NEW ISSUE – FULL BOOK-ENTRY

RATING: S&P: "AA+"
See "RATING"

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

$3,895,000
CITY OF CARMEL-BY-THE-SEA PUBLIC IMPROVEMENT AUTHORITY
2020 Refunding Lease Revenue Bonds
(Sunset Cultural Center Project)

Dated: Date of Delivery

Due: November 1, as shown on inside cover

Authority for Issuance. The bonds captioned above (the "Bonds") are being issued by the City of Carmel-by-the-Sea Public Improvement Authority (the "Authority") under a resolution adopted by the Board of Directors of the Authority on September 3, 2020, the provisions of Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, commencing with Sections 53570 and 53580 of said Code (the "Bond Law"), and an Indenture of Trust dated as of October 1, 2020 (the "Indenture") between the Authority and MUFG Union Bank, N.A., as trustee (the "Trustee"). See "THE BONDS – Authority for Issuance."

Use of Proceeds. The Bonds are being issued to (i) refund, in full, the Authority's 2010 Refunding Lease Revenue Bonds (the "2010 Bonds"), which are currently outstanding in the principal amount of $4,890,000, and (ii) pay the costs of issuing the Bonds. See "FINANCING PLAN."

Security for the Bonds. Under the Indenture, the Bonds are payable from and secured by a first pledge of and lien on "Revenues" (as defined in this Official Statement) received by the Authority under the Second Amended and Restated Lease Agreement dated as of October 1, 2020 (the "Lease"), between the Authority, as lessor, and the City of Carmel-by-the-Sea (the "City"), as lessee, consisting primarily of semi-annual lease payments (the "Lease Payments") made by the City under the Lease with respect to the lease of certain real property, as further described in this Official Statement. The Bonds are also secured by certain funds on deposit under the Indenture. See "SECURITY FOR THE BONDS."

No Reserve Fund. Neither the Authority nor the City will fund a reserve fund for the Bonds.

Bond Terms; Book-Entry Only. The Bonds will bear interest at the rates shown on the inside cover page, payable semiannually on November 1 and May 1 of each year, commencing on May 1, 2021, and will be issued in fully registered form without coupons in the denomination of $5,000 or any integral multiple of $5,000. The Bonds will be issued in book-entry only form, initially registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"). Purchasers of the Bonds will not receive certificates representing their interests in the Bonds. Payments of the principal of, premium, if any, and interest on the Bonds will be made to DTC, which is obligated in turn to remit such principal, premium, if any, and interest to its DTC Participants for subsequent disbursement to the beneficial owners of the Bonds. See "THE BONDS – General Provisions."

Redemption. The Bonds are subject to extraordinary mandatory redemption from net proceeds of insurance in certain circumstances, but not optional redemption, prior to maturity. See "THE BONDS – Redemption."

NEITHER THE BONDS, NOR THE OBLIGATION OF THE AUTHORITY TO PAY PRINCIPAL OF OR INTEREST THEREON, NOR THE OBLIGATION OF THE CITY TO MAKE THE LEASE PAYMENTS, CONSTITUTE A DEBT OR A LIABILITY OF THE CITY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL LIMITATION ON INDEBTEDNESS, OR A PLEDGE OF THE FULL FAITH AND CREDIT OF THE CITY. THE BONDS ARE SECURED SOLELY BY THE PLEDGE OF REVENUES AND CERTAIN FUNDS HELD UNDER THE INDENTURE. THE BONDS ARE NOT SECURED BY A PLEDGE OF THE TAXING POWER OF THE CITY.

MATURITY SCHEDULE
(see inside cover)

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR GENERAL REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE OF BONDS. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION WITH RESPECT TO THE PURCHASE OF THE BONDS.

The Bonds are offered when, as and if issued and received by the Underwriter and subject to the approval as to their legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel. Certain legal matters will also be passed upon for the Authority and the City by Jones Hall, A Professional Law Corporation, as Disclosure Counsel. Certain legal matters will be passed upon for the City by the City Attorney. Certain legal matters will be passed upon for the Underwriter by its counsel, Stradling Yocca Carlson & Rauth, a Professional Corporation. It is anticipated that the Bonds will be delivered in book-entry form through the facilities of DTC on or about October 21, 2020.

RAYMOND JAMES

The date of this Official Statement is: September 23, 2020.

MATURITY SCHEDULE

$3,895,000 Serial Bonds
(Base CUSIP†: 143192)

Maturity (November 1)	Principal Amount	Interest Rate	Yield	Price	CUSIP†
2023	$355,000	4.000%	0.340%	111.015%	AX0
2024	375,000	4.000	0.380	114.455	AY8
2025	380,000	4.000	0.450	117.628	AZ5
2026	405,000	4.000	0.560	120.361	BA9
2027	425,000	4.000	0.690	122.668	BB7
2028	440,000	4.000	0.820	124.657	BC5
2029	455,000	4.000	0.940	126.425	BD3
2030	475,000	4.000	1.090	127.571	BE1
2031	480,000	4.000	1.210	128.721	BF8
2032	105,000	4.000	1.390	128.816	BG6

CITY OF CARMEL-BY-THE-SEA PUBLIC IMPROVEMENT AUTHORITY
CITY OF CARMEL-BY-THE-SEA
(MONTEREY COUNTY, CALIFORNIA)

BOARD OF DIRECTORS OF THE AUTHORