funds	753,292	-	753,292
Total Transfers In:	$ 5,003,292	$ 224,195	$ 5,227,487

The transfer of $4,250,000 was transferred from the Creekside Marketplace Enterprise Fund to the General Fund to fund operations.

The transfers between the Non-Major Governmental Funds and the General Fund were related to operational activities.

6) UNAVAILABLE/UNEARNED REVENUE

Governmental funds report unearned revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of unavailable revenue and unearned revenue reported in the governmental funds were as follows:

	Unavailable Revenue	Unearned Revenue	Total
Rental revenue received prior to recognition period	$ -	$ 77,636	$ 77,636
Revenues earned but not available within 60 days after the close of the fiscal year	381,079	-	381,079
Fees receivable from property owners under various agreements	801,411	-	801,411
FEMA Grant to be reimbursed for the Cocos Fires	257,383	-	257,383
Long-term loans to mobilehome owners	2,088,471	-	2,088,471
Long-term loans to individuals under a mortgage assistance program	3,442,986	-	3,442,986
Long-term loans to developers for the acquisition, construction or rehabilitation of affordable housing	114,410,800	-	114,410,800
Long-term loan to a developer for the acquisition, development and construction of a commercial pad	1,672,157	-	1,672,157
Total deferred/unearned revenue for governmental funds	$ 123,054,287	$ 77,636	$ 123,131,923

7) CAPITAL ASSETS

Capital asset activity was as follows for the year ended June 30, 2014:

Governmental activities:	Balance July 1, 2013	Prior Period Adjustments *	Additions	Deletions	Balance June 30, 2014
Capital assets, not depreciated:					
Land	$ 272,142,232	$ 1,027,062	$ 22,531,212	$ -	$ 295,700,506
Land improvements	53,950,728	3,137,792	-	-	57,088,520
Construction in progress	20,878,369	651,134	10,655,929	(474,730)	31,710,702
Total capital assets, not depreciated	346,971,329	4,815,988	33,187,141	(474,730)	384,499,728
Capital assets, being depreciated:					
Buildings	74,708,564	-	474,730	-	75,183,294
Furniture and equipment	17,079,008	551,361	1,136,637	(371,215)	18,395,791
Infrastructure	369,159,717	-	-	-	369,159,717
Total capital assets, being depreciated	460,947,289	551,361	1,611,367	(371,215)	462,738,802
Less accumulated depreciation for:					
Buildings	(23,857,222)	-	(1,493,117)	-	(25,350,339)
Furniture and equipment	(13,386,076)	(161,908)	(699,152)	365,610	(13,881,526)
Infrastructure	(118,535,178)	-	(11,470,077)	-	(130,005,255)
Total accumulated depreciation	(155,778,476)	(161,908)	(13,662,346)	365,610	(169,237,120)
Total capital assets, being depreciated, net	305,168,813	389,453	(12,050,979)	(5,605)	293,501,682
Total governmental activities	$ 652,140,142	$ 5,205,441	$ 21,136,162	$ (480,335)	$ 678,001,410

Business-type activities:	Balance July 1, 2013	Prior Period Adjustments *	Additions	Deletions	Balance June 30, 2014
Capital assets, not depreciated:					
Land	$ 11,865,697	$ -	$ -	$ -	$ 11,865,697
Capital assets, being depreciated:					
Buildings	18,300,675	817,083	-	-	19,117,758
Less accumulated depreciation	(3,440,746)	-	(382,355)	-	(3,823,101)
Total capital assets, being depreciated, net	14,859,929	817,083	(382,355)	-	15,294,657
Total business-type activities	$ 26,725,626	$ 817,083	$ (382,355)	$ -	$ 27,160,354

* See note 17 for more information on the prior period adjustments.

7) CAPITAL ASSETS, (continued)

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:		
General government	$	818,925
Community development		106,712
Public safety		1,002,417
Highways, streets and parks		11,550,672
Culture and recreation		183,620
Total depreciation expense – governmental activities	$	13,662,346
Business-type Activities:		
Creekside Marketplace	$	382,355

Assets acquired through capital leases are as follows:

Equipment	$	427,300
Less: Accumulated depreciation		-
Total	$	427,300

8) LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities for Governmental Activities for the year ended June 30, 2014:

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014	Due Within One Year
Governmental activities:					
Bonds payable	$ 5,200,000	$ -	$ (245,000)	$ 4,955,000	$ 250,000
Plus (less) deferred amounts:					
Issuance discount	(56,000)	-	2,333	(53,667)	-
Total bonds payable	5,144,000	-	(242,667)	4,901,333	250,000
Note payable	635,884	-	(113,935)	521,949	120,202
Compensated absences	4,805,469	2,664,992	(2,864,838)	4,605,623	2,169,610
Claims payable	719,831	609,455	(584,092)	745,194	250,000
Capital lease payable	-	427,300	(13,381)	413,919	81,492
Loan payable *	602,188	-	(71,512)	530,676	73,563
Total	$ 11,907,372	$ 3,701,747	$ (3,890,425)	$ 11,718,694	$ 2,944,867

* Includes prior period adjustment. See note 17 for more information on the prior period adjustment.

Bonds Payable

In August 2006, the San Marcos Public Facilities Authority issued $6,740,000, 2006 Lease Revenue Refunding Bonds to refund the San Marcos Public Facilities Authority Lease Revenue Bonds, Series 1999. The bonds consist of serial bonds of $4,140,000 maturing from 2006 to 2021 in annual installments of $195,000 to $345,000 and term bonds of $1,125,000 and $1,475,000 maturing November 4, 2024 and 2028, respectively. Interest is payable semi-annually on May 1 and November 1 commencing November 1, 2006 at rates ranging from 3.6% to 4.8%. A discount of $69,998 is being amortized over the life of the debt.	$ 4,955,000

The bond documents for the San Marcos Public Facilities Authority 2006 Lease Revenue Refunding Bonds include a Reserved Fund Surety provided by FGIC for the purpose of funding 50% of the reserve requirement for each series of the bonds. Per section 3.04(d) of the indenture for the bonds, if the rating of the claims paying ability of FGIC falls below a rating of “A”, the Authority shall either (i) deposit into the account of the Reserve Fund for which the surety was issued an amount equal to the reserve requirement over the ensuing year in equal installments on at least a monthly basis, or (ii) replace the Reserve Fund Surety with a Reserve Fund Surety meeting the Reserve Fund Surety requirements within six months of such occurrence.

8) LONG-TERM LIABILITIES, (continued)

Bonds Payable, (continued)

In March 2008, FGIC's rating was downgraded below "A" triggering the downgrade language described above. The Authority has enacted option (i) and has begun making installments into the Reserve Fund to meet the requirements of the indenture.

Bond debt service requirements to maturity are as follows:

Year Ending June 30	Principal	Interest	Total
2015	$ 250,000	$ 216,990	$ 466,990
2016	265,000	206,524	471,524
2017	275,000	195,353	470,353
2018	285,000	183,590	468,590
2019	300,000	177,532	477,532
2020-2024	1,715,000	639,127	2,354,127
2025-2029	1,865,000	190,881	2,055,881
Total	$ 4,955,000	$ 1,809,997	$ 6,764,997

Note Payable

On February 3, 1998, the City purchased property from the Vallecitos Water District through the issuance of a $1,829,520 promissory note. Annual payments of $148,909 from the Public Facility Fund, including interest at the rate of 5.5%, are due each February 1 through 2018.	$ 521,949

8) LONG-TERM LIABILITIES, (continued)

Note Payable, (continued)

The annual requirements to amortize the note payable are as follows:

Year Ending June 30	Principal	Interest	Total
2015	$ 120,202	$ 28,707	$ 148,909
2016	126,813	22,096	148,909
2017	133,788	15,121	148,909
2018	141,146	7,763	148,909
Total	$ 521,949	$ 73,687	$ 595,636

Compensated Absences

Governmental Accounting Standards Board Statement No. 16 identifies certain items that should be accrued as a liability as the benefits are earned by the employees but only to the extent it is probable that the employer will compensate the employees for the benefits through cash payments conditioned on the employee's termination or retirement.

City employees accumulate earned but unused benefits that can be converted to cash at termination of employment. The non-current portion of these vested benefits, payable in accordance with various collective bargaining agreements, totals $4,605,623 as of June 30, 2014.

Capital Lease Payable:

In April 2014, The City has entered into a long-term lease to finance the acquisition of an equipment. The lease qualify as a capital lease for accounting purposes as defined under the GASB Statement No. 62 and has been recorded at the present value of the future minimum lease payments.	$ 413,919

8) LONG-TERM LIABILITIES, (continued)

Capital Lease Payable, (continued):

Future Lease payments under the capital lease are as follows:

Fiscal Year Ending June 30,	Principal
2015	$ 91,137
2016	91,137
2017	91,137
2018	91,137
2019	75,948
Total minimum lease payments	440,496
Less amount representing interest	(26,577)
Net present value of minimum lease payments	$ 413,919

Loan Payable:

In December 2012, the City entered into a loan agreement with the California Energy Resources Conservation and Development Commission (the Energy Commission) for the amount of $602,188. The loan was used to fund various energy savings projects at the City Hall and Public Works Buildings. Semi-annual payments of $39,343.56 from the General Fund, including interest at the rate of 1.0%, are due each December 22 and June 22 through 2021.	$ 530,676

The annual requirements to amortize the loan payable are as follows:

Year Ending June 30	Principal	Interest	Total
2015	$ 73,563	$ 5,124	$ 78,687
2016	74,289	4,398	78,687
2017	75,046	3,642	78,688
2018	75,798	2,889	78,687
2019	76,558	2,129	78,687
2020-2021	155,422	1,952	157,374
Total	$ 530,676	$ 20,134	$ 550,810

9) NET POSITION CLASSIFICATIONS

Net position for governmental activities and business-type activities is classified as (1) net investment in capital assets, (2) restricted, or (3) unrestricted. The details of the Net Position as of June 30, 2014 are presented below:

	Governmental Activities	Business-Type Activities	Total
Net Investment in Capital Assets:			
Capital assets, net of accumulated depreciation	$ 678,001,410	$ 27,160,354	$ 705,161,764
Less capital related debt balances:			
Bonds payable	(4,901,333)	-	(4,901,333)
Notes payable	(521,949)	-	(521,949)
Capital leases payable	(413,919)	-	(413,919)
Loans payable	(530,676)	-	(530,676)
Total Net Investment in Capital Assets	671,633,533	27,160,354	698,793,887
Restricted for:			
Permanent fund	1,000,000	-	1,000,000
Affordable housing	162,388,168	-	162,388,168
Debt service	137,240	-	137,240
Transportation	5,531,280	-	5,531,280
Lighting and Landscape	10,141,062	-	10,141,062
Public facilities	21,071,049	-	21,071,049
Capital improvements	1,095,303	-	1,095,303
Other purposes	2,191,412	-	2,191,412
Total Restricted	203,555,514	-	203,555,514
Unrestricted	60,074,433	4,352,951	64,427,384
Total	$ 935,263,480	$ 31,513,305	$ 966,776,785

10) RETIREMENT PLAN

Plan Description

The City of San Marcos contributes to the California Public Employees Retirement System (PERS). With respect to miscellaneous employees, the City's plan is an agent multiple-employer public employee defined benefit pension plan. With respect to safety employees, the City's plan is a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and City ordinance. PERS issues a publicly available financial report that includes financial statements and required supplementary information for the cost sharing plans that are administered by PERS. Copies of PERS' annual financial reports may be obtained from its executive office at 400 "Q" Street, Sacramento, California 95811.

Funding Policy

Participants are required to contribute 8% (9% for safety employees) of their annual covered salary. The City pays the contribution required of City employees on their behalf and for their account. The City is also required to contribute at an actuarially determined rate. The rates for 2014 were 25.275% for miscellaneous employees, and 27.877% for safety employees, as a percentage of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by PERS.

Annual Pension Cost

For the year ended June 30, 2014, the City's annual pension cost (employer contribution) of $5,373,474 for PERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2011, actuarial valuation using the entry age normal actuarial cost method. GASB Statement No. 27 requires that the actuarial valuation use data as of a valuation date not more than twenty-four months before the beginning of the employer's fiscal year. The actuarial assumptions included (a) 7.50% investment rate of return (net of administrative expenses), (b) projected annual salary increases from 3.30% to 14.20% depending on age, service, and type of employment, and (c) 3.00% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 2.75%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a fifteen-year period (smoothed market value). PERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The average remaining amortization period as of the valuation date is twenty-one years for safety and twenty-two years for miscellaneous employees.

10) RETIREMENT PLAN, (continued)

Three-Year Trend Information

PERS requires plans with less than 100 active members as of June 30, 2004 to participate in a risk pool. Mandated pooling was effective for the Safety Plan with the June 30, 2005 actuarial valuation. For each of the fiscal years shown below, the City has contributed at the actuarial determined rate provided by PERS' actuaries.

ANNUAL PENSION COST (MISCELLANEOUS)

Fiscal Year	Employer Contribution Rate	Employer Contribution	Percentage Contributed	Net Pension Obligation
6/30/2012	24.96%	$ 3,455,874	100%	-
6/30/2013	25.69%	3,605,368	100%	-
6/30/2014	25.28%	3,449,257	100%	-

ANNUAL PENSION COST (SAFETY)

Fiscal Year	Employer Contribution Rate	Employer Contribution	Percentage Contributed	Net Pension Obligation
6/30/2012	29.23%	$ 2,067,948	100%	-
6/30/2013	29.82%	2,180,450	100%	-
6/30/2014	27.88%	1,924,217	100%	-

Defined Contribution Pension Plan

The City provides pension benefits for all of its part-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The plan is administered as part of the City's 457 plan. All part-time employees are eligible to participate from the date of employment. Federal legislation requires contributions of at least 7.5% to a retirement plan, and City Council has resolved to pay 1.9% for City employees of the required contribution. The City's contributions for each employee (and interest earned by the accounts) are fully vested immediately.

For the year ended June 30, 2014, the City's total payroll and covered payroll for part-time employees was $1,152,993. The City made employer contributions of $21,908 (1.9% of current covered payroll), and employees contributed $64,569 (5.6% of current covered payroll).

11) INSURANCE

Description of Self-Insurance Pool Pursuant the Joint Powers Agreement

The City is a member of the California Joint Powers Insurance Authority (Authority). The Authority is composed of 119 California public entities and is organized under a joint powers agreement pursuant to California Government Code §6500 et seq. The purpose of the Authority is to arrange and administer programs for the pooling of self-insured losses, to purchase excess insurance or reinsurance, and to arrange for group purchased insurance for property and other lines of coverage. The California JPIA began covering claims of its members in 1978. Each member government has an elected official as its representative on the Board of Directors. The Board operates through a nine-member Executive Committee.

Self-Insurance Programs of the Authority

Each member pays an annual contribution to cover estimated losses for the coverage period. This initial funding is paid at the beginning of the coverage period. After the close of the coverage period, outstanding claims are valued. A retrospective deposit computation is then conducted annually thereafter until all claims incurred during the coverage period are closed on a pool-wide basis. This subsequent cost re-allocation among members based on actual claim development can result in adjustments of either refunds or additional deposits required.

The total funding requirement for self-insurance programs is estimated using actuarial models and pre-funded through the annual contribution. Costs are allocated to individual agencies based on exposure (payroll) and experience (claims) relative to other members of the risk-sharing pool. Additional information regarding the cost allocation methodology is provided below.

Liability

In the liability program claims are pooled separately between police and non-police exposures. (1) The payroll of each member is evaluated relative to the payroll of other members. A variable credibility factor is determined for each member, which establishes the weight applied to payroll and the weight applied to losses within the formula. (2) The first layer of losses includes incurred costs up to $30,000 for each occurrence and is evaluated as a percentage of the pool's total incurred costs within the first layer. (3) The second layer of losses includes incurred costs from $30,000 to $750,000 for each occurrence and is evaluated as a percentage of the pool's total incurred costs within the second layer. (4) Incurred costs in excess of $750,000 up to the reinsurance attachment point of $5 million are distributed based on the outcome of cost allocation within the first and second loss layers.

11) INSURANCE, (continued)

Liability, (continued)

(5) Costs of covered claims from $5 million to $10 million are paid under a reinsurance contract subject to a $2.5 million annual aggregate deductible. Costs of covered claims from $10 million to $15 million are paid under two reinsurance contracts subject to a combined $3 million annual aggregate deductible. The $3 million annual aggregate deductable is fully retained by the Authority. (6) Costs of covered claims from $15 million up to $20 million are paid under reinsurance agreements. (7) Costs of covered claims from $20 million to $50 million are paid under excess insurance policies.

The overall coverage limit for each member including all layers of coverage is $50 million per occurrence.

Costs of covered claims for subsidence losses are paid by reinsurance and excess insurance with a pooled sub-limit of $30 million per occurrence. This $30 million subsidence sub-limit is composed of (a) $5 million retained within the pool's SIR, (b) $15 million in reinsurance and (c) $10 million in excess insurance. The excess insurance layer has a $10 million annual aggregate.

Pollution Legal Liability Insurance

The City participates in the pollution legal liability insurance program (formerly called environmental insurance) which is available through the Authority. The policy covers sudden and gradual pollution of scheduled property, streets, and storm drains owned by the City. Coverage is on a claims-made basis. There is a $50,000 deductible. The Authority has a limit of $50 million for the 3-year period from July 1, 2011 through July 1, 2014. Each member of the Authority has a $10 million sub-limit during the 3-year term of the policy.

Property Insurance

The City participates in the all-risk property protection program of the Authority. This insurance protection is underwritten by several insurance companies. City property is currently insured according to a schedule of covered property submitted by the City to the Authority. City property currently has all-risk property insurance protection in the amount of $204,599,494. There is a $5,000 deductible per occurrence except for non-emergency vehicle insurance which has a $1,000 deductible. Premiums for the coverage are paid annually and are not subject to retrospective adjustments.

11) INSURANCE, (continued)

Earthquake and Flood Insurance

The City purchases earthquake and flood insurance on a portion of its property. The earthquake insurance is part of the property protection insurance program of the Authority. City property currently has earthquake protection in the amount of $108,782,272. There is a deductible of 5% per unit of value with a minimum deductible of $100,000. Premiums for the coverage are paid annually and are not subject to retrospective adjustments.

Crime Insurance

The City purchases crime insurance coverage in the amount of $1,000,000 with a $2,500 deductible. The fidelity coverage is provided through the Authority. Premiums are paid annually and are not subject to retrospective adjustments.

Special Event Tenant User Liability Insurance

The City further protects against liability damages by requiring tenant users of certain property to purchase low-cost tenant user liability insurance for certain activities on agency property. The insurance premium is paid by the tenant user and is paid to the City according to a schedule. The City then pays for the insurance. The insurance is arranged by the Authority.

Adequacy of Protection

During the past three fiscal years, none of the above programs of protection experienced settlements or judgments that exceeded pooled or insured coverage. There were also no significant reductions in pooled or insured liability coverage in 2013-14.

Workers Compensation

The City is a member of the Public Agency Self-Insurance System (PASIS) which is a joint powers authority of nine fire districts in San Diego County and the City of San Marcos. PASIS' purpose is to provide for payment of workers' compensation claims, purchase claims examiner services, general counsel services and excess insurance coverage. Members are responsible for paying their own claims and related expenses.

For claims arising prior to July 1, 2001, the City was responsible for the first $250,000 of each loss. For claims arising during the year ended June 30, 2002, the deductible amount was $400,000. For claims arising between July 1, 2002 and June 30, 2009, the deductible amount was $500,000. The deductible for claims arising after June 30, 2009 is $300,000. PASIS carries excess insurance through a commercial insurance company to cover amounts over the self-insured retention. PASIS requires the City to maintain a minimum of $300,000 cash deposit with the Authority. At June 30, 2014, the City had $678,024 on deposit with PASIS and claims payable of $745,194.

12) JOINT VENTURES

North County Dispatch Joint Powers Authority

The City is a member of the North County Dispatch Joint Powers Authority (the JPA). The JPA was formed on June 11, 1984, and other member agencies include the Rancho Santa Fe Fire Protection District, the North County Fire Protection District and the cities of Vista, Solana Beach, Oceanside, Encinitas, and Carlsbad. The purpose of the JPA is to provide dispatching and emergency communication services for fire protection, security, and medical services. Each member provides an annually determined contribution towards the ongoing operation. In the event of dissolution of the JPA, available assets shall be distributed to the member agencies in proportion to the aggregate contribution made by each member agency during the entire term of the agreement.

The activities of the JPA are supervised by a board consisting of eight directors who are appointed by each member's governing body. Summarized audited information of the JPA for the fiscal year ended June 30, 2014, the most current available information, is as follows:

Assets	$ 3,516,015
Liabilities	(455,932)
Net position	$ 3,060,083

Revenues	$ 3,654,659
Expenses	(3,445,659)
Change in net position	$ 209,000

The City's share of the JPA's assets, liabilities, equity, and changes therein during the year is not available and is not material to the City's financial statements. Separate financial statements of the JPA are available at 16936 El Fuego Drive (P.O. Box 410), Rancho Santa Fe, CA 92067.

12) JOINT VENTURES, (continued)

Rancheros Commercial Park

The former San Marcos Redevelopment Agency entered into a Disposition and Development Agreement with LBP Partnership on March 6, 1989. In accordance with that Agreement, the Agency and LBP Partnership formed a Limited Partnership known as Rancheros Commercial Park, a Limited Partnership. The purpose of this Limited Partnership was to engage in the business of leasing, developing, constructing maintaining and operating certain commercial/ industrial property. Each of the Partners leased to the Partnership certain real property owned by the General and Limited Partners. The capital contributions to be made by Partners were to be adjusted to match, on a percentage basis, the proportionate land areas leased by the Partners to the Partnership. The net profits of the Partnership are allocated to, and net losses suffered by the Partnership are borne by, the Partners in proportion to their respective contributions of capital and real estate. On March 26, 2010, the Agency's interest in this partnership was transferred to the City. The City's equity interest in this Limited Partnership is $1,141,315 as of June 30, 2014. Separate financial statements for this joint venture are not available.

13) ASSESSMENT DISTRICT, COMMUNITY FACILITIES DISTRICTS BONDS AND CONDUIT DEBT

Bonds issued to finance public improvement projects in certain assessment districts and community facilities districts are liabilities of the property owners and are secured by liens against the assessed property. The City acts as an agent for the collection of special assessments from the property owners and the payment of principal and interest to the bondholders. The City has no obligation or duty to pay any delinquency out of any available funds of the City. Neither the faith and credit nor the taxing power of the City is pledged to the payment of the bonds. Therefore, none of the following obligations are included in the accompanying financial statements. The balance in the reserve account at the end of the fiscal year for each bond issue was above the reserve requirement.

Type of Debt	Amount of Issue	Outstanding June 30, 2014
City of San Marcos Community Facilities District No. 88-1, Special Tax Refunding Bonds, Series 2012, (Improvement Area No. 1, 2, 3)	$ 22,425,000	$ 19,234,713
City of San Marcos Community Facilities District No. 91-01, 2004 Special Tax Refunding Bonds	3,690,000	1,875,000
City of San Marcos Community Facilities District No. 99-01, Special Revenue Refunding Bonds, Series 2012 D (Improvement Area C2B, I1, I2)	12,585,000	12,155,000
City of San Marcos Community Facilities District No. 99-01, Special Tax Revenue Bonds, 2004 Series A (Improvement Area A1, A2, B1, B2, C1, D1, G3, H1A, H1B, M, N1, N2, R1, R2)	33,805,000	27,235,000

13) ASSESSMENT DISTRICT, COMMUNITY FACILITIES DISTRICTS BONDS AND CONDUIT DEBT, (continued)

Type of Debt	Amount of Issue	Outstanding June 30, 2014
City of San Marcos Community Facilities District No. 2002-01 (University Commons), Special Tax Refunding Bonds, Series 2012A	$ 13,820,000	$ 13,525,000
City of San Marcos Community Facilities District No. 2002-01 (University Commons), Special Tax Refunding Bonds, Series 2012B	4,240,000	1,115,000
City of San Marcos Community Facilities District No. 99-01, Special Tax Revenue Bonds, 2006 Series A (Improvement Area F2/V2, J, T, V1A)	13,660,000	9,580,000
City of San Marcos Community Facilities District No. 99-01, 2007 Special Tax Refunding Bonds (Improvement Area D2L, D2U, D3, D4, E1, E2, H2, H3)	26,405,000	23,285,000
Total	$130,630,000	$ 108,004,713

The City, the Successor Agency to the former Redevelopment Agency, the San Marcos Public Facilities Authority, San Marcos Public Financing Authority, and the California Mobilehome Financing Authority have issued bonds to provide financing for the acquisition, construction and/or development of various residential dwelling units, industrial facilities, school facilities, facilities for the elderly and rental housing for low and moderate income persons. However, neither the faith and credit nor the general taxing power of the City, Successor Agency or Authorities have been pledged to the payments of the bonds. Furthermore, the City, Agency or Authorities do not have any obligations for the payments of the bonds in the case of default. Therefore, none of the following obligations are included in the accompanying financial statements.

13) ASSESSMENT DISTRICT, COMMUNITY FACILITIES DISTRICTS BONDS AND CONDUIT DEBT, (continued)

Type of Debt	Outstanding June 30, 2014
$2,300,000 Redevelopment Agency of the City of San Marcos Multifamily Housing Revenue Bonds (Villa Serena Apartments), 2000 Series A	$ 1,711,711
$6,000,000 City of San Marcos Mobile Home Park Revenue Bonds, Series 1999 (Valle Verde)	6,000,000
$9,304,230 Redevelopment Agency of the City of San Marcos Multifamily Housing Revenue Bonds (Autumn Ridge) Series 2000	8,929,633
$15,800,000 Redevelopment Agency of the City of San Marcos Variable Rate Demand Multifamily Housing Revenue Bonds (Grandon Village) Series 2002A & 2002A-T	13,390,000
$44,175,000 California Mobilehome Park Financing Authority Mobile Home Park Revenue Bonds (Palomar Estates East & West) Series 2003A & B	36,785,000
$56,860,000 San Marcos Public Financing Authority Tax Increment Pass-through Revenue Refunding Bonds, San Marcos Unified School District, 2006 Series A	50,015,000
$44,640,000 California Mobilehome Park Financing Authority Mobile Home Parks Revenue Refunding Bonds, Series 2006 A, B, C (Union City Tropics)	39,690,000
$11,655,000 California Mobilehome Park Financing Authority Mobile Home Parks Revenue Bonds, Series 2001 A, B, C (Fresno/Oceano)	9,485,000
Total	$166,006,344

14) COMMITMENTS AND CONTINGENT LIABILITIES

The City is a defendant in certain legal actions arising in the normal course of operations. The amount of loss, if any, that may result from those actions cannot be reasonably estimated at this time.

15) DEFEASED BONDS

During the fiscal year ended June 30, 1994, the San Marcos Public Facilities Authority defeased $31,740,000 of its $50,000,000 1991 Series bonds by purchasing United States government securities with unexpended 1991 Series bond proceeds, and depositing those securities in an irrevocable trust with an escrow agent. The outstanding balance of the 1991 defeased bonds of $31,740,000 is scheduled to mature in January 2019.

16) SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY

On December 29, 2011, the California Supreme Court upheld Assembly Bill 1X 26 (the Bill) that provides for the dissolution of all redevelopment agencies in the State of California. This action impacted the reporting entity of the City of San Marcos 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 10, 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 2012-7607.

After enactment of the law, which occurred on June 28, 2011, redevelopment agencies in the State of California cannot enter into new projects, obligations or commitments. Subject to the control of a newly established oversight board, remaining assets can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

16) SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY, (continued)

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 obligation 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 ability of the Successor Agency to repay the City is dependent upon the sufficiency of available tax revenues to fund such repayment. Revenues are only available for repayment to the extent that all other obligations of the Successor Agency have been provided for in accordance with a complex computation set forth in California Assembly Bill No. 1484. The City believes that there will be sufficient tax revenue to permit eventual repayment in full to the City.

After the date of dissolution, the assets and activities of the dissolved Redevelopment Agency are reported in a fiduciary fund (private-purpose trust fund) in the financial statements of the City, pending the liquidation and distribution of the assets and liabilities of the former Redevelopment Agency to other taxing entities in accordance with state law.

Note Receivable

In July 1989, the former San Marcos Redevelopment Agency entered into an Agreement of Cooperation with the San Diego County Office of Education for the option of borrowing $800,000 from the former Agency for the acquisition of land for a joint use facility with the San Marcos Unified School District. On June 9, 1998, the Office of Education borrowed the funds. The loan is at an interest rate equal to the interest rate of the debt instrument used by the Agency to fund the loan and is compounded annually on the balance of the loan. Beginning in the Trigger Year, 39% of the District’s portion of General District Tax Revenues (after deduction of the 2% revenues) is to be allocated to repayment of the loan until the principal and interest have been repaid.

Upon the dissolution of the Redevelopment Agency, this loan was transferred to the Successor Agency of the former Redevelopment Agency. The outstanding balance of the note at June 30, 2014 is $285,620.

16) SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY, (continued)

Net Investment in Direct Financing Lease

In fiscal year 1992-93, the former San Marcos Redevelopment Agency entered into a direct financing lease with the San Marcos Unified School District whereby the Agency had agreed to lease 50% of the Public Works Yard to the School District, with a purchase option at the end of the lease. The lease was amended in fiscal year 2001/02 due to the refinancing of the Civic Center/Public Works Yard Bond issue. Upon the dissolution of the Redevelopment Agency, this lease was transferred to the Successor Agency of the former Redevelopment Agency.

The terms of the amended lease call for semi-annual payments of $98,906 including interest at 5.87% each July and January 15 commencing July 15, 2002 to July, 2031 and payments of $62,663 with no interest from July 15, 2002 to July 15, 2022. A net investment in direct financing lease has been recorded in the Successor Agency Trust to account for the net present value of the lease payments at June 30, 2014.

The following lists the components of the net investment in the direct financing lease as of June 30, 2014:

Total minimum lease payments to be received	$ 4,526,974
Less unearned income	(1,316,201)
Net investment in direct financing lease	$ 3,210,773

At June 30, 2014, the future minimum lease payments are as follows:

Year Ending June 30	Amount
2015	323,138
2016	323,138
2017	323,138
2018	323,138
2019	323,138
2020-2024	1,553,026
2025-2029	989,057
2030-2032	369,201
Total	$ 4,526,974

16) SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY, (continued)

Capital Assets

Capital asset activity was as follows for the year ended June 30, 2014:

	Balance July 1, 2013	Prior Period Adjustment*	Additions	Deletions	Balance June 30, 2014
Capital assets, not depreciated					
Land	$ 4,921,618	$ (1,014,249)	$ -	$ -	$ 3,907,369
Total capital assets	$ 4,921,618	$ (1,014,249)	$ -	$ -	$ 3,907,369

* See note 17 for more information on the prior period adjustment.

Long-Term Liabilities

The following is a summary of changes in long-term liabilities for the year ended June 30, 2014:

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014	Due Within One Year
Bonds payable	$322,410,000	$ -	$ (9,275,000)	$313,135,000	$ 9,655,000
Plus (less) deferred amounts:					
Issuance premium	4,677,735	-	(262,648)	4,415,087	-
Issuance discount	(1,827,221)	-	98,513	(1,728,708)	-
Total bonds payable	325,260,514	-	(9,439,135)	315,821,379	9,655,000
Note payable	1,157,315	-	(357,932)	799,383	374,376
Cooperation agreement	23,275,296	-	-	23,275,296	-
Advance from San Marcos					
Affordable Housing Fund	24,431,518	-	(47,775)	24,383,743	-
Due to other governments	3,189,938	-	(623,142)	2,566,796	569,180
Total	$377,314,581	$ -	$ (10,467,984)	$366,846,597	$ 10,598,556

16) SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY, (continued)

Bonds Payable

In November 2001, the San Marcos Public Facilities Authority issued \$54,055,000 2001 Public Improvement Refunding Revenue Bonds Series A, to refund the \$58,425,000 1993 Public Improvement Refunding Revenue Bonds, Series A. The bonds consist of serial bonds maturing from 2002 to 2021 in annual installments ranging from \$830,000 to \$2,025,000 and term bonds of \$11,680,000 and \$14,770,000 maturing in 2026 and 2031, respectively. Interest is payable on February 1 and August 1, commencing February 1, 2002 at rates ranging from 2.10% to 5.0%. Bonds maturing on or after August 1, 2012 are subject to optional redemption, in whole or in part, on any date on or after August 1, 2011. Bonds maturing on August 1, 2026 and 2031 are subject to mandatory redemption on August 1 of each year commencing in 2022 and 2027, respectively. The reserve requirement was fully funded at the end of the fiscal year.	$ 40,215,000
In July 1997, the former Redevelopment Agency issued \$9,465,000 1997 Series A Tax Allocation Bonds to finance the acquisition, construction and rehabilitation of affordable housing. The bonds consist of serial bonds of \$1,645,000 maturing from 1998 to 2007 in annual installments of \$135,000 to \$200,000 and term bonds of \$7,820,000 maturing October 1, 2027. Interest is payable semi-annually on April 1 and October 1 commencing October 1, 1997 at rates ranging from 4.2% to 6%. Bonds maturing on or after October 1, 2008 are subject to optional redemption, in whole or in part, on any date on or after October 1, 2007. Bonds maturing on October 1, 2027 are subject to mandatory sinking fund redemption, in part, on October 1 of each year commencing 2008. The reserve requirement was fully funded at the end of the fiscal year.	6,335,000

16) SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY, (continued)

In April 1998, the former Redevelopment Agency issued $7,490,000 1998 Series 1998A Tax Allocation Bonds to finance the acquisition and rehabilitation of an affordable housing project. The bonds consist of serial bonds of $1,525,000 maturing from 1999 to 2009 in annual installments of $110,000 to $175,000 and term bonds of $5,965,000 maturing October 1, 2028. Interest is payable semi-annually on April 1 and October 1 commencing October 1, 1998 at rates ranging from 3.95% to 5.67%. Bonds maturing on or after October 1, 2008 are subject to optional redemption, in whole or in part, on any date on or after October 1, 2007. Bonds maturing on October 1, 2028 are subject to mandatory sinking fund redemption, in part, on October 1, of each year commencing October 1, 2010. The reserve requirement was fully funded at the end of the fiscal year.	$ 5,165,000
In May 2003, the San Marcos Public Facilities Authority issued $69,740,000, 2003 Tax Allocation Revenue Bonds, Series A, to currently refund the Authority's Tax Allocation Bonds, 1993 Series A and to provide funds for certain capital projects. The bonds consists of serial bonds of $33,810,000 maturing from 2004 to 2022 in annual installments of $545,000 to $2,395,000 and term bonds of $9,110,000 and $26,820,000 maturing August 1, 2026 and 2033, respectively. Interest is payable semi-annually on February 1 and August 1 commencing August 1, 2003 at rates ranging from 2.50% to 5.25%. Bonds maturing on and after August 1, 2014 are subject to redemption in whole or in part at the option of the Authority on any interest payment date on or after August 1, 2013. A premium of $2,645,051 is being amortized over the life of the debt. The reacquisition price exceeded the net carrying amount of the old debt by $1,756,751. This amount is reported as a deferred outflow and is being amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued. The reserve requirement was fully funded at the end of the fiscal year.	55,000,000

16) SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY, (continued)

In May 2003, the San Marcos Public Facilities Authority issued $21,360,000, 2003 Tax Allocation Revenue Bonds, Series B, to currently refund a portion of the Senior Tax Allocation Bonds, Series 1999, to fully refund the Subordinate Tax Allocation bonds, Series 1999, and to provide funds for certain capital projects. The bonds consists of serial bonds of $2,360,000 maturing from 2004 to 2009 in annual installments of $355,000 to $490,000 and term bonds of $1,780,000, $6,465,000 and $10,755,000 maturing August 1, 2013, 2023 and 2033, respectively. Interest is payable semi-annually on February 1 and August 1 commencing August 1, 2003 at rates ranging from 1.75% to 5.79%. Bonds maturing on and after August 1, 2014 are subject to redemption in whole or in part at the option of the Authority on any interest payment date after August 1, 2013. The reacquisition price exceeded the net carrying amount of the old debt by $280,136. This amount is a deferred outflow and is being amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued. The reserve requirement was fully funded at the end of the fiscal year.	$ 17,220,000
In May 2005, the San Marcos Public Facilities Authority issued $30,235,000, 2005 Tax Allocation Revenue Bonds (Project Areas No. 1 and 3 Refunding Project), Series A, to advance refund the Senior Tax Allocation Bonds (Project Area No. 1), Series 1999, and the 1999 Subordinate Tax Increment Revenue Bonds (Project Area No. 3), Series A. The bonds consists of serial bonds of $7,655,000 maturing from 2006 to 2020 in annual installments of $95,000 to $995,000 and term bonds of $5,175,000 and $16,865,000 maturing August 1, 2025 and 2034, respectively. Interest is payable semi-annually on February 1 and August 1 commencing August 1, 2005 at rates ranging from 2.80% to 5.00%. Bonds maturing on and after August 1, 2016 are subject to redemption in whole or in part at the option of the Authority on any interest payment date on or after August 1, 2015. A premium of $1,210,789 is being amortized over the life of the debt. The reacquisition price exceeded the net carrying amount of the old debts by $3,567,007. This amount is a deferred outflow and is being amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued. The reserve requirement was fully funded at the end of the fiscal year.	27,300,000

16) SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY, (continued)

In May 2005, the San Marcos Public Facilities Authority issued $33,265,000, 2005 Tax Allocation Revenue Bonds (Project Area No. 1 Refunding and Financing Project), Series B, to refund the Taxable Tax Allocation Refunding Bonds (Project Area No. 1), Series 1999, repay certain loans made by the City to the Agency, and reimburse the Agency for expenditures made in connection with certain redevelopment activities. The bonds consists of serial bonds of $7,805,000 maturing from 2005 to 2015 in annual installments of $150,000 to $925,000 and term bonds of $5,380,000, $6,915,000, and $13,165,000 maturing August 1, 2020, 2025 and 2034, respectively. Interest is payable semi-annually on February 1 and August 1 commencing August 1, 2005 at rates ranging from 3.30% to 5.35%. Bonds maturing on and after August 1, 2016 are subject to redemption in whole or in part at the option of the Authority on any interest payment date on or after August 1, 2015. A discount of $259,360 is being amortized over the life of the debt. The reacquisition price exceeded the net carrying amount of the old debt by $1,815,137. This amount is a deferred outflow and is being amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued. The reserve requirement was fully funded at the end of the fiscal year.	$ 27,270,000
In June 2005, the San Marcos Public Facilities Authority issued $61,735,000, 2005 Tax Allocation Revenue Bonds (Project Areas No. 2 and No. 3 Financing Project), Series C, to finance certain capital projects of the Agency and the City. The bonds consists of serial bonds of $23,015,000 maturing from 2006 to 2025 in annual installments of $880,000 to $1,410,000 and term bonds of $4,475,000, $18,135,000, and $16,110,000 maturing August 1, 2028, 2035 and 2038, respectively. Interest is payable semi-annually on February 1 and August 1 commencing August 1, 2005 at rates ranging from 2.55% to 5.00%. Bonds maturing on and after August 1, 2016 are subject to redemption in whole or in part at the option of the Authority on any interest payment date on or after August 1, 2015. A premium of $2,674,921 is being amortized over the life of the debt. The reserve requirement was fully funded at the end of the fiscal year.	52,115,000

16) SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY, (continued)

In April 2006, the San Marcos Public Facilities Authority issued $36,165,000, 2006 Tax Allocation Revenue Bonds (Project Area No. 3 Financing Project), Series A, to finance certain capital projects of the Agency. The bonds consists of serial bonds of $5,970,000 maturing from 2007 to 2016 in annual installments of $25,000 to $700,000; term bonds of $3,145,000, $4,910,000, $7,610,000, and $8,095,000 maturing August 1, 2020, 2025, 2031, and 2036, respectively; and special term bonds of $590,000, $710,000 and $5,135,000 maturing August 1, 2011, 2016, and 2036, respectively. Interest is payable semi-annually on February 1 and August 1 commencing August 1, 2006 at rates ranging from 3.25% to 5.10%. Bonds maturing on and after August 1, 2017 are subject to redemption in whole or in part at the option of the Authority on any interest payment date on or after August 1, 2016. A discount of $116,318 is being amortized over the life of the debt. The reserve requirement was fully funded at the end of the fiscal year.	$ 31,365,000
In January 2011, the former Redevelopment Agency issued $52,805,000 2010 Tax Allocation Bonds to finance costs of low and moderate income housing projects, including the acquisition of land and improvements and the construction of certain infrastructure improvements. The bonds consist of serial bonds of $10,590,000 maturing from 2013 to 2021 in annual installments of $1,655,000 to $2,565,000 and term bonds of $42,215,000 maturing from 2018 to 2030. Interest is payable semi-annually on April 1 and October 1 commencing April 1, 2011 at rates ranging from 3.25% to 8.5%. Bonds maturing on or after October 1, 2021 are subject to optional redemption, in whole or in part, on any date on or after October 1, 2020. Bonds maturing on October 1, 2018, October 1, 2026, and October 1, 2030 are subject to mandatory sinking fund redemption, in part, on October 1, of each year commencing October 1, 2018. A discount of $1,719,824 is being amortized over the life of the debt. The reserve requirement was fully funded at the end of the fiscal year.	51,150,000
Total bonds payable	$ 313,135,000

16) SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY, (continued)

The bond documents for the San Marcos Public Facilities Authority 2003 Tax Allocation Revenue Bonds Series A and B and the 2005 Tax Allocation Revenue Bonds Series A and B include a Reserved Fund Surety provided by FGIC for the purpose of funding 50% of the reserve requirement for each series of the bonds. Per section 3.04(d) of the indenture for the bonds, if the rating of the claims paying ability of FGIC falls below a rating of "A", the Authority shall either (i) deposit into the account of the Reserve Fund for which the surety was issued an amount equal to the reserve requirement over the ensuing year in equal installments on at least a monthly basis, or (ii) replace the Reserve Fund Surety with a Reserve Fund Surety meeting the Reserve Fund Surety requirements within six months of such occurrence. In March 2008, FGIC's rating was downgraded below "A" triggering the downgrade language described above. The Authority has enacted option (i) and has begun making installments into the Reserve Fund to meet the requirements of the indenture.

Bond debt service requirements to maturity are as follows:

Year Ending June 30	Principal	Interest	Total
2015	$ 9,655,000	$ 16,755,958	$ 26,410,958
2016	9,480,000	16,316,371	25,796,371
2017	9,955,000	15,833,253	25,788,253
2018	10,450,000	15,312,565	25,762,565
2019	10,990,000	14,756,775	25,746,775
2020-2024	64,405,000	63,971,239	128,376,239
2025-2029	82,545,000	43,246,904	125,791,904
2030-2034	79,570,000	18,411,701	97,981,701
2035-2039	36,085,000	3,830,839	39,915,839
Total	$ 313,135,000	$ 208,435,605	$ 521,570,605

Note Payable

In fiscal year 2010-11, the former Redevelopment Agency entered into a note payable with BCR and B Investments LLC to finance the acquisition of a site within the San Marcos Creek Specific Plan for the ultimate purposes of providing low and moderate income housing. Payment of the note will be in sixty (60) equal monthly installments including interest at 4.5% commencing on August 1, 2011. Upon the dissolution of the Redevelopment Agency, this note was transferred to the Successor Agency of the former Redevelopment Agency.	$ 799,383

16) SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY, (continued)

The annual requirements to amortize the note payable are as follows:

Year Ending June 30	Principal	Interest	Total
2015	$ 374,376	$ 28,313	$ 402,689
2016	391,575	11,114	402,689
2017	33,432	126	33,558
Total	$ 799,383	$ 39,553	$ 838,936

Cooperation Agreement

In fiscal year 1993-94, the former Redevelopment Agency entered into a cooperation agreement with the County of San Diego (County) to alleviate any financial burden or detriment caused to the County as a result of amending the Redevelopment Plan for Project Area No. 1. The amount owed to the County increases each year by an annual amount equal to the County's portion of actual Agency tax revenue after deducting the housing set-aside. The unpaid principal and interest amount bears a 4% annual interest rate between fiscal year 1993-94 and the trigger year (the fiscal year in which the amount of tax revenue that has been allocated and paid to the Agency exceeds the amount of $100,000,000) and a floating interest rate thereafter. Payments consisting of 68% of the County's portion of tax increment are to be made annually beginning in the trigger year. Beginning in fiscal year 2012-13, the Agency is to annually pay the County the following percentages of gross Agency tax revenue:

2012-13 through 2017-18	25%
2018-19 through 2022-23	30%
2023-24 through 2027-28	35%
2028-29 through 2032-33	40%
2033-34 through 2037-38	45%
2038-39 and thereafter	50%

Once the County has been fully paid all principal and interest, if the Agency is still entitled to receive Agency tax revenue, annual payments to the County will equal the County's portion after deducting the housing set-aside.	$ 23,275,296

16) SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY, (continued)

Advance from the City of San Marcos:

The San Marcos Affordable Housing Special Revenue Fund loaned \$24,383,743 to the Non-major Fiduciary Funds to fund the fiscal year 2009/2010 and 2010/2011 Supplemental Educational Revenue Augmentation Fund (SERAF) payments. The loans bear an interest rate equal to the City's average portfolio rate and are to be repaid no later than June 30, 2015 for the fiscal year 2009/2010 amount no later than June 30, 2016 for the fiscal year 2010/2011 amount.	\$ 24,383,743

Due to Other Governments:

In March 1997, the County of San Diego filed a claim against the City of San Marcos Redevelopment Agency involving disputes over the amount of Redevelopment Tax Increment Revenue to be paid to the County. The case was settled and the Agency has to pay the County a predetermined amount annually commencing December 15, 1998 and ending December 15, 2019 for a total of \$9,872,085.	\$ 2,566,796

17) CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF BEGINNING FUND BALANCES AND NET POSITION

FUND STATEMENTS

During fiscal year 2013-14, prior period adjustments were needed to correct the beginning fund balance in the following funds. The amount of adjustments affecting the cumulative results of operations was due to errors occurred in fiscal year 2012-2013.

General Fund

Fund balance - beginning, as previously reported	$	60,332,252
Prior period adjustment		1,252,634
Fund balance - beginning, as restated	$	61,584,886

A prior period adjustment of net effect of $1,252,634 was needed to correct the beginning fund balance in the General Fund. In the prior year, $1,094,145 deposits recorded in the General Fund were erroneously classified. It was also determined during the year that Claims Payable was recorded in the General Fund as a liability. $158,489 capital project expenditures were also charged to the General Fund instead of Transportation Sales Tax Fund.

Special Revenue Funds:

Community Facilities District 98-02

Fund balance - beginning, as previously reported	$	9,706,762
Prior period adjustment		52,335
Fund balance - beginning, as restated	$	9,759,097

HOME Grant

Fund balance - beginning, as previously reported	$	55,018
Prior period adjustment		(162,697)
Fund balance - beginning, as restated	$	(107,679)

In the prior year, prepaid special assessments related to Community Facilities District 98-02 Fund were classified as liabilities rather than revenues. In addition, an accounts receivable related to the HOME Loan program was also discovered to have been reported in prior years in error.

17) CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF BEGINNING FUND BALANCES AND NET POSITION, (continued)

Capital Projects Funds:

Public Facilities

Fund balance - beginning, as previously reported	$	20,320,721
Prior period adjustment		605,569
Fund balance - beginning, as restated	$	20,926,290

Capital Improvements

Fund balance - beginning, as previously reported	$	922,388
Prior period adjustment		(1,213,134)
Fund balance - beginning, as restated	$	(290,746)

Transportation Sales Tax

Fund balance - beginning, as previously reported	$	1,447,343
Prior period adjustment		(435,376)
Fund balance - beginning, as restated	$	1,011,967

It was determined during the year that capital project expenditures of $605,569 in the prior year were erroneously charged to the Public Facility fund instead of Capital Improvements Fund. In Capital Improvements Fund, $884,454 in accounts receivable had been reported in prior years in error instead of in a retention payable account. In addition, $276,887 was erroneously booked in Capital Improvement Fund instead of Transportation Sales Tax Fund. In Transportation Sales Tax Fund, in addition to the $276,887 correction, $158,489 was also charged to the General Fund instead of Transportation Sales Tax Fund.

Proprietary Fund:

Creekside Marketplace

Net position - beginning, as previously reported	$	32,421,688
Prior period adjustment		817,083
Net position - beginning, as restated	$	33,238,771

In the prior year, $817,083 of fixed assets for buildings in the Creekside Marketplace Fund was erroneously reduced.

17) CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF BEGINNING FUND BALANCES AND NET POSITION, (continued)

Fiduciary Fund:

Private Purpose Trust Fund

Net position - beginning, as previously reported	$ (278,492,524)
Prior period adjustment	(993,331)
Net position - beginning, as restated	$ (279,485,855)

During the year certain fixed assets were discovered that should have been recorded in the City rather than activity related to the former Redevelopment Agency.

Government-Wide Statements

Net position - beginning, as previously reported	$ 906,478,667
Change in accounting principle	(128,940)
Prior period adjustment	20,369,588
Net position - beginning, as restated	$ 926,719,315

Change in Accounting Principle:

As discussed in Note 1, the City implemented GASB Statement No. 65 effective July 1, 2013. GASB 65, among other provisions, amended prior guidance with respect to the treatment of debt issuance costs. Under GASB 65, debt issuance costs, except any portion related to prepaid insurance costs, are recognized as an expense in the period incurred rather than reported as an asset on the statement of net position and recognized as an expense in a systematic and rational manner over the duration of the related debt. The City's unamortized balance of debt issuance costs, at the beginning of the year was $128,940. GASB 65 requires that accounting changes adopted to conform to the provisions of the Statement be applied retroactively by restating financial statements. Accordingly, beginning net position on the Statement of Activities has been restated for any unamortized debt issuance costs previously reported on the statement of net position.

17) CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF BEGINNING FUND BALANCES AND NET POSITION, (continued)

Prior Period Adjustments:

In the prior year financial statements, the City reported a significantly large amount for allowance for doubtful accounts related to various affordable housing developer loan agreements. Subsequently, the loans were deemed to be collectable and the City removed the allowance for doubtful accounts. During the year, the City determined a loan agreement with the California Energy Resources Conservation and Development Commission should have been reported in the prior fiscal year. During the year, the City determined certain fixed assets were incorrectly classified which resulted in prior period adjustments to correct fixed asset beginning balances.

18) OTHER REQUIRED DISCLOSURES

<u>Deficit Fund Balances</u>

The following funds reported deficit fund balances at June 30, 2014:

Governmental Funds - Non-Major Funds	
Special Revenue:	
Street Lighting District	(25)
CalHOME Grant	(200)

These deficits are expected to be reduced by future revenues or transfers from other funds.

19) SUBSEQUENT EVENT

On October 1, 2014, the San Marcos Public Financing Authority, City of San Marcos Community Facilities District No. 91-01 (Twin Oaks Valley Ranch) and City of San Marcos Community Facilities District No. 99-01 executed a Bond Purchase Agreement with Stifel, Nicolaus & Company regarding the issuance of $32,395,000 of Special Tax Revenue Refunding Bonds, Series 2014A by the San Marcos Public Financing Authority and $32,395,000 of certain Special Tax Refunding Bonds, Series 2014 issued by City of San Marcos Community Facilities District No. 91-01 (Twin Oaks Valley Ranch) and City of San Marcos Community Facilities District No. 99-01. The proceeds of the San Marcos Public Financing Authority Bonds were used to acquire the Special Tax Refunding Bonds, the proceeds of which were used to current refund the San Marcos Public Facilities Authority's outstanding Special Tax Revenue Refunding Bonds, 2004 Series A and 2004 Series B and outstanding Special Tax Revenue Bonds, 2006 Series A. On November 3, 2014, the San Marcos Public Facilities Authority paid in full (1) all $26,380,000 of the outstanding Special Tax Revenue Refunding Bonds, 2004 Series A, at par, and $214,655.63 of interest due; (2) all $1,645,000 of the outstanding Special Tax Revenue Refunding Bonds, 2004 Series B, at par, and $11,773.97 of interest due; and (3) all $9,375,000 of the outstanding Special Tax Revenue Bonds, 2006 Series A, at par, and $80,369.65 of interest due.

This page intentionally left blank.

REQUIRED SUPPLEMENTARY

INFORMATION

Schedules of Funding Progress
For the Year Ended June 30, 2014

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.

SCHEDULES OF FUNDING PROGRESS

MISCELLANEOUS PLAN

Actuarial Valuation Date	Entry-Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Liability (Excess Assets)	Funded Status	Annual Covered Payroll	UAAL As a % of Covered Payroll
6/30/2011	$ 86,945,272	$ 58,675,644	$ 28,269,628	67.5%	$ 13,264,398	213.1%
6/30/2012	$ 92,948,489	$ 63,505,547	$ 29,442,942	68.3%	$ 12,940,182	227.5%
6/30/2013	$ 99,927,817	$ 63,505,547	$ 14,777,267	69.5%	$ 6,364,655	232.2%

SAFETY PLAN

Actuarial Valuation Date	Entry-Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Liability (Excess Assets)	Funded Status	Annual Covered Payroll	UAAL As a % of Covered Payroll
6/30/2011	$ 43,094,634	$ 31,933,797	$ 11,160,837	74.1%	$ 6,969,819	160.1%
6/30/2012	$ 45,629,055	$ 33,648,346	$ 11,980,709	73.7%	$ 6,463,815	185.4%
6/30/2013	$ 48,425,613	$ 33,648,346	$ 14,777,267	69.5%	$ 6,364,655	232.2%

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
General Fund
For the Year Ended June 30, 2014

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
REVENUES				
Taxes and special assessments	$ 33,135,423	$ 33,135,423	$ 31,518,221	$ (1,617,202)
Licenses and permits	4,491,636	4,491,636	4,834,181	342,545
Intergovernmental	357,576	357,576	402,100	44,524
Charges for services	12,500,000	12,500,000	14,014,737	1,514,737
Developer fees	-	-	47,365	47,365
Fines and forfeitures	261,500	261,500	379,517	118,017
Investment and rental income	6,832,439	6,832,439	6,726,845	(105,594)
Miscellaneous	438,988	438,988	2,078,727	1,639,739
Total Revenues	58,017,562	58,017,562	60,001,693	1,984,131
EXPENDITURES				
Current:				
General government	14,442,421	15,373,286	14,985,010	388,276
Community development	2,702,240	2,731,689	2,396,085	335,604
Public safety	31,470,103	31,715,082	30,863,346	851,736
Highways, streets and parks	12,858,095	12,900,910	11,777,248	1,123,662
Culture and recreation	2,558,152	2,593,248	2,789,230	(195,982)
Debt service:				
Principal	60,119	60,119	71,512	(11,393)
Interest and fiscal charges	15,085	15,085	7,175	7,910
Total Expenditures	64,106,215	65,389,419	62,889,606	2,499,813
Excess (Deficiency) of Revenues over Expenditures	(6,088,653)	(7,371,857)	(2,887,913)	4,483,944
OTHER FINANCING SOURCES (USES)				
Sale of land held for resale	-	-	(848,963)	(848,963)
Acquisition under capital lease	-	-	427,300	427,300
Transfers in	4,303,000	4,303,000	5,003,292	700,292
Transfers out	(559,940)	(559,940)	(224,195)	335,745
Total Other Financing Sources (Uses)	3,743,060	3,743,060	4,357,434	614,374
Net Change in Fund Balance	(2,345,593)	(3,628,797)	1,469,521	5,098,318
Fund Balance, Beginning, as Previously Reported	60,332,252	60,332,252	60,332,252	-
Prior period adjustment (note 17)	1,252,634	1,252,634	1,252,634	-
Fund Balance, Beginning, as Restated	61,584,886	61,584,886	61,584,886	-
Fund Balance, Ending	$ 59,239,293	$ 57,956,089	$ 63,054,407	$ 5,098,318

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
San Marcos Affordable Housing
For the Year Ended June 30, 2014

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
REVENUES				
Developer fees	$ 331,293	$ 331,293	$ 78,000	$ (253,293)
Investment and rental income	108,449	108,449	708,901	600,452
Miscellaneous	20,500	20,500	136,292	115,792
Total Revenues	460,242	460,242	923,193	462,951
EXPENDITURES				
Current:				
General government	504,830	504,830	698,529	(193,699)
Community development	723,979	723,979	1,042,128	(318,149)
Public safety	3,630	3,630	-	3,630
Total Expenditures	1,232,439	1,232,439	1,740,657	(508,218)
Excess (Deficiency) of Revenues Over Expenditures	(772,197)	(772,197)	(817,464)	(45,267)
OTHER FINANCING SOURCES (USES)				
Sale of land held for resale	80,000	80,000	189,122	109,122
Total Other Financing Sources (Uses)	80,000	80,000	189,122	109,122
Net Change in Fund Balance	(692,197)	(692,197)	(628,342)	63,855
Fund Balance, Beginning	41,402,096	41,402,096	41,402,096	-
Fund Balance, Ending	$ 40,709,899	$ 40,709,899	$ 40,773,754	$ 63,855

1) BUDGETARY INFORMATION

The City follows these procedures in establishing its budgetary data:

1) During May or June, the City Manager submits to the City Council a proposed operating budget for all funds of the City for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them.

2) Public hearings are conducted at City Council meetings to obtain citizens' comments during June.

3) Prior to July 1, the budget is enacted legally through passage of an appropriation resolution.

The level of budgetary control (the level on which expenditures may not exceed budgeted appropriations) is the individual fund level. The City Manager is authorized to transfer budgeted amounts between departments/functions as long as the total City budget is not exceeded. Any transfer exceeding the adopted City budget must have City Council approval. Appropriations were increased by a net of $1,283,204 in the General Fund as a result of approved mid year budget amendment and carryovers.

Budgets for all governmental type funds are adopted on a basis consistent with generally accepted accounting principles. Annual budgets are adopted for the General, Special Revenue, and Debt Service Funds. Annual budgets are not adopted for the Capital Projects Funds and Community Foundation Fund. Therefore, budget and actual financial statements have not been prepared for Capital Projects Funds and Community Foundation Fund because a comparison of such budgetary amounts to annual revenues and expenditures is not meaningful.

The City controls its expenditures without the use of encumbrance accounting.

2) EXPENDITURES IN EXCESS OF APPROPRIATIONS

Governmental Funds - Major Fund	Final Budget	Expenditures	Excess
Special Revenue Funds:			
San Marcos Affordable Housing	$ 1,232,439	$ 1,740,657	$ (508,218)
Governmental Funds - Non-Major Fund			
Special Revenue Funds:			
Community Facilities District 98-02	4,785,228	4,840,978	(55,750)
Senior Nutrition Grant	145,000	206,793	(61,793)
Art in Public Places	5,000	7,500	(2,500)
CalHOME Grant	276,931	307,699	(30,768)

This page intentionally left blank.

Special Revenue Funds

Special revenue funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes.

The Gas Tax Fund is used to account for a portion of the operations of the street maintenance department. Financing is provided by the City's share of State gasoline taxes. These taxes are used exclusively to maintain streets in accordance with State law.

The Traffic Safety Fund is used to account for traffic safety expenditures. Financing is provided by City-assessed traffic signal fees and traffic fines collected by the State.

The Community Facilities District 98-02 Fund is used to account for the cost of providing street lighting and landscape services to certain properties. The benefiting properties are assessed for a portion of the cost.

The Street Lighting District Fund is used to account for the cost of providing street lighting services to certain properties. The benefiting properties are assessed for a portion of the cost.

The Senior Nutrition Grant Fund is used to account for Federal grant revenues received through the County of San Diego for the operations of the Senior Nutrition Center.

The Community Development Block Grant Fund is used to account for transactions related to the Community Development Block Grant Program provided by the Federal Government. Funds are mostly utilized for capital improvement projects benefiting low and moderate income areas within the City.

The HOME Grant Fund is used to account for transactions related to the HOME Grant provided by the Federal Government. The grant is used to fund the San Marcos Mortgage Assistance Program.

The Center Drive Maintenance District Fund is used to account for the cost of providing street maintenance services to certain properties. The benefiting properties are assessed for a portion of the cost.

The Energy Efficiency and Conservation Block Grant Fund is used to account for transactions related to the Energy Efficiency and Conservation Block Grant Program provided by the Federal Government. Funds are utilized for capital improvement projects to City Hall and other facilities to install energy efficient devices.

The Art in Public Places Fund is used to account for transactions related to the Art in Public Places fees collected to fund projects intended to add cultural art works throughout the City.

The Public Equipment in Government Fund is used to account for transactions related to the Public Equipment in Government fees collected as part of the City's Cable franchise. Funds are spent on technology equipment to bring City meetings to the public.

Special Revenue Funds, (continued)

The Congestion Management CFD Fund is used to account for the future costs of providing intra City public transportation services, facilities, and equipment.

The CalHOME Grant Fund is used to account for transactions related to the CalHOME Grant provided by the State of California. The grant is used to help fund the San Marcos Mortgage Assistance Program.

Debt Service Funds

Debt service funds are used to account for debt service transactions including revenue collection and payments of principal and interest on long-term obligations.

The San Marcos Public Facilities Authority Fund is used to account for the accumulation of resources for and the payment of principal and interest of the various debt obligations of the San Marcos Public Facilities Authority.

Capital Projects Funds

Capital projects funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds.

The Transportation Development Act Fund is used to account for revenues received and expenditures made for transportation development, transit and related studies. Funding is provided to the City as a secondary recipient under agreements with the County and with the San Diego Association of Governments.

The Capital Improvements Fund is used to account for capital projects funded with Federal and other grants and the General Fund.

The Community Facilities District 99-1 Fund is used to account for the proceeds of bonds issued by the City of San Marcos Community Facilities District 99-1 pursuant to the Mello-Roos Community Facilities Act of 1982. The proceeds are used to finance, refinance or provide reimbursement for the cost of land, buildings, equipment and other public capital improvements.

The Transportation Sales Tax Fund is used to account for receipts and expenditures of money associated with the widening of State Highway 78 and other local public capital improvements.

The Community Facilities District 02-01 Fund is used to account for the proceeds of bonds issued by the City of San Marcos Community facilities District 02-01 pursuant to the Mello-Roos Community Facilities Act of 1982. The proceeds are used to finance, refinance or provide reimbursement for the cost of land, buildings, equipment and other public capital improvements.

Permanent Fund

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

The Community Foundation Fund is used to account for the principal trust amount received and the related interest income. The interest portion can be used to provide financial and other assistance to worthy programs which benefit the City and its residents.

Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2014

	Total Special Revenue Funds	Debt Service Fund San Marcos Public Facilities Authority	Total Capital Projects Funds	Permanent Fund Community Foundation	Total Non-Major Governmental Funds
ASSETS					
Cash and investments (note 2)	$ 16,530,895	$ -	$ 697,672	$ 280	$ 17,228,847
Cash and investments with fiscal agents (note 2)	-	491,322	678,833	-	1,170,155
Receivables:					
Taxes and special assessments	17,820	-	-	-	17,820
Accounts	56,941	4,580	-	-	61,521
Interest	9,974	-	675	2	10,651
Notes, net (note 3)	2,298,529	-	-	-	2,298,529
Due from other governments	1,085,965	-	5,110,401	-	6,196,366
Deposits	-	-	-	1,300,541	1,300,541
Total Assets	$ 20,000,124	$ 495,902	$ 6,487,581	$ 1,300,823	$ 28,284,430
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Liabilities:					
Accounts payable	$ 931,612	$ -	$ 851,703	$ 5,325	$ 1,788,640
Accrued liabilities	74,323	-	-	-	74,323
Due to other funds (note 5)	557,429	357,342	2,306,963	-	3,221,734
Deposits payable	10,389	-	794,708	35	805,132
Total Liabilities	1,573,753	357,342	3,953,374	5,360	5,889,829
Deferred Inflows of Resources:					
Unavailable revenue	2,315,812	1,320	143,383	-	2,460,515
Fund Balances:					
Nonspendable:					
Permanent fund	-	-	-	1,000,000	1,000,000
Restricted:					
Debt service	-	137,240	-	-	137,240
Transportation	4,091,056	-	1,295,521	-	5,386,577
Lighting and landscaping	10,123,779	-	-	-	10,123,779
Capital improvements	-	-	1,095,303	-	1,095,303
Other purposes	1,895,949	-	-	295,463	2,191,412
Unassigned	(225)	-	-	-	(225)
Total Fund Balances	16,110,559	137,240	2,390,824	1,295,463	19,934,086
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 20,000,124	$ 495,902	$ 6,487,581	$ 1,300,823	$ 28,284,430

Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Non-Major Governmental Funds
For the Year Ended June 30, 2014

	Total Special Revenue Funds	Debt Service Fund San Marcos Public Facilities Authority	Total Capital Projects Funds	Permanent Fund Community Foundation	Total Non-Major Governmental Funds
REVENUES					
Taxes and special assessments	$ 5,981,231	$ -	$ -	$ -	$ 5,981,231
Intergovernmental	4,558,610	-	9,919,166	-	14,477,776
Investment and rental income	120,149	511,095	5,460	171,445	808,149
Miscellaneous	159,976	-	409,342	-	569,318
Total Revenues	10,819,966	511,095	10,333,968	171,445	21,836,474
EXPENDITURES					
Current:					
Community development	771,426	-	-	-	771,426
Highways, streets and parks	7,966,518	-	2,131,608	-	10,098,126
Culture and recreation	87,579	-	-	71,750	159,329
Capital outlay	476,568	-	7,533,080	-	8,009,648
Debt service:					
Principal	-	245,000	-	-	245,000
Interest and fiscal charges	-	226,890	-	-	226,890
Total Expenditures	9,302,091	471,890	9,664,688	71,750	19,510,419
Excess of Revenues Over (Under) Expenditures	1,517,875	39,205	669,280	99,695	2,326,055
OTHER FINANCING SOURCES (USES)					
Transfers in	224,195	-	-	-	224,195
Transfers out	(753,292)	-	-	-	(753,292)
Total Other Financing Sources (Uses)	(529,097)	-	-	-	(529,097)
Net Change in Fund Balances	988,778	39,205	669,280	99,695	1,796,958
Fund Balances, Beginning, as Previously Reported	15,232,143	98,035	3,370,054	1,195,768	19,896,000
Prior period adjustment (note 17)	(110,362)	-	(1,648,510)	-	(1,758,872)
Fund Balances, Beginning, as Restated	15,121,781	98,035	1,721,544	1,195,768	18,137,128
Fund Balances, Ending	$ 16,110,559	$ 137,240	$ 2,390,824	$ 1,295,463	$ 19,934,086

City of San Marcos

Combining Balance Sheet
Non-Major Special Revenue Funds
June 30, 2014

	Gas Tax	Traffic Safety	Community Facilities District 98-02	Street Lighting District	Senior Nutrition Grant	Community Development Block Grant
ASSETS						
Cash and investments	$ 2,716,338	$ 1,113,803	$ 10,679,057	$ 150,082	$ 80,943	$ -
Receivables:						-
Taxes and special assessments	-	-	17,036	784	-	-
Accounts	-	-	-	-	-	-
Interest	1,384	651	6,773	-	120	-
Notes, net (note 3)	-	-	-	-	-	-
Due from other governments	266,366	32,410	17,283	-	15,838	221,311
Total Assets	$ 2,984,088	$ 1,146,864	$ 10,720,149	$ 150,866	$ 96,901	$ 221,311
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES						
Liabilities:						
Accounts payable	$ 133,576	$ 5,113	$ 578,682	$ 150,860	$ 12,346	$ 44,255
Accrued liabilities	67,199	-	405	31	-	6,688
Due to other funds (note 5)	-	-	-	-	-	60,311
Deposits payable	-	10,389	-	-	-	-
Total Liabilities	200,775	15,502	579,087	150,891	12,346	111,254
Deferred Inflows of Resources:						
Unavailable revenue	-	-	17,283	-	-	-
Fund Balances (Deficit):						
Restricted						
Transportation	2,783,313	1,131,362	-	-	-	-
Lighting and landscaping	-	-	10,123,779	-	-	-
Other purposes	-	-	-	-	84,555	110,057
Unassigned	-	-	-	(25)	-	-
Total Fund Balances (Deficit)	2,783,313	1,131,362	10,123,779	(25)	84,555	110,057
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	$ 2,984,088	$ 1,146,864	$ 10,720,149	$ 150,866	$ 96,901	$ 221,311

HOME Grant	Center Drive Maintenance District	Energy Efficiency & Conservation Block Grant	Art in Public Places	Public Equipment in Government	Congestion Management CFD	CalHOME Grant	Total
$ -	$ 67,787	$ 7,309	$ 563,978	$ 1,042,838	$ 108,760	$ -	$ 16,530,895
-	-	-	-	-	-	-	17,820
-	-	-	-	56,941	-	-	56,941
-	45	4	331	606	60	-	9,974
1,708,471	-	-	-	-	-	590,058	2,298,529
324,056	-	-	-	-	-	208,701	1,085,965
$ 2,032,527	$ 67,832	$ 7,313	$ 564,309	$ 1,100,385	$ 108,820	$ 798,759	$ 20,000,124
$ 4,009	$ 271	$ -	$ 2,500	$ -	$ -	$ -	$ 931,612
-	-	-	-	-	-	-	74,323
288,217	-	-	-	-	-	208,901	557,429
-	-	-	-	-	-	-	10,389
292,226	271	-	2,500	-	-	208,901	1,573,753
1,708,471	-	-	-	-	-	590,058	2,315,812
-	67,561	-	-	-	108,820	-	4,091,056
-	-	-	-	-	-	-	10,123,779
31,830	-	7,313	561,809	1,100,385	-	-	1,895,949
-	-	-	-	-	-	(200)	(225)
31,830	67,561	7,313	561,809	1,100,385	108,820	(200)	16,110,559
$ 2,032,527	$ 67,832	$ 7,313	$ 564,309	$ 1,100,385	$ 108,820	$ 798,759	$ 20,000,124

Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Non-Major Special Revenue Funds
For the Year Ended June 30, 2014

	Gas Tax	Traffic Safety	Community Facilities District 98-02	Street Lighting District	Senior Nutrition Grant	Community Development Block Grant
REVENUES						
Taxes and special assessments	$ -	$ -	$ 5,125,210	$ 538,307	$ -	$ -
Intergovernmental	2,741,278	349,468	-	-	89,564	635,063
Investment and rental income	15,172	7,241	77,786	-	1,347	-
Miscellaneous	-	-	2,664	2,206	46,200	-
Total Revenues	2,756,450	356,709	5,205,660	540,513	137,111	635,063
EXPENDITURES						
Current:						
Community development	-	-	-	-	-	163,674
Highways, streets and parks	2,944,853	29,933	4,226,039	764,733	-	-
Culture and recreation	-	-	-	-	80,079	-
Capital outlay	-	-	-	-	-	476,568
Total Expenditures	2,944,853	29,933	4,226,039	764,733	80,079	640,242
Excess (Deficiency) of Revenues Over (Under) Expenditures	(188,403)	326,776	979,621	(224,220)	57,032	(5,179)
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	-	224,195	-	-
Transfers out	-	-	(614,939)	-	(126,714)	-
Total Other Financing Sources (Uses)	-	-	(614,939)	224,195	(126,714)	-
Net Change in Fund Balances	(188,403)	326,776	364,682	(25)	(69,682)	(5,179)
Fund Balances, Beginning, as Previously Reported	2,971,716	804,586	9,706,762	-	154,237	115,236
Prior period adjustment (note 17)	-	-	52,335	-	-	-
Fund Balances, Beginning, as Restated	2,971,716	804,586	9,759,097	-	154,237	115,236
Fund Balances (Deficit), Ending	$ 2,783,313	$ 1,131,362	$ 10,123,779	$ (25)	$ 84,555	$ 110,057

	HOME Grant	Center Drive Maintenance District	Energy Efficiency & Conservation Block Grant	Art in Public Places	Public Equipment in Government	Congestion Management CFD	CalHOME Grant	Total
	$ -	$ 25,870	$ -	$ -	$ 210,963	$ 80,881	$ -	$ 5,981,231
	324,056	-	16	-	-	-	419,165	4,558,610
	6,387	479	54	4,193	7,046	444	-	120,149
	108,906	-	-	-	-	-	-	159,976
	439,349	26,349	70	4,193	218,009	81,325	419,165	10,819,966
	299,840	-	-	-	213	-	307,699	771,426
	-	960	-	-	-	-	-	7,966,518
	-	-	-	7,500	-	-	-	87,579
	-	-	-	-	-	-	-	476,568
	299,840	960	-	7,500	213	-	307,699	9,302,091
	139,509	25,389	70	(3,307)	217,796	81,325	111,466	1,517,875
	-	-	-	-	-	-	-	224,195
	-	(11,639)	-	-	-	-	-	(753,292)
	-	(11,639)	-	-	-	-	-	(529,097)
	139,509	13,750	70	(3,307)	217,796	81,325	111,466	988,778
	55,018	53,811	7,243	565,116	882,589	27,495	(111,666)	15,232,143
	(162,697)	-	-	-	-	-	-	(110,362)
	(107,679)	53,811	7,243	565,116	882,589	27,495	(111,666)	15,121,781
	$ 31,830	$ 67,561	$ 7,313	$ 561,809	$ 1,100,385	$ 108,820	$ (200)	$ 16,110,559

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
Gas Tax Special Revenue Fund
For the Year Ended June 30, 2014

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
REVENUES				
Intergovernmental	$ 2,483,324	$ 2,483,324	$ 2,741,278	$ 257,954
Investment and rental income	13,000	13,000	15,172	2,172
Total Revenues	2,496,324	2,496,324	2,756,450	260,126
EXPENDITURES				
Current:				
Highways, streets and parks	4,557,414	4,557,414	2,944,853	1,612,561
Total Expenditures	4,557,414	4,557,414	2,944,853	1,612,561
Net Change in Fund Balance	(2,061,090)	(2,061,090)	(188,403)	1,872,687
Fund Balance, Beginning	2,971,716	2,971,716	2,971,716	-
Fund Balance, Ending	$ 910,626	$ 910,626	$ 2,783,313	$ 1,872,687

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
Traffic Safety Special Revenue Fund
For the Year Ended June 30, 2014

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
REVENUES				
Intergovernmental	$ 274,500	$ 274,500	$ 349,468	$ 74,968
Investment and rental income	3,500	3,500	7,241	3,741
Total Revenues	278,000	278,000	356,709	78,709
EXPENDITURES				
Current:				
Highways, streets and parks	739,343	739,343	29,933	709,410
Total Expenditures	739,343	739,343	29,933	709,410
Net Change in Fund Balance	(461,343)	(461,343)	326,776	788,119
Fund Balance, Beginning	804,586	804,586	804,586	-
Fund Balance, Ending	$ 343,243	$ 343,243	$ 1,131,362	$ 788,119

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
Community Facilities District 98-02 Special Revenue Fund
For the Year Ended June 30, 2014

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
REVENUES				
Taxes and special assessments	$ 5,058,640	$ 5,058,640	$ 5,125,210	$ 66,570
Investment and rental income	53,500	53,500	77,786	24,286
Miscellaneous	-	-	2,664	2,664
Total Revenues	5,112,140	5,112,140	5,205,660	93,520
EXPENDITURES				
Current:				
Highways, streets and parks	4,765,228	4,785,228	4,226,039	559,189
Total Expenditures	4,765,228	4,785,228	4,226,039	559,189
Excess of Revenues Over Expenditures	346,912	326,912	979,621	652,709
OTHER FINANCING SOURCES (USES)				
Transfers out	-	-	(614,939)	(614,939)
Total Other Financing Sources (Uses)	-	-	(614,939)	(614,939)
Net Change in Fund Balance	346,912	326,912	364,682	37,770
Fund Balance Beginning, as Previously Reported	9,706,762	9,706,762	9,706,762	-
Prior period adjustment (note 17)	52,335	52,335	52,335	-
Fund Balance, Beginning, as Restated	9,759,097	9,759,097	9,759,097	-
Fund Balance, Ending	$ 10,106,009	$ 10,086,009	$ 10,123,779	$ 37,770

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
Street Lighting District Special Revenue Fund
For the Year Ended June 30, 2014

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
REVENUES				
Taxes and special assessments	$ 532,204	$ 532,204	$ 538,307	$ 6,103
Miscellaneous	-	-	2,206	2,206
Total Revenues	532,204	532,204	540,513	8,309
EXPENDITURES				
Current:				
Highways, streets and parks	1,092,294	1,092,294	764,733	327,561
Total Expenditures	1,092,294	1,092,294	764,733	327,561
Excess of Revenues Over Expenditures	(560,090)	(560,090)	(224,220)	335,870
OTHER FINANCING SOURCES (USES)				
Transfers in	559,940	559,940	224,195	(335,745)
Total Other Financing Sources (Uses)	559,940	559,940	224,195	(335,745)
Net Change in Fund Balance	(150)	(150)	(25)	125
Fund Balance, Beginning	-	-	-	-
Fund Balance (Deficit), Ending	$ (150)	$ (150)	$ (25)	$ 125

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
Senior Nutrition Grant Special Revenue Fund
For the Year Ended June 30, 2014

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
REVENUES				
Intergovernmental	$ 95,000	$ 95,000	$ 89,564	$ (5,436)
Investment and rental income	450	450	1,347	897
Miscellaneous	35,000	35,000	46,200	11,200
Total Revenues	130,450	130,450	137,111	6,661
EXPENDITURES				
Current:				
Culture and recreation	95,000	95,000	80,079	14,921
Total Expenditures	95,000	95,000	80,079	14,921
Excess of Revenues Over Expenditures	35,450	35,450	57,032	21,582
OTHER FINANCING SOURCES (USES)				
Transfers out	(50,000)	(50,000)	(126,714)	(76,714)
Total Other Financing Sources (Uses)	(50,000)	(50,000)	(126,714)	(76,714)
Net Change in Fund Balance	(14,550)	(14,550)	(69,682)	(55,132)
Fund Balance, Beginning	154,237	154,237	154,237	-
Fund Balance, Ending	$ 139,687	$ 139,687	$ 84,555	$ (55,132)

City of San Marcos

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
Community Development Block Grant Special Revenue Fund
For the Year Ended June 30, 2014

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
REVENUES				
Intergovernmental	$ 1,231,573	$ 1,231,573	$ 635,063	$ (596,510)
Total Revenues	1,231,573	1,231,573	635,063	(596,510)
EXPENDITURES				
Current:				
Community development	162,467	162,467	163,674	(1,207)
Capital outlay	1,064,106	1,064,106	476,568	587,538
Total Expenditures	1,226,573	1,226,573	640,242	586,331
Net Change in Fund Balance	5,000	5,000	(5,179)	(10,179)
Fund Balance, Beginning	115,236	115,236	115,236	-
Fund Balance, Ending	$ 120,236	$ 120,236	$ 110,057	$ (10,179)

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
HOME Grant Special Revenue Fund
For the Year Ended June 30, 2014

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
REVENUES				
Intergovernmental	$ 323,000	$ 323,000	$ 324,056	$ 1,056
Investment and rental income	-	-	6,387	6,387
Miscellaneous	-	-	108,906	108,906
Total Revenues	323,000	323,000	439,349	116,349
EXPENDITURES				
Current:				
Community development	320,000	320,000	299,840	20,160
Total Expenditures	320,000	320,000	299,840	20,160
Net Change in Fund Balance	3,000	3,000	139,509	136,509
Fund Balance, Beginning, as Previously Reported	55,018	55,018	55,018	-
Prior period adjustment (note 17)	(162,697)	(162,697)	(162,697)	-
Fund Balance (Deficit), Beginning, as Restated	(107,679)	(107,679)	(107,679)	-
Fund Balance (Deficit), Ending	$ (104,679)	$ (104,679)	$ 31,830	$ 136,509

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
Center Drive Maintenance District Special Revenue Fund
For the Year Ended June 30, 2014

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
REVENUES				
Taxes and special assessments	$ 21,000	$ 21,000	$ 25,870	$ 4,870
Investment and rental income	650	650	479	(171)
Total Revenues	21,650	21,650	26,349	4,699
EXPENDITURES				
Current:				
Highways, streets and parks	3,903	3,903	960	2,943
Total Expenditures	3,903	3,903	960	2,943
Excess of Revenues Over Expenditures	17,747	17,747	25,389	7,642
OTHER FINANCING SOURCES (USES)				
Transfers out	(11,639)	(11,639)	(11,639)	-
Total Other Financing Sources (Uses)	(11,639)	(11,639)	(11,639)	-
Net Change in Fund Balance	6,108	6,108	13,750	7,642
Fund Balance, Beginning	53,811	53,811	53,811	-
Fund Balance, Ending	$ 59,919	$ 59,919	$ 67,561	$ 7,642

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
Energy Efficiency & Conservation Block Grant Special Revenue Fund
For the Year Ended June 30, 2014

	Budgeted Amounts Original	Budgeted Amounts Final	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Intergovernmental	$ -	$ -	$ 16	$ 16
Investment and rental income	-	-	54	54
Total Revenues	-	-	70	54
EXPENDITURES	-	-	-	-
Net Change in Fund Balances	-	-	70	54
Fund Balances, Beginning	7,243	7,243	7,243	-
Fund Balances, Ending	$ 7,243	$ 7,243	$ 7,313	$ -

City of San Marcos

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
Art in Public Places Special Revenue Fund
For the Year Ended June 30, 2014

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
REVENUES				
Investment and rental income	$ 5,500	$ 5,500	$ 4,193	$ (1,307)
Total Revenues	5,500	5,500	4,193	(1,307)
EXPENDITURES				
Current:				
Culture and recreation	5,000	5,000	7,500	(2,500)
Total Expenditures	5,000	5,000	7,500	(2,500)
Net Change in Fund Balance	500	500	(3,307)	(3,807)
Fund Balance, Beginning	565,116	565,116	565,116	-
Fund Balance, Ending	$ 565,616	$ 565,616	$ 561,809	$ (3,807)

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
Public Equipment in Government Special Revenue Fund
For the Year Ended June 30, 2014

	Budgeted Amounts			
	Original	Final	Actual	Variance with Final Budget
REVENUES				
Taxes and special assessments	$ 191,302	$ 191,302	$ 210,963	$ 19,661
Investment and rental income	7,700	7,700	7,046	(654)
Total Revenues	199,002	199,002	218,009	19,007
EXPENDITURES				
Current:				
Community development	75,000	75,000	213	74,787
Total Expenditures	75,000	75,000	213	74,787
Net Change in Fund Balance	124,002	124,002	217,796	93,794
Fund Balance, Beginning	882,589	882,589	882,589	-
Fund Balance, Ending	$ 1,006,591	$ 1,006,591	$ 1,100,385	$ 93,794

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
Congestion Management CFD Special Revenue Fund
For the Year Ended June 30, 2014

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
REVENUES				
Taxes and special assessments	$ 75,000	$ 75,000	$ 80,881	$ 5,881
Investment and rental income	400	400	444	44
Total Revenues	75,400	75,400	81,325	5,925
EXPENDITURES	-	-	-	-
Net Change in Fund Balance	75,400	75,400	81,325	5,925
Fund Balance, Beginning	27,495	27,495	27,495	-
Fund Balance, Ending	$ 102,895	$ 102,895	$ 108,820	$ 5,925

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
CalHOME Grant Special Revenue Fund
For the Year Ended June 30, 2014

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
REVENUES				
Intergovernmental	$ 300,000	$ 300,000	$ 419,165	$ 119,165
Total Revenues	300,000	300,000	419,165	119,165
EXPENDITURES				
Current:				
Community development	276,931	276,931	307,699	(30,768)
Total Expenditures	276,931	276,931	307,699	(30,768)
Net Change in Fund Balance	23,069	23,069	111,466	88,397
Fund Balance (Deficit), Beginning	(111,666)	(111,666)	(111,666)	-
Fund Balance (Deficit), Ending	$ (88,597)	$ (88,597)	$ (200)	$ 88,397

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
San Marcos Public Facilities Authority Debt Service Fund
For the Year Ended June 30, 2014

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
REVENUES				
Investment and rental income	$ 493,949	$ 493,949	$ 511,095	$ 17,146
Total Revenues	493,949	493,949	511,095	17,146
EXPENDITURES				
Debt service:				
Principal	245,000	245,000	245,000	-
Interest and fiscal charges	226,890	226,890	226,890	-
Total Expenditures	471,890	471,890	471,890	-
Net Change in Fund Balance	22,059	22,059	39,205	17,146
Fund Balance, Beginning	98,035	98,035	98,035	-
Fund Balance, Ending	$ 120,094	$ 120,094	$ 137,240	$ 17,146

Combining Balance Sheet
Non-Major Capital Projects Funds
June 30, 2014

	Transportation Development Act	Capital Improvements
ASSETS		
Cash and investments (note 2)	$ 52,109	$ -
Cash and investments with fiscal agents	-	-
Receivables:		
Interest	31	-
Due from other governments	-	3,969,150
Total Assets	$ 52,140	$ 3,969,150
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES		
Liabilities:		
Accounts payable	$ -	$ 722,786
Due to other funds (note 5)	-	2,306,963
Deposits payable	-	794,708
Total Liabilities	-	3,824,457
Deferred Inflows of Resources:		
Unavailable revenue	-	-
Fund Balances:		
Restricted for:		
Transportation	52,140	-
Capital improvements	-	144,693
Total Fund Balances	52,140	144,693
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 52,140	$ 3,969,150

Community Facilities District 99-01	Transportation Sales Tax	Community Facilities District 02-01	Total
$ 5,014	$ 373,945	$ 266,604	$ 697,672
678,833	-	-	678,833
	-		
3	485	156	675
-	1,141,251	-	5,110,401
$ 683,850	$ 1,515,681	$ 266,760	$ 6,487,581
$ -	$ 128,917	$ -	$ 851,703
-	-	-	2,306,963
-	-	-	794,708
-	128,917	-	3,953,374
-	143,383	-	143,383
-	1,243,381	-	1,295,521
683,850	-	266,760	1,095,303
683,850	1,243,381	266,760	2,390,824
$ 683,850	$ 1,515,681	$ 266,760	$ 6,487,581

Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Non-Major Capital Projects Funds
For the Year Ended June 30, 2014

	Transportation Development Act	Capital Improvements
REVENUES		
Intergovernmental	$ -	$ 5,846,685
Investment and rental income	418	-
Miscellaneous	-	370,541
Total Revenues	418	6,217,226
EXPENDITURES		
Highways, streets and parks	93	206,230
Capital outlay	-	5,575,557
Total Expenditures	93	5,781,787
Excess (Deficiency) of Revenues Over (Under) Expenditures	325	435,439
Fund Balances, Beginning, as Previously Reported	51,815	922,388
Prior period adjustment (note 17)	-	(1,213,134)
Fund Balances, Beginning, as Restated	51,815	(290,746)
Fund Balances, Ending	$ 52,140	$ 144,693

Community Facilities District 99-01	Transportation Sales Tax	Community Facilities District 02-01	Total
$ -	$ 4,072,481	$ -	$ 9,919,166
132	2,940	1,970	5,460
-	38,801	-	409,342
132	4,114,222	1,970	10,333,968
-	1,925,285	-	2,131,608
-	1,957,523	-	7,533,080
-	3,882,808	-	9,664,688
132	231,414	1,970	669,280
683,718	1,447,343	264,790	3,370,054
-	(435,376)	-	(1,648,510)
683,718	1,011,967	264,790	1,721,544
$ 683,850	$ 1,243,381	$ 266,760	$ 2,390,824

Combining Balance Sheet
Agency Funds
June 30, 2014

	1915 Act Assessment District	Deposits	Community Facilities District 88-1
ASSETS			
Cash and investments	$ 57,428	$ 1,890,108	$ 52
Cash and investments with fiscal agents	-	-	4,336,751
Receivables:			
Special assessments	-	-	6,002
Interest	34	-	12
Total Assets	$ 57,462	$ 1,890,108	$ 4,342,817
LIABILITIES			
Due to bondholders	$ 57,462	$ -	$ 4,342,817
Deposits payable	-	1,890,108	-
Total Liabilities	$ 57,462	$ 1,890,108	$ 4,342,817

Community Facilities District 99-1	Community Facilities District 02-01	Total
$ 36,634	$ 5,989	$ 1,990,211
9,921,502	2,234,273	16,492,526
19,080	2,411	27,493
53	19	118
$ 9,977,269	$ 2,242,692	$ 18,510,348
$ 9,977,269	$ 2,242,692	$ 16,620,240
-	-	1,890,108
$ 9,977,269	$ 2,242,692	$ 18,510,348

Combining Statement of Changes in Assets and Liabilities
Agency Funds
For the Year Ended June 30, 2014

	Balance June 30, 2013	Additions	Deletions	Balance June 30, 2014
1915 ACT Assessment District				
ASSETS				
Cash and investments	$ 57,071	$ 357	$ -	$ 57,428
Interest receivable	2	32	-	34
Total Assets	$ 57,073	$ 389	$ -	$ 57,462
LIABILITIES				
Due to bondholders	$ 57,073	$ 389	$ -	$ 57,462
Deposits				
ASSETS				
Cash and investments	$ 1,201,925	$ 688,183	$ -	$ 1,890,108
Total Assets	$ 1,201,925	$ 688,183	$ -	$ 1,890,108
LIABILITIES				
Deposits payable	$ 1,201,925	$ 688,183	$ -	$ 1,890,108

Combining Statement of Changes in Assets and Liabilities
Agency Funds (Continued)
For the Year Ended June 30, 2014

	Balance June 30, 2013	Additions	Deletions	Balance June 30, 2014
Community Facilities District 88-1				
ASSETS				
Cash and investments	$ 32	$ 20	$ -	$ 52
Cash and investments with fiscal agents	4,340,400	-	3,649	4,336,751
Special assessments receivable	3,364	2,638	-	6,002
Interest receivable	5	7	-	12
Total Assets	$ 4,343,801	$ 2,665	$ 3,649	$ 4,342,817
LIABILITIES				
Due to bondholders	$ 4,343,801	$ 2,665	$ 3,649	$ 4,342,817
Community Facilities District 99-1				
ASSETS				
Cash and investments	$ 1,011	$ 35,623	$ -	$ 36,634
Cash and investments with fiscal agents	10,054,901	-	133,399	9,921,502
Special assessments receivable	17,824	1,256	-	19,080
Interest receivable	12	41	-	53
Total Assets	$ 10,073,748	$ 36,920	$ 133,399	$ 9,977,269
LIABILITIES				
Due to bondholders	$ 10,073,748	$ 36,920	$ 133,399	$ 9,977,269

Combining Statement of Changes in Assets and Liabilities
Agency Funds (Continued)
For the Year Ended June 30, 2014

	Balance June 30, 2013	Additions	Deletions	Balance June 30, 2014
Community Facilities District 02-01				
ASSETS				
Cash and investments	$ 530	$ 5,459	$ -	$ 5,989
Cash and investments with fiscal agents	3,182,821	-	948,548	2,234,273
Special assessments receivable	5,597	-	3,186	2,411
Interest receivable	5	14	-	19
Total Assets	$ 3,188,953	$ 5,473	$ 951,734	$ 2,242,692
LIABILITIES				
Due to bondholders	$ 3,188,953	$ 5,473	$ 951,734	$ 2,242,692
Total - Agency Funds				
ASSETS				
Cash and investments	$ 1,260,569	$ 729,642	$ -	$ 1,990,211
Cash and investments with fiscal agents	17,578,122	-	1,085,596	16,492,526
Special assessments receivable	26,785	3,894	3,186	27,493
Interest receivable	24	94	-	118
Total Assets	$ 18,865,500	$ 733,630	$ 1,088,782	$ 18,510,348
LIABILITIES				
Due to bondholders	$ 17,663,575	$ 45,447	$ 1,088,782	$ 16,620,240
Deposits payable	1,201,925	688,183	-	1,890,108
Total Liabilities	$ 18,865,500	$ 733,630	$ 1,088,782	$ 18,510,348

Combining Statement of Fiduciary Net Position by Project Area
Private-Purpose Trust Funds
June 30, 2014

	Redevelopment Retirement Obligation Trust Fund Housing	Redevelopment Retirement Obligation Trust Fund Project Area #1	Redevelopment Retirement Obligation Trust Fund Project Area #2	Redevelopment Retirement Obligation Trust Fund Project Area #3	Eliminations	Total Private-Purpose Trust Funds
ASSETS						
Cash and investments	$ 5,255,915	$ -	$ 5,591,754	$ 8,957,561	$ -	$ 19,805,230
Receivables:						
Accounts	-	-	-	679	-	679
Notes	-	285,620	-	-	-	285,620
Interest	2,544	-	6,325	6,492	-	15,361
Direct financing lease	-	1,284,309	802,693	1,123,771	-	3,210,773
Due from other funds	-	-	5,804,451	-	(5,804,451)	-
Prepaid expenses	-	917,867	495,967	1,295,766	-	2,709,600
Total Current Assets	5,258,459	2,487,796	12,701,190	11,384,269	(5,804,451)	26,027,263
Restricted Assets:						
Cash and investment with fiscal agents	5,963,665	8,069,481	20,774,779	32,131,731	-	66,939,656
Total Restricted Assets	5,963,665	8,069,481	20,774,779	32,131,731	-	66,939,656
Capital Assets:						
Land	-	-	2,690,146	1,217,223	-	3,907,369
Total Capital Assets	-	-	2,690,146	1,217,223	-	3,907,369
Total Assets	11,222,124	10,557,277	36,166,115	44,733,223	(5,804,451)	96,874,288
DEFERRED OUTFLOWS OF RESOURCES						
Loss on defeasance	-	1,843,791	103,774	2,439,478	-	4,387,043
LIABILITIES						
Accounts payable	9,719	10,188	10,187	776,389	-	806,483
Accrued liabilities	7,335	8,773	8,773	7,601	-	32,482
Accrued interest payable	484,920	1,940,748	1,042,586	2,359,278	-	5,827,532
Due to other governments	-	4,779	976	9	-	5,764
Due to other funds	-	5,804,451	-	-	(5,804,451)	-
Noncurrent Liabilities:						
Due within one year	2,653,556	2,788,800	2,620,850	2,535,350	-	10,598,556
Due in more than one year	47,833,976	125,167,910	58,453,304	124,792,851	-	356,248,041
Total Liabilities	50,989,506	135,725,649	62,136,676	130,471,478	(5,804,451)	373,518,858
NET POSITION (DEFICIT)						
Held in trust for other taxing entities	$ (39,767,382)	$ (123,324,581)	$ (25,866,787)	$ (83,298,777)	$ -	$ (272,257,527)

Combining Statement of Changes in Fiduciary Net Position by Project Area
Private-Purpose Trust Funds
For the Year Ended June 30, 2014

	Redevelopment Retirement Obligation Trust Fund Housing	Redevelopment Retirement Obligation Trust Fund Project Area #1	Redevelopment Retirement Obligation Trust Fund Project Area #2	Redevelopment Retirement Obligation Trust Fund Project Area #3	Eliminations	Total Private-Purpose Trust Funds
ADDITIONS						
Tax	$ 7,307,269	$ 8,324,306	$ 4,548,349	$ 13,748,973	$ -	$ 33,928,897
Income from property and investments	21,246	24,774	82,131	124,188	-	252,339
Transfers in	-	-	1,336,482	-	(1,336,482)	-
Total Additions	7,328,515	8,349,080	5,966,962	13,873,161	(1,336,482)	34,181,236
DEDUCTIONS						
General and administrative	179,001	203,566	81,891	183,046	-	647,504
Community Development	-	-	-	6,359,237	-	6,359,237
Interest expense and fees	4,651,403	6,014,619	2,528,410	6,751,735	-	19,946,167
Transfers out	1,336,482	-	-	-	(1,336,482)	-
Total Deductions	6,166,886	6,218,185	2,610,301	13,294,018	(1,336,482)	26,952,908
Change in Net Position	1,161,629	2,130,895	3,356,661	579,143	-	7,228,328
Net Position, Beginning, as Previously Reported	(39,886,569)	(125,455,476)	(29,223,448)	(83,927,031)	-	(278,492,524)
Prior period adjustment	(1,042,442)	-	-	49,111	-	(993,331)
Net Position (Deficit), Beginning as Restated	(40,929,011)	(125,455,476)	(29,223,448)	(83,877,920)	-	(279,485,855)
Net Position (Deficit), Ending	$ (39,767,382)	$ (123,324,581)	$ (25,866,787)	$ (83,298,777)	$ -	$ (272,257,527)

Statistical Section

This section of the City's comprehensive annual financial report presents 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.

CONTENTS **Page**

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

Net Position by Component
Last Ten Fiscal Years
(accrual basis of accounting)

	Fiscal Year			
	2005	2006	2007	2008
Governmental Activities:				
Net investment in capital assets	$ 307,123,731	$ 341,437,352	$ 376,880,228	$ 430,516,043
Restricted for:				
Capital projects	28,457,759	-	-	-
Low and moderate income housing	56,344,305	67,616,923	81,735,288	99,574,127
Landscape Maintenance	4,876,677	6,888,685	8,722,189	8,662,907
Other purposes	3,104,720	3,287,401	3,937,485	4,012,114
Endowment	1,000,000	1,000,000	1,000,000	1,000,000
Unrestricted	(4,329,030)	7,941,869	13,628,356	8,782,155
Total governmental activities net position	$ 396,578,162	$ 428,172,230	$ 485,903,546	$ 552,547,346
Business-type activities:				
Net investment in capital assets	$ 30,590,054	$ 30,219,195	$ 29,836,841	$ 29,454,485
Unrestricted	3,518,958	3,859,791	2,586,159	3,464,423
Total business-type activities net position	$ 34,109,012	$ 34,078,986	$ 32,423,000	$ 32,918,908
Primary Government:				
Net investment in capital assets	$ 337,713,785	$ 371,656,547	$ 406,717,069	$ 459,970,528
Restricted for:				
Capital projects	28,457,759	-	-	-
Low and moderate income housing	56,344,305	67,616,923	81,735,288	99,574,127
Landscape Maintenance	4,876,677	6,888,685	8,722,189	8,662,907
Other purposes	3,104,720	3,287,401	3,937,485	4,012,114
Endowment	1,000,000	1,000,000	1,000,000	1,000,000
Unrestricted	(810,072)	11,801,660	16,214,515	12,246,578
Total primary government net position	$ 430,687,174	$ 462,251,216	$ 518,326,546	$ 585,466,254

Fiscal Year					
2009	2010	2011	2012	2013	2014
$ 460,101,619	$ 484,423,039	$ 499,416,669	$ 658,296,750	$ 646,769,141	$ 671,633,533
-	-	-	-	20,320,721	21,071,049
115,805,089	120,917,457	119,927,089	163,429,723	160,939,069	162,388,168
8,999,420	8,514,304	9,032,742	9,389,874	9,706,762	10,141,062
3,904,177	4,378,971	6,026,400	6,506,958	10,295,075	8,955,235
905,850	1,023,850	1,244,590	1,147,835	1,195,768	1,000,000
2,504,296	(11,409,150)	(6,504,167)	64,955,219	57,252,131	60,074,433
$ 592,220,451	$ 607,848,471	$ 629,143,323	$ 903,726,359	$ 906,478,667	$ 935,263,480
$ 29,072,130	$ 28,689,775	$ 28,307,420	$ 27,925,065	$ 26,725,626	$ 27,160,354
6,698,002	8,442,809	8,052,471	6,319,042	5,761,171	4,352,951
$ 35,770,132	$ 37,132,584	$ 36,359,891	$ 34,244,107	$ 32,486,797	$ 31,513,305
$ 489,173,749	$ 513,112,814	$ 527,724,089	$ 686,221,815	$ 673,494,767	$ 698,793,887
-	-	-	-	20,320,721	21,071,049
115,805,089	120,917,457	119,927,089	163,429,723	160,939,069	162,388,168
8,999,420	8,514,304	9,032,742	9,389,874	9,706,762	10,141,062
3,904,177	4,378,971	6,026,400	6,506,958	10,295,075	8,955,235
905,850	1,023,850	1,244,590	1,147,835	1,195,768	1,000,000
9,202,298	(2,966,341)	1,548,304	71,274,261	63,013,302	64,427,384
$ 627,990,583	$ 644,981,055	$ 665,503,214	$ 937,970,466	$ 938,965,464	$ 966,776,785

City of San Marcos

Changes in Net Position
Last Ten Fiscal Years
(accrual basis of accounting)

	Fiscal Year			
	2005	2006	2007	2008
Expenses:				
Governmental Activities:				
General government	$ 8,712,101	$ 10,209,504	$ 12,936,083	$ 14,175,161
Community development	9,493,749	4,559,304	6,445,848	4,912,297
Public safety	19,739,954	23,522,750	25,457,293	27,983,233
Highways, streets and parks	37,769,998	50,801,530	39,763,214	30,364,607
Culture and recreation	2,448,993	2,728,120	2,940,238	3,008,578
Interest on long-term debt	13,778,060	15,377,060	17,108,204	17,742,768
Total governmental activities expenses	91,942,855	107,198,268	104,650,880	98,186,644
Business-type activities:				
Creekside Marketplace	771,116	1,170,953	1,136,959	1,002,389
Utility	47,908	20,395	-	-
Total business-type activities expenses	819,024	1,191,348	1,136,959	1,002,389
Total primary government expenses	92,761,879	108,389,616	105,787,839	99,189,033
Program Revenues:				
Governmental Activities:				
Charges for services:				
General government (2)	4,753,376	5,233,634	6,116,176	7,347,275
Community development (2)	8,411,715	5,787,928	2,996,263	2,037,057
Public safety	6,395,110	6,846,519	7,191,131	7,582,159
Highways, streets and parks (1) (2)	5,197,553	6,452,402	6,768,511	6,664,978
Culture and recreation (2)	1,210,905	1,372,086	1,502,296	1,544,763
Operating grants and contributions	2,151,934	2,533,966	2,802,258	2,505,258
Capital contributions and grants	65,927,749	30,747,184	38,214,638	44,448,900
Total governmental activities program revenues	94,048,342	58,973,719	65,591,273	72,130,390
Business-type activities:				
Charges for services:				
Creekside Marketplace	3,435,437	3,954,995	4,192,527	4,069,128
Total business-type activities program revenues	3,435,437	3,954,995	4,192,527	4,069,128
Total primary government program revenues	97,483,779	62,928,714	69,783,800	76,199,518
Net (expenses) revenues:				
Governmental activities	(48,224,549)	(39,059,607)	(26,056,254)	(47,527,759)
Business-type activities	2,763,647	3,055,568	3,066,739	2,717,184
Total primary government net (expenses)/revenues	(45,460,902)	(36,004,039)	(22,989,515)	(44,810,575)

Fiscal Year					
2009	2010	2011	2012	2013	2014
$ 14,639,790	$ 15,990,955	$ 18,106,693	$ 16,992,317	$ 15,885,771	$ 16,447,263
4,815,602	6,366,892	5,739,531	28,586,547	6,379,029	3,431,958
28,733,922	28,603,083	28,216,005	32,163,467	27,531,474	31,398,530
26,532,368	25,046,164	26,408,488	22,057,522	31,047,726	32,779,655
3,124,741	3,014,690	3,079,743	3,163,230	4,992,567	3,022,930
15,984,417	15,307,372	16,325,714	9,399,083	286,343	272,403
93,830,840	94,329,156	97,876,174	112,362,166	86,122,910	87,352,739
1,072,662	1,207,245	1,296,182	1,060,528	866,501	1,061,134
-	-	-	-	-	-
1,072,662	1,207,245	1,296,182	1,060,528	866,501	1,061,134
94,903,502	95,536,401	99,172,356	113,422,694	86,989,411	88,413,873
7,121,094	8,017,989	7,569,325	8,811,334	7,711,202	1,483,859
1,501,973	1,568,683	2,131,886	5,179,421	6,998,956	2,997,665
8,293,907	7,623,734	7,266,747	8,012,187	8,636,601	8,888,703
6,744,066	6,793,677	7,150,548	6,943,057	8,462,005	7,455,240
1,590,115	1,825,778	1,837,906	1,878,137	2,105,349	2,081,035
2,135,832	2,392,703	3,547,679	3,333,506	24,338,152	16,811,188
18,916,094	25,090,511	15,027,697	20,273,816	2,125,409	9,843,740
46,303,081	53,313,075	44,531,788	54,431,458	60,377,674	49,561,430
3,789,846	3,639,134	3,523,109	3,907,546	4,103,722	3,470,369
3,789,846	3,639,134	3,523,109	3,907,546	4,103,722	3,470,369
50,092,927	56,952,209	48,054,897	58,339,004	64,481,396	53,031,799
(41,016,081)	(41,016,081)	(53,344,386)	(57,930,708)	(25,745,236)	(37,791,309)
2,431,889	2,431,889	2,226,927	2,847,018	3,237,221	2,409,235
(38,584,192)	(38,584,192)	(51,117,459)	(55,083,690)	(22,508,015)	(35,382,074)

Changes in Net Position, (continued)
Last Ten Fiscal Years
(accrual basis of accounting)

	Fiscal Year			
	2005	2006	2007	2008
General Revenues and Other Changes in Net Positions:				
Governmental activities:				
Taxes:				
Property taxes	9,261,347	11,502,364	12,716,298	13,146,445
Tax increment, net	27,029,309	34,534,046	41,975,892	45,397,153
Sales taxes	14,906,391	16,329,030	16,153,930	15,615,135
Transient occupancy taxes	282,909	327,632	363,885	383,001
Franchise taxes	1,845,266	1,995,384	2,210,341	2,148,183
Gain/(Loss) on sale of capital assets	-	-	-	-
Motor vehicle license fees	1,515,555	476,482	448,352	356,472
Rental income	-	-	-	-
Investment income	5,906,949	9,259,909	15,899,432	11,275,635
Other	2,158,669	2,405,041	2,022,793	1,628,030
Transfers	(5,781,245)	2,988,729	5,000,000	2,750,000
Transfer to Successor Agency	-	-	-	-
Extraordinary gain	-	-	-	-
Total governmental activities	57,125,150	79,818,617	96,790,923	92,700,054
Business-type activities:				
Investment income	31,982	195,056	288,446	179,169
Transfers	5,781,245	(2,988,729)	(5,000,000)	(2,750,000)
Total business-type activities	5,813,227	(2,793,673)	(4,711,554)	(2,570,831)
Total primary government	62,938,377	77,024,944	92,079,369	90,129,223
Change in Net Position:				
Governmental activities	8,900,601	40,759,010	70,734,669	45,172,295
Business-type activities	8,576,874	261,895	(1,644,815)	146,353
Total primary government	$ 17,477,475	$ 41,020,905	$ 69,089,854	$ 45,318,648

Notes:

(1) Amounts have been restated to reflect lighting and landscaping expenditures as part of highways, streets, and parks instead of culture and recreation.

(2) Beginning in fiscal year 2009-2010, all costs relating to construction inspections function are reported under community development instead of highways, streets and parks. Also, storm water management function is under general government instead of highways, streets and parks.

			Fiscal Year		
2009	2010	2011	2012	2013	2014
12,718,633	12,490,217	12,373,080	12,734,479	19,036,135	14,730,525
45,214,569	21,315,468	36,294,755	11,896,531	-	-
13,432,391	12,269,791	13,091,860	13,836,852	14,596,011	15,840,511
330,412	298,459	610,460	713,538	736,035	794,846
2,442,412	2,482,704	2,677,551	2,713,099	2,582,279	3,520,613
3,180,648	-	67,970	-	-	(659,841)
283,349	246,496	382,275	42,071	80,791	-
-	-	-	-	-	6,260,337
6,226,240	4,397,830	4,583,907	3,692,241	3,508,350	1,108,705
3,372,210	1,943,136	1,390,381	1,160,059	1,991,861	489,778
-	1,200,000	3,167,000	5,100,000	5,000,000	4,250,000
-	-	-	-	(10,674,712)	-
-	-	-	280,624,874	-	-
87,200,864	56,644,101	74,639,239	332,513,744	36,856,750	46,335,474
134,040	130,563	167,380	137,198	5,469	50,190
	(1,200,000)	(3,167,000)	(5,100,000)	(5,000,000)	(4,250,000)
134,040	(1,069,437)	(2,999,620)	(4,962,802)	(4,994,531)	(4,199,810)
87,334,904	55,574,664	71,639,619	327,550,942	31,862,219	42,135,664
46,184,783	15,628,020	21,294,853	274,583,036	11,111,514	8,544,165
2,565,929	1,362,452	(772,693)	(2,115,784)	(1,757,310)	(1,790,575)
$ 48,750,712	$ 16,990,472	$ 20,522,160	$ 272,467,252	$ 9,354,204	$ 6,753,590

Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year			
	2005	2006	2007	2008
General Fund:				
Pre-GASB 54:				
Reserved for:				
Noncurrent assets	$ -	$ -	$ 13,397,269	$ 13,397,269
Prepaid items	414,987	477,867	1,247,217	492,546
Deposits	583,314	607,328	637,832	723,685
Unreserved, designated	44,232,034	52,052,115	37,344,377	36,814,029
Unreserved, undesignated	5,367,873	5,461,289	6,208,292	6,045,355
GASB 54:				
Nonspendable				
Restricted				
Unassigned				
Total General Fund	50,598,208	58,598,599	58,834,987	57,472,884
All Other Governmental Funds:				
Pre-GASB 54:				
Reserved for:				
Noncurrent assets	13,650,334	13,210,952	13,090,353	2,702,903
Prepaid items	-	-	-	-
Deposits	-	-	-	542,923
Low and moderate income housing	25,165,312	33,719,308	46,474,660	59,766,836
Landscape maintenance	1,572,128	3,420,234	2,324,008	5,368,912
Debt service	4,994,488	4,660,884	4,682,091	4,625,869
Capital projects	123,338,627	131,608,970	120,276,053	90,471,205
Other purposes	1,000,000	1,000,000	1,000,000	1,000,000
Unreserved, reported in:				
Special revenue funds	8,597,890	8,441,925	12,544,241	9,489,562
Debt service funds	14,256,219	28,238,856	40,577,486	34,366,082
Capital projects funds	(5,883,850)	(13,963,277)	(19,311,650)	212,545
Permanent fund	88,283	147,814	249,217	98,318
GASB 54:				
Nonspendable				
Restricted				
Unassigned				
Total all other governmental funds	186,779,431	210,485,666	221,906,459	208,645,155
Total governmental funds	$ 237,377,639	$ 269,084,265	$ 280,741,446	$ 266,118,039

Fiscal Year					
2009	2010	2011	2012	2013	2014
$ 13,397,269	$ 13,447,269				
558,711	1,000,066				
771,931	1,001,672				
37,521,231	36,200,000				
6,058,840	5,995,245				
		$ 19,463,456	$ 16,924,452	$ 16,184,816	$ 11,938,509
		-	-	-	-
		35,162,531	34,951,893	44,147,436	51,115,898
58,307,982	57,644,252	54,625,987	51,876,345	60,332,252	63,054,407
8,112,147	28,282,658				
-	-				
640,408	102,982				
35,347,108	10,056,506				
5,845,298	5,845,298				
10,850,533	12,941,982				
68,302,091	45,462,977				
905,850	1,023,850				
10,127,713	6,468,443				
32,924,058	16,466,613				
(5,658,656)	(6,026,005)				
-	-				
		1,244,590	1,147,835	1,195,768	1,000,000
		164,514,929	81,486,140	80,423,049	80,658,373
		-	-	-	-
167,396,550	120,625,304	165,759,519	82,633,975	81,618,817	81,658,373
$ 225,704,532	$ 178,269,556	$ 220,385,506	$ 134,510,320	$ 141,951,069	$ 144,712,780

Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year 2005	2006	2007	2008
Revenues:				
Taxes and special assessments	$ 71,181,516	$ 87,121,780	$ 94,466,701	$ 97,363,686
Licenses and permits	6,179,840	5,116,926	4,753,491	3,907,123
Intergovernmental	14,537,688	15,192,674	9,093,528	6,587,388
Charges for services	11,495,652	11,544,038	11,486,338	11,429,757
Developer fees	12,589,123	8,809,768	5,774,108	1,776,517
Fines and forfeitures	131,081	169,261	181,280	269,365
Use of money and property	9,380,735	13,474,072	19,676,632	19,925,978
Contributions from property owners	31,808,603	-	11,424,122	-
Miscellaneous	2,502,536	6,158,895	3,500,561	1,452,870
Total Revenues	159,806,774	147,587,414	160,356,761	142,712,684
Expenditures:				
Current:				
General government (2)	7,958,025	8,835,833	11,867,052	12,733,906
Community development (2)	10,164,579	6,903,003	6,888,307	8,761,007
Public safety	18,739,876	22,454,034	24,441,222	26,225,302
Highways, streets and parks (1) (2)	9,065,061	11,953,716	12,371,008	15,223,370
Culture and recreation (1)	2,221,286	2,424,190	2,708,416	2,556,853
Tax increment distrib. to other gov. agencies	16,644,360	20,603,185	19,001,916	18,747,685
SERAF payment	-	-	-	-
Capital outlay	49,655,461	67,138,844	55,027,905	46,197,846
Debt service:				
Principal retirement	7,908,488	4,900,575	6,571,846	11,079,781
Interest and fiscal charges	14,154,572	13,420,348	16,988,635	19,984,462
Payment to bond escrow agent	5,031,723	-	-	-
Cost of issuance	3,166,552	935,126	214,172	-
Total expenditures	144,709,983	159,568,854	156,080,479	161,510,212
Excess/(deficiency) of Revenues Over Expenditures	15,096,791	(11,981,440)	4,276,282	(18,797,528)
Other financing sources (uses):				
Long-term debt issued	129,992,578	40,717,247	8,752,626	1,441,826
Gain on sale of land held for resale	48,167	69,577	100,328	-
Premium on bonds issued	3,885,710	-	-	-
Discount on bonds issued	(259,360)	(116,318)	(69,998)	-
Payment to bond escrow agent	(42,020,421)	-	(6,440,273)	-
Sale of capital assets	23,554	17,500	38,216	30,541
Acquisition under capital lease	-	-	-	-
Transfers in	5,051,872	10,497,941	17,690,782	32,041,467
Transfers out	(6,664,372)	(7,497,941)	(12,690,782)	(29,291,467)
Total other financing sources (uses)	90,057,728	43,688,006	7,380,899	4,222,367
Net Change in Fund Balances	$ 105,154,519	$ 31,706,566	$ 11,657,181	$ (14,575,161)
Debt service as a percentage of noncapital expenditures	23.28%	14.43%	18.21%	23.41%

Notes:

(1) Amounts have been restated to reflect lighting and landscaping expenditures as part of highways, streets, and parks instead of culture and recreation.

(2) Beginning in fiscal year 2009-2010, all costs relating to the construction inspection function are reported under community development instead of highways, streets, and parks. Also, the storm water management function is under general government instead of highways, streets, and parks.

	Fiscal Year					
	2009	2010	2011	2012	2013	2014
	$ 94,097,283	$ 87,852,421	$ 87,336,566	$ 44,811,128	$ 40,050,764	$ 37,499,452
	4,229,537	4,274,969	4,722,075	5,210,749	5,031,124	4,834,181
	10,406,686	6,816,194	10,725,506	14,657,647	16,273,969	14,879,876
	11,783,938	11,341,050	11,273,011	13,430,631	14,423,983	14,014,737
	3,773,174	2,860,402	3,734,747	8,822,043	12,333,859	604,325
	292,642	279,735	284,452	203,253	171,675	379,517
	11,422,319	9,248,874	9,656,305	8,710,563	8,108,512	8,390,525
	-	-	-	-	-	-
	4,444,346	3,358,490	1,984,750	2,020,386	1,656,624	2,784,337
	140,449,925	126,032,135	129,717,412	97,866,400	98,050,510	83,386,950
	13,333,406	14,825,068	17,457,897	15,640,014	15,237,915	15,683,539
	43,870,002	17,085,690	10,223,010	17,717,361	9,148,706	4,209,639
	27,392,057	27,461,612	27,317,174	30,262,221	27,156,685	30,863,346
	15,455,033	14,040,659	13,379,798	14,053,498	13,407,088	21,875,374
	2,822,593	2,763,210	2,814,054	2,984,215	4,819,380	2,948,559
	18,086,645	37,060,348	16,266,743	410,877	-	-
	-	-	4,163,078	-	-	-
	39,281,839	38,456,751	26,289,568	20,163,235	16,677,835	8,462,086
	9,481,695	9,325,010	9,566,685	9,903,628	342,996	430,447
	15,911,227	15,221,332	15,782,349	9,509,119	277,403	269,039
	-	-	-	-	-	-
	-	-	674,238	-	-	-
	185,634,497	176,239,680	143,934,594	120,644,168	87,068,008	84,742,029
	(45,184,572)	(50,207,545)	(14,217,182)	(22,777,768)	10,982,502	(1,355,079)
	730,998	330,709	54,779,110	-	-	-
	-	-	67,970	-	-	-
	-	-	-	-	-	-
	-	-	(1,719,824)	-	-	-
	-	-	-	-	-	-
	3,991,821	1,241,860	38,876	23,611	6,489	(659,841)
	-	-	-	-	-	427,300
	6,772,976	8,056,903	14,843,444	65,681,454	11,511,222	5,227,487
	(6,772,976)	(6,856,903)	(11,676,444)	(60,581,454)	(17,185,934)	(977,487)
	4,722,819	2,772,569	56,333,132	5,123,611	(5,668,223)	4,017,459
	$ (40,461,753)	$ (47,434,976)	$ 42,115,950	$ (17,654,157)	$ 5,314,279	$ 2,662,380
	15.80%	16.08%	22.07%	20.52%	1.02%	1.19%

Assessed Value and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years

Fiscal Year Ended June 30	City (1) Secured	Unsecured	Less: Exemptions	Taxable Assessed Value	Direct Tax Rate (3)
2005	$ 6,099,717,310	$ 263,146,015	$ (225,472,172)	$ 6,137,391,153	0.0883
2006	7,546,999,066	306,344,173	(258,902,856)	7,594,440,383	0.0883
2007	8,917,662,485	332,372,762	(288,440,819)	8,961,594,428	0.0883
2008	9,707,243,947	316,267,589	(336,468,219)	9,687,043,317	0.0883
2009	9,612,859,892	336,188,166	(406,413,814)	9,542,634,244	0.0883
2010	8,948,612,795	343,678,128	(433,607,449)	8,858,683,474	0.0883
2011	8,829,981,997	343,767,058	(432,933,115)	8,740,815,940	0.0883
2012	8,908,023,695	342,676,146	(441,238,868)	8,809,460,973	0.0883
2013	8,949,312,131	351,245,593	(482,223,209)	8,818,334,515	0.0883
2014	9,339,081,684	337,792,578	(503,189,791)	9,173,684,471	0.0883

Notes:
(1) The City assessed valuation includes the Redevelopment Agency incremental value.
(2) The Redevelopment Agency assessed valuation includes incremental value only.
(3) Tax Rate Area 13-115.
(4) 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 re-assessed at the time that it is sold to a new owner. At that point, the new assessed value is re-assessed 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.

Redevelopment Agency (RDA) (2)				
Secured	Unsecured	Less: Exemptions	Taxable Assessed Value	Direct Tax Rate
$ 3,570,231,758	$ 200,742,283	$ (123,731,296)	$ 3,647,242,745	1.00
4,632,364,100	243,702,276	(135,521,826)	4,740,544,550	1.00
5,625,496,019	269,320,651	(156,913,713)	5,737,902,957	1.00
6,159,597,590	95,505,864	(204,434,763)	6,050,668,691	1.00
6,099,738,611	278,835,976	(250,921,128)	6,127,653,459	1.00
5,695,351,795	285,488,163	(275,552,686)	5,705,287,272	1.00
5,593,688,336	285,261,217	(274,668,889)	5,604,280,664	1.00
5,653,565,275	283,043,617	(283,674,242)	5,652,934,650	1.00
5,678,695,390	284,351,568	(325,595,079)	5,637,451,879	1.00
5,962,729,406	275,661,597	(346,541,112)	5,891,849,891	1.00

This page intentionally left blank.

City of San Marcos

Direct Overlapping Property Tax Rates (1)
Last Ten Fiscal Years
(rate per $100 of assessed value)

	Allocation of 1% Ad Valorem Property Taxes								
Fiscal Year	City Direct Rate	Total Direct Rate	San Marcos Unified School District	San Marcos Fire Protection District	San Diego County	Other	Total	Voter Approved Debt	Total Tax Rate
2005	0.0883 %	0.0883 %	0.3805 %	0.0632 %	0.2481 %	0.2200 %	1.0000 %	0.0238 %	1.0238 %
2006	0.0883	0.0883	0.3805	0.0632	0.2481	0.2200	1.0000	0.0346	1.0346
2007	0.0883	0.0883	0.3805	0.0632	0.2481	0.2200	1.0000	0.0349	1.0349
2008	0.0883	0.0883	0.3805	0.0632	0.2481	0.2200	1.0000	0.0432	1.0432
2009	0.0883	0.0883	0.3805	0.0632	0.2481	0.2200	1.0000	0.0470	1.0470
2010	0.0883	0.0883	0.3805	0.0632	0.2481	0.2200	1.0000	0.0439	1.0439
2011	0.0883	0.0883	0.3805	0.0632	0.2481	0.2200	1.0000	0.0559	1.0560
2012	0.0883	0.0883	0.3805	0.0632	0.2481	0.2200	1.0000	0.0994	1.0994
2013	0.0883	0.0883	0.3805	0.0632	0.2481	0.2200	1.0000	0.0994	1.0994
2014	0.0883	0.0883	0.3805	0.0632	0.2481	0.2200	1.0000	0.0978	1.0978

Notes:
(1) Tax rates are for Tax Rate Area 13-115.
(2) In 1978, California voters passed Proposition 13 which sets the property tax rate at a 1% fixed amount. This 1% is shared by all taxing agencies in which the subject property resides. In addition to the 1% fixed amount, property owners are charged taxes as a percentage of assessed property values for the payment of various voter-approved bonds.

Principal Property Taxpayers
Current Year and Nine Years Ago

Taxpayer	2014 Taxable Assessed Value	2014 Rank	2014 Percentage of Total City Taxable Assessed Value (1)	2005 Taxable Assessed Value	2005 Rank	2005 Percentage of Total City Taxable Assessed Value
World Premier Investments (2)	$ 126,020,953	1	1.36 %			
Urban Villages San Marcos LLC	83,163,160	2	0.90			
Hunter Industries Inc.	82,012,304	3	0.88	$ 53,795,085	2	0.85 %
Willmark Communities Inc.	79,724,086	4	0.86			
Ralphs Grocery Company	36,476,721	5	0.39			
Estancia Coastal, LLC	34,840,388	6	0.38			
Costco Wholesale Corporation	33,732,192	7	0.36			
Weingarten Realty Investors	30,514,965	8	0.33			
MG Properties Group	28,559,457	9	0.31			
Kaiser Foundation Hospitals	27,462,391	10	0.30	27,358,916	7	0.43
Centex Homes				63,156,450	1	0.99
Nordahl Marketplace				43,107,319	3	0.68
Pulte Home Corporation				37,923,299	4	0.60
MCW RC California				32,348,808	5	0.51
Shea Homes Limited Partnership				28,437,792	6	0.45
Signet Armorlite Inc.				25,608,506	8	0.40
S.M. Prominence Inc				22,305,712	9	0.35
Scripps Health				21,738,775	10	0.34
Total	$ 562,506,617		6.07 %	$ 355,780,662		5.60 %

Notes:
(1) Assessed values represented above are net of all other exemptions.
(2) Assessor's database lists this taxpayer under the following names: Grand Las Posas LLC, Grand Plaza LLC, Nordahl Marketplace LLC, and WPI-Las Posas/Mission LLC. Taxpayers are included in totals listed above.

Property Tax Levies and Collections
Last Ten Fiscal Years (1)

Fiscal Year Ended June 30	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Delinquent Collections (2)	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage
2005	$ 6,256,364	$ 5,882,189	94.02 %	$ 78,862	$ 5,961,051	95.28 %
2006	6,908,062	6,472,381	93.69	133,657	6,606,038	95.63
2007	6,837,608	6,368,465	93.14	184,632	6,553,097	95.84
2008	6,773,119	6,341,932	93.63	167,455	6,509,387	96.11
2009	6,183,776	5,932,421	95.94	241,543	6,173,964	99.84
2010	5,575,114	5,363,998	96.21	227,310	5,591,308	100.29
2011	5,604,503	5,413,368	96.59	226,828	5,640,196	100.64
2012	5,645,057	5,477,833	97.04	130,736	5,608,569	99.35
2013	5,898,965	5,733,817	97.20	122,068	5,855,885	99.27
2014	6,279,428	6,069,950	96.66	104,591	6,174,541	98.33

Notes:
(1) The amounts presented include City and Fire District property taxes.
(2) Includes prior years' delinquent collections, penalties and interest.

Ratios of Outstanding Debt by Type
Last Ten Fiscal Years

	Governmental Activities (1)				
Fiscal Year	General Obligation Bonds	Revenue Bonds (2)	Tax Allocation Bonds (2)	Notes Payable (2)	Capital Leases
2005	$ -	$ 57,645,000	$ 230,450,000	$ 2,498,934	$ 1,447,350
2006	-	56,435,000	264,975,000	1,846,648	1,305,963
2007	-	55,490,000	260,715,000	1,436,910	753,855
2008	-	54,170,000	255,715,000	1,231,685	377,845
2009	-	52,805,000	250,555,000	1,035,245	-
2010	-	51,395,000	245,215,000	943,274	-
2011	-	49,925,000	292,500,000	2,646,245	-
2012	-	5,435,000	-	743,880	-
2013	-	5,200,000	-	635,884	602,188
2014	-	4,955,000	-	521,949	413,919

Notes:

(1) General bonded debt is debt payable with governmental fund resources. Details regarding the City's outstanding debt can be found in the notes to the financial statements.

(2) Debt issued by the San Marcos Redevelopment Agency is no longer reported as a result of the dissolution of the San Marcos Redevelopment Agency on February 1, 2012.

Loans Payable	Cooperation Agreement (2)	Due to Other Governments (2)	Total Primary Government	Percentage of Personal Income	Per Capita
$ -	$ 28,240,032	$ 7,543,702	$ 327,825,018	9.98 %	4,518
-	32,335,372	6,947,144	363,845,127	10.17	4,768
-	34,347,998	6,430,930	359,174,693	10.04	4,531
-	31,611,278	5,877,439	348,983,247	9.27	4,250
-	29,959,866	5,250,946	339,606,057	8.95	4,098
-	27,807,535	4,577,183	329,937,992	8.54	3,938
-	25,501,989	3,860,541	374,433,775	9.46	4,427
-	-	-	6,178,880	0.15	4,271
-	-	-	6,438,072	0.14	74
530,676	-	-	6,421,543	0.14	71

Ratios of General Bonded Debt Outstanding
Last Ten Fiscal Years

	General Bonded Debt			
Fiscal Year	General Obligation Bonds	Revenue Bonds (2)	Tax Allocation Bonds (2)	Less: Amounts Available in Debt Service Funds (2)
2005	$ -	$ 57,645,000	$ 230,450,000	$ (19,250,767)
2006	-	56,435,000	264,975,000	(30,652,740)
2007	-	55,490,000	260,715,000	(45,259,577)
2008	-	54,170,000	255,715,000	(38,991,951)
2009	-	51,395,000	245,215,000	(43,774,591)
2010	-	51,395,000	245,215,000	(29,408,595)
2011	-	49,925,000	292,500,000	(36,334,022)
2012	-	5,435,000	-	-
2013	-	5,200,000	-	-
2014	-	4,955,000	-	-

Notes:
(1) Assessed value has been used because actual value of taxable property is not readily available in the State of California.
(2) Debt with dissolved former Redevelopment Agency is not prepsented for FY2012 through FY2014. Revenue bonds are shown for the City and are secured with lease payments to be made by the City and the County of San Diego.

Total	Percent of Assessed Value (1)	Per Capita
$ 268,844,233	4.380 %	$ 3,705
290,757,260	3.829	3,811
270,945,423	3.023	3,418
270,893,049	2.796	3,299
252,835,409	2.650	3,051
267,201,405	3.016	3,189
306,090,978	3.502	3,619
5,435,000	0.062	64
5,200,000	0.059	60
4,955,000	0.054	55

Legal Debt Margin Information
Last Ten Fiscal Years

	Fiscal Year 2005	Fiscal Year 2006	Fiscal Year 2007	Fiscal Year 2008	Fiscal Year 2009
Total assessed valuation	$ 6,362,863,325	$ 7,853,343,239	$ 9,250,035,247	$ 10,023,511,536	$ 9,949,048,058
Conversion percentage	25%	25%	25%	25%	25%
Adjusted assessed valuation	1,590,715,831	1,963,335,810	2,312,508,812	2,505,877,884	2,487,262,015
Debt limit percentage	15%	15%	15%	15%	15%
Debt limit	238,607,375	294,500,371	346,876,322	375,881,683	373,089,302
Total net debt applicable to limit:					
General obligation bonds	-	-	-	-	-
Legal debt margin	$ 238,607,375	$ 294,500,371	$ 346,876,322	$ 375,881,683	$ 373,089,302
Total debt applicable to the limit as a percentage of debt limit	0.000%	0.000%	0.000%	0.000%	0.000%

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 the State.

Fiscal Year				
2010	2011	2012	2013	2014
$ 9,292,290,923	$ 9,173,749,055	$ 9,250,699,841	$ 9,300,557,724	$ 9,676,874,262
25%	25%	25%	25%	25%
2,323,072,731	2,293,437,264	2,312,674,960	2,325,139,431	2,419,218,566
15%	15%	15%	15%	15%
348,460,910	344,015,590	346,901,244	348,770,915	362,882,785
-	-	-	-	-
$ 348,460,910	$ 344,015,590	$ 346,901,244	$ 348,770,915	$ 362,882,785
0.000%	0.000%	0.000%	0.000%	0.000%

Pledged-Revenue Coverage
Last Ten Fiscal Years

	Tax Allocation and Revenue Bonds (1)							
	Redevelopment Agency Low and Moderate Income Housing Fund				Redevelopment Agency Debt Service Fund			
		Debt Service (2)				Debt Service		
Fiscal Year	Tax Increment Revenue	Principal	Interest	Coverage	Tax Increment Revenue (3)	Principal	Interest	Coverage
2005	$ 10,155,237	$ 310,000	$ 882,536	8.52	$ 33,083,005	$ 2,275,000	$ 9,314,440	2.85
2006	12,829,183	330,000	866,861	10.72	41,711,486	2,375,000	10,503,910	3.24
2007	14,249,035	340,000	850,170	11.97	46,212,559	5,015,000	13,801,859	2.46
2008	14,974,683	355,000	832,604	12.61	48,616,665	5,770,000	13,966,026	2.46
2009	14,737,707	375,000	813,101	12.40	47,937,014	5,945,000	13,783,236	2.43
2010	13,536,113	400,000	791,379	11.36	44,165,941	6,140,000	13,580,656	2.24
2011	13,144,947	425,000	1,499,668	6.83	42,862,987	6,350,000	13,354,716	2.18
2012	-	-	-	-	-	-	-	-
2013	-	-	-	-	-	-	-	-
2014	-	-	-	-	-	-	-	-

Notes:
(1) Tax allocation and revenue bonds were secured by tax increment revenue from the former Redevelopment Agency prior to February 1, 2012. Debt with dissolved former Redevelopment Agency is not presented for FY2012 through FY2014. Revenue bonds are shown for the City and are secured with lease payments to be made by the City and the County of San Diego.
(2) Debt service shown is annual debt service.
(3) Calculated as gross increment net of set-aside tax increment.

Revenue Bonds - City			
	Debt Service		
Revenue	Principal	Interest	Coverage
$ 504,514	$ 135,000	$ 369,514	1.00
507,234	145,000	362,234	1.00
461,903	255,000	206,903	1.00
472,887	195,000	277,887	1.00
475,509	205,000	270,509	1.00
472,728	210,000	262,728	1.00
469,490	215,000	254,490	1.00
470,690	225,000	245,690	1.00
471,490	235,000	236,490	1.00
471,890	245,000	226,890	1.00

Direct and Overlapping Debt
As of June 30, 2014

2013-14 Assessed Valuation: $9,269,165,871

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	Percentage Applicable (1)	Outstanding Debt June 30, 2014 (2)	Estimated Share of Overlapping Debt
Metropolitan Water District	0.422%	$ 132,275,000	$ 558,201
Palomar Community College District	9.930%	312,768,901	31,057,952
San Marcos Unified School District	60.363%	281,096,744	169,678,428
San Marcos Unified School District Facilities Improvement District No. 1	58.555%	6,503,019	3,807,843
San Marcos Unified School District Community Facilities District No. 2	100.00%	925,000	925,000
San Marcos Unified School District Community Facilities District No. 3	100.00%	1,475,000	1,475,000
San Marcos Unified School District Community Facilities District No. 4	64.607%	20,965,000	13,544,858
Other School Districts	Various	450,261,521	230,313
Palomar Pomerado Hospital	11.177%	474,823,578	53,071,031
City of San Marcos	**100.00%**		
City of San Marcos Community Facilities District No. 88-1	100.00%	19,275,601	19,275,601
City of San Marcos Community Facilities District No. 91-01	100.00%	1,905,679	1,905,679
City of San Marcos Community Facilities District No. 99-01	100.00%	72,755,552	72,755,552
City of San Marcos Community Facilities District No. 2002-1	100.00%	14,640,000	14,640,000
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT			$ 382,925,458
DIRECT AND OVERLAPPING GENERAL FUND DEBT:			
San Diego County General Fund Obligations	2.346%	379,835,000	8,910,929
San Diego County Pension Obligations	2.346%	720,855,256	16,911,264
San Diego County Superintendent of Schools Obligations	2.346%	16,125,000	378,293
Palomar Community College District General Fund Obligations	9.930%	4,855,000	482,102
San Marcos Unified School District General Fund Obligations	60.363%	55,093,327	33,255,985
Other School District Certificates of Participation	Various	105,460,000	126,312
City of San Marcos General Fund Obligations	**100.00%**	**4,955,000**	**4,955,000**
TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT			$ 65,019,885
OVERLAPPING TAX INCREMENT DEBT (Successor Agency):	100%	363,150,000	$ 363,150,000
TOTAL DIRECT DEBT			**$ 4,955,000**
TOTAL OVERLAPPING DEBT			806,140,343
COMBINED TOTAL DEBT (2)			$ 811,095,343

Notes:

(1) The percentage of overlapping debt applicable to the city is estimated using taxable assessed property value. Applicable percentages were estimated by determining the portion of the overlapping district's assessed value that is within the boundaries of the city divided by the district's total taxable assessed value.

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

Ratios to 2013-14 Assessed Valuation:	
Direct Debt	**0.00%**
Total Direct and Overlapping Tax and Assessment Debt	4.13%
Combined Direct Debt ($5,200,000)	**0.05%**
Combined Total Debt	8.75%

Ratios to Redevelopment Incremental Valuation ($5,891,860,340):	
Total Overlapping Tax Increment Debt	6.16%

Source: California Municipal Statistics, Inc.

Demographic and Economic Statistics
Last Ten Fiscal Years

Fiscal Year	Square Miles	Population	Population Percentage Change	Personal Income (3)	Per Capita Personal Income (3)	Unemployment Rate (2)
2005	31.37	72,564	8.23	$ 2,952,124,992	$ 40,569	4.10
2006	31.37	76,303	5.15	3,283,599,825	42,797	4.00
2007	33.10	79,273	3.89	3,578,131,584	44,832	4.60
2008	33.10	82,116	3.59	3,763,813,584	45,488	6.00
2009	33.10	82,879	0.93	3,794,088,870	45,630	9.60
2010	33.10	83,781	1.09	3,865,692,500	46,075	10.53
2011	33.10	84,586	0.96	3,958,624,800	46,800	10.00
2012	33.07	85,159	0.68	4,234,020,321	49,719	8.90
2013	33.07	87,165	2.36	4,478,886,360	51,384	7.50
2014	33.07	90,179	3.46	(1)	(1)	6.34

Notes:
(1) Personal income and per capita personal income data for 2014 are unavailable.
(2) Final unemployment rate for 2014 is unavailable; rate presented is average unemployment rate for 10 months of 2014 including preliminary October data.
(3) Data presented is for San Diego/Carlsbad/San Marcos economic area.

Principal Employers
Current Year and Nine Years Ago

Employer	2014 Number of Employees	2014 Rank	2014 Percent of Total Employment (1)	2005 Number of Employees	2005 Rank	2005 Percent of Total Employment (1)
Hunter Industries Inc	756	1	2.54%	628	1	2.21%
United Parcel Service	438	2	1.47%	448	3	1.58%
Southern CA Permante Med Group	361	3	1.21%			
Wal-Mart Stores, Inc	350	4	1.18%	266	6	0.94%
Lusardi Construction Co	300	5	1.01%			
Aerotek Inc	283	6	0.95%			
Costco Wholesale	268	7	0.90%	230	11	0.81%
RB III Associates Inc	259	8	0.87%	250	7	0.88%
Fluid Components Intl LLC	245	9	0.82%	155	19	0.55%
Oncore Manufacturing Svcs, LLC	233	10	0.78%			
Fry's Electronics	186	11	0.63%	310	5	1.09%
Hollandia Dairy Inc	185	12	0.62%	200	14	0.70%
Hughes Circuits Inc	170	13	0.57%			
Home Depot	164	14	0.55%	177	17	0.62%
Swartz Burgers Inc	150	15	0.50%			
Southern Contracting	150	16	0.50%			
Diamond Environmental Svcs LP	148	17	0.50%			
Markstein Beverage Co	140	18	0.47%			
Plum Health Care Group	135	19	0.45%			
Falmat Inc	130	20	0.44%			
Vanpike Inc				582	2	2.05%
Signet Armorlite, Inc				393	4	1.38%
Walker Wood Products, Inc.				245	8	0.86%
South Coast Framers				230	9	0.81%
University Aux. & Research Svcs (2)				230	10	0.81%
Natural Alternatives				230	12	0.81%
Jacques Gourmet				200	13	0.70%
Par Electrical Contractors				200	15	0.70%
Ortho Organizers, Inc				195	16	0.69%
Baker Electric Inc				175	18	0.62%
Regal Entertainment Group				154	20	0.54%
Total	5,051		17.00%	5,498		19.36%

Notes:
(1) Total Employment as used above represents the total employment of all employers located within City limits.
(2) Formerly the "CA State University SM Foundation."

Sources: City of San Marcos Business License Directory.
California Employment Development Department.

City of San Marcos

Full-time and Part-time Employees by Function
Last Ten Fiscal Years

Function/Program:	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
General government	35	37	45	51	50	60	59	55	58	57
Community development	38	44	43	40	37	44	39	38	39	42
Public safety (1)	72	85	84	91	94	101	97	92	95	97
Highways, streets and parks	73	76	87	77	66	71	76	77	76	76
Culture and recreation	153	137	126	141	126	120	128	126	128	120
Total	371	379	385	400	373	396	399	388	396	392

Note:
(1) Includes Fire services only. Police services are provided to the City by the County.

Operating Indicators by Function (1)
Last Nine Years (2)

Function/Program	2005-06	2006-07	2007-08	2008-09
General Government:				
Number of business licenses issued	4,925	5,450	5,161	5,436
Number of requests for public information	144	112	160	176
Number of new hires including part-time	45	128	98	71
Number of invoices processed	11,432	14,616	11,208	11,256
Public Safety:				
Police:				
Contracts with the San Diego County Sheriff's Department for full service law enforcement				
Fire:				
Number of emergency calls	6,477	6,880	6,911	6,955
Number of fire inspections	1,524	1,495	1,459	1,852
Highways and Streets:				
Number of street lights added in current year	45	172	25	17
Number of traffic signals added in current year	11	7	3	4
Miles of streets swept	5,515	14,770	14,770	14,770
Miles of centerline streets added	12	24	5	-
Storm drain structures cleaned and repaired	92	113	114	116
Culture and Recreation:				
Number of facility rentals	362	486	670	669
Number of swim program participants	13,199	13,221	17,688	19,714
Number of adult sports participants	10,562	20,503	21,204	25,961
Number of youth sports participants	8,505	10,366	11,126	12,108
Number of senior nutrition program meals served	21,715	22,500	16,426	15,708
Community Development:				
Number of building permits issued	1,030	836	502	458
Approximate number of building inspections conducted	40,000	41,076	21,554	14,501
Number of new business licenses issued	1,263	1,505	1,307	1,225

Notes:
(1) Water and sewage treatment services are provided primarily by the Vallecitos Water District.
(2) Years prior to fiscal year 2005-06 have not been presented because data for those years is not readily available.

Source: Various City Departments.

2009-10	2010-11	2011-12	2012-13	2013-14
5,320	5,330	5,455	5,451	5,210
211	202	270	253	238
98	93	86	85	90
19,296	13,020	11,810	12,354	13,464
7,184	6,928	7,382	7,287	7,371
2,211	2,101	2,367	3,214	2,953
14	36	24	6	19
3	3	1	-	1
14,976	14,976	14,976	15,165	15,175
-	-	-	5	23
389	474	580	568	597
857	757	761	768	799
30,110	34,494	40,820	46,211	52,577
31,772	35,105	38,897	41,660	46,313
17,610	18,105	13,714	20,946	22,946
13,126	13,295	14,031	13,455	12,775
454	618	866	1,248	1,700
24,819	24,888	28,466	15,247	15,713
1,261	1,328	1,273	1,316	1,342

Capital Asset Statistics by Function/Program
Last Ten Fiscal Years

Function/Program	2005	2006	2007	2008	2009
Public Safety:					
Police (1)					
Fire					
Number of fire stations	3	4	4	4	4
Number of emergency vehicles	29	32	33	35	33
Highways and Streets:					
Miles of streets (2)	200	212	236	236	236
Number of street lights	2,383	2,428	2,600	2,625	2,645
Culture and Recreation:					
Parks	27	27	28	28	30
Acres of park land	331	336	366	373	373
Pools	2	2	2	2	2

Notes:

(1) The City of San Marcos contracts with the San Diego County Sheriff's Department for full service law enforcement.

(2) An audit of the City's street inventory was conducted during fiscal year 2011-12 and it was determined that private streets were being included in the total miles of streets. Private streets have now been removed from the total.

2010	2011	2012	2013	2014
4	4	4	4	4
40	31	32	36	38
236	241	194	199	222
2,659	2,695	2,691	2,702	2,708
32	33	34	34	35
377	379	380	380	384
2	2	2	2	2

(THIS PAGE INTENTIONALLY LEFT BLANK)

APPENDIX D

FORM OF BOND COUNSEL OPINION

Upon issuance of the 2015 Bonds, Best Best & Krieger LLP, Bond Counsel, proposes to render its final approving opinion in substantially the following form:

Successor Agency to the San Marcos
Redevelopment Agency
1 Civic Center Drive
San Marcos, CA 92069

Re: $84,710,000 Successor Agency to the San Marcos Redevelopment Agency Tax Allocation Refunding Bonds, Series 2015A

$139,285,000 Successor Agency to the San Marcos Redevelopment Agency Taxable Tax Allocation Refunding Bonds, Series 2015B

Ladies and Gentlemen:

We have reviewed the Constitution and laws of the State of California and certain proceedings taken by the Successor Agency to the San Marcos Redevelopment Agency (the "Agency") in connection with the issuance by the Agency of the Successor Agency to the San Marcos Redevelopment Agency Tax Allocation Refunding Bonds, Series 2015A (the "2015A Bonds") and the Successor Agency to the San Marcos Redevelopment Agency Taxable Tax Allocation Refunding Bonds, Series 2015B (the "2015B Bonds" and together with the 2015A Bonds, the "Bonds"), pursuant to the provisions of Article II (commencing with Section 53580) of Chapter 3 of Part I of Division 2 of Title 5 of the California Government Code (the "Refunding Law") and pursuant to an Indenture of Trust, dated as of July 1, 2015 (the "Indenture") by and between the Agency and MUFG Union Bank, N.A., as trustee thereto (the "Trustee"). The proceeds of the Bonds have been applied by the Agency to refinance certain bonds and other indebtedness of the Agency. We have also examined such certified proceedings and other papers and materials as we deem necessary to render this opinion.

In such connection, we have reviewed the Indenture, the tax certificate of the Agency for the 2015A Bonds dated the date hereof (the "Tax Certificate"), certificates of the Agency and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other events come to our attention after the date hereof. Accordingly, this opinion speaks only as of its date and is not intended to, and may not, be relied upon in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Agency. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to ensure that future actions, omissions or events will not cause interest on the 2015A Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Indenture and the Tax Certificate as to the 2015 A Bonds and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against cities and their subordinate entities in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the documents mentioned in the preceding sentence. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering materials relating to the Bonds and express no opinion with respect thereto.

Based upon the foregoing, we are of the opinion, under existing law, that:

1. The Agency is a successor agency duly organized and validly existing under the laws of the State of California, with power to enter into the Indenture, to perform the agreements on its part contained therein and to issue the Bonds;

2. The Bonds constitute the valid and legally binding special obligations of the Agency enforceable in accordance with their terms and payable solely from the sources provided therefor in the Indenture;

3. The Indenture has been duly approved by the Agency and constitutes the valid and legally binding obligation of the Agency enforceable against the Agency in accordance with its terms except as such enforcement may be limited by bankruptcy, insolvency, moratorium, transfer or conveyance, or other laws affecting creditor's rights generally, or the exercise of judicial discretion in accordance with general principals of equity or otherwise in appropriate cases; provided, however, we express no opinion with respect to any indemnification, contribution, choice of law or waiver provisions contained therein;

4. The Indenture establishes a lien on and pledge of the Pledged Tax Revenues (as such term is defined in the Indenture) and other funds pledged thereby for the security of the Bonds, in accordance with the terms of the Indenture;

5. Interest on the Bonds is exempt from California personal income taxation;

6. Interest on the 2015B Bonds is not excluded from gross income for federal income tax purposes. Except as stated in 5. above, we express no opinion as to any federal or state tax consequences of the ownership or disposition of the 2015B Bonds. Furthermore, we express no opinion as to any federal, state or local tax consequences with respect to the 2015B Bonds, or the interest thereon, if any action is taken with respect to the 2015B Bonds or the proceeds thereof predicated or permitted upon the advice or approval of bond counsel other than ourselves; and

7. The Internal Revenue Code of 1986, as amended (the "Code"), sets forth certain investment, rebate and related requirements which must be met subsequent to the delivery of the 2015A Bonds for the interest received by the owners of the 2015A Bonds to be and remain excluded from gross income for purposes of federal income taxation. Noncompliance with such requirements could cause the interest on the 2015A Bonds to be subject to federal income taxation retroactive to the date of delivery of the 2015A Bonds. Under existing statutes, regulations, rulings and court decisions, the interest on the 2015A Bonds is excluded from gross income for purposes of federal income taxation. Interest on the 2015A Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum tax provisions of the Code; it should be further noted, however, that, with respect to corporations, such interest will be included in adjusted current earnings when calculating corporate alternative minimum taxable income. Although the interest on the 2015A Bonds is excluded from gross income for purposes of federal income taxation, the accrual or receipt of

interest on the 2015A Bonds, or any portion thereof, may otherwise affect the federal income tax liability of the recipient. The extent of these other tax consequences will depend on the recipient's particular tax status or other items of income or deduction. We express no opinion regarding any such consequences.

We are admitted to the practice of law only in the State of California and our opinions are 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.

The opinions expressed herein may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Our engagement as Bond Counsel with respect to the Bonds 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 matters not directly addressed by such authorities.

Respectfully submitted,

(THIS PAGE INTENTIONALLY LEFT BLANK)

APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

Upon issuance of the 2015 Bonds, the Agency proposes to enter into a Continuing Disclosure Certificate in substantially the following form:

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the Successor Agency to the San Marcos Redevelopment Agency (the "Agency") in connection with the issuance of its $84,710,000 Tax Allocation Refunding Bonds, Series 2015A (the "2015A Bonds") and $139,285,000 Taxable Tax Allocation Refunding Bonds, Series 2015B (the "2015B Bonds," and together with the 2015A Bonds, the "Bonds"). The Bonds are being issued pursuant to an Indenture of Trust, dated as of July 1, 2015 (the "Indenture"), by and between MUFG Union Bank, N.A., as trustee (the "Trustee") and the Agency. The Agency covenants and agrees as follows:

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

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

Annual Report. The term "Annual Report" means any Annual Report provided by the Agency 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 June 16, 2015 relating to the Bonds.

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

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

3. Provision of Annual Reports.

(a) The Agency shall provide not later than April 1 following the end of its Fiscal Year (commencing with Fiscal Year 2014-15) to EMMA an Annual Report relating to the immediately preceding Fiscal

Year which is consistent with the requirements of Section 4 of this Disclosure Certificate, which Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate.

(b) If the Agency is unable to provide to EMMA an Annual Report by the date required in subsection (a), the Agency 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 Agency 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 Agency's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they come available;

(b) Principal amount of Bonds outstanding;

(c) Description of the issuance by the Agency of any debt payable from or secured by a pledge of Pledged Tax Revenues in the Project Areas (as such terms are defined in the Official Statement) in the most recently completed Fiscal Year (including details as to date, amount, term, rating and bond insurance);

(d) Updated information for the current Fiscal Year (i.e., the Fiscal Year in which the Annual Report is filed) substantially in the form of Tables 2, 5, 9 and 13 in the Official Statement;

(e) Updated information for the most recently completed Fiscal Year substantially in the form of Tables 17 and 18 in the Official Statement, but not including updates to any projections shown in Tables 17 and 18 in the Official Statement; and

(f) The cumulative tax increment allocated to the Agency as of June 30 of the most recently completed Fiscal Year in each Project Area; provided however, that in the event that legislation is enacted by the California legislature pursuant to which tax increment limits within former redevelopment plans are of no force or effect, then the Agency shall provide notice of such enactment and thereafter shall no longer be required to include information regarding cumulative increment pursuant to this Section 4(f).

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 Agency 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 Agency 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 Agency 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 Agency 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 Agency or the sale of all or substantially all of the assets of the Agency, 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 Agency determines that knowledge of the occurrence of a Listed Event under Section 5(b) would be material under applicable federal securities laws, the Agency 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 Agency shall provide to any person financial information and operating data regarding the Agency which is customarily prepared by the Agency and is publicly available.

7. Termination of Obligation. The Agency'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 Agency 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 Agency may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that, in the opinion of nationally recognized bond counsel, such amendment or waiver is permitted by the Rule.

9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Agency from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Agency 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 Agency 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 Agency 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 Agency 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 Agency 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 Agency satisfactory written evidence of their status as such, and a written notice of and request to cure such failure, and the Agency shall have refused to comply therewith within a reasonable time.

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

Dated: July 14, 2015

SUCCESSOR AGENCY TO THE SAN MARCOS REDEVELOPMENT AGENCY

By: ______________________________
Its:

APPENDIX F

BOOK-ENTRY PROVISIONS

The information in this section concerning DTC and DTC's book entry only system has been obtained from sources that the Agency, the City and the Underwriters believe to be reliable, but the Agency, the City and the Underwriters take 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 2015 Bonds, payment of principal, premium, if any, accreted value, if any, and interest on the 2015 Bonds to DTC Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the 2015 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 2015 Bonds. The 2015 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 2015 Bond will be issued for each annual maturity of the 2015 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.

Purchases of 2015 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2015 Bonds on DTC's records. The ownership interest of each actual purchaser of each 2015 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 2015 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 2015 Bonds, except in the event that use of the book entry system for the 2015 Bonds is discontinued.

To facilitate subsequent transfers, all 2015 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 2015 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 2015 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2015 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 2015 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2015 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the 2015 Bonds documents. For example, Beneficial Owners of 2015 Bonds may wish to ascertain that the nominee holding the 2015 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 2015 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 2015 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Agency as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts 2015 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the 2015 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Agency or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee or the Agency, subject to any statutory or regulatory requirements as may be in effect from time to time. 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 Agency or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A 2015 Bond Owner shall give notice to elect to have its 2015 Bonds purchased or tendered, through its Participant, to the Trustee, and shall effect delivery of such 2015 Bond by causing the Direct Participant to transfer the Participant's interest in the 2015 Bonds, on DTC's records, to the Trustee. The requirement for physical delivery of 2015 Bond in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the 2015 Bond are transferred by Direct Participants on DTC's records and followed by a book entry credit of tendered 2015 Bond to the Trustee's DTC account.

DTC may discontinue providing its services as depository with respect to the 2015 Bonds at any time by giving reasonable notice to the Agency or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, physical certificates are required to be printed and delivered.

The Agency may decide to discontinue use of the system of book entry only transfers through DTC (or a successor securities depository). In that event, 2015 Bonds will be printed and delivered to DTC.

THE TRUSTEE, AS LONG AS A BOOK ENTRY ONLY SYSTEM IS USED FOR THE 2015 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 2015 BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.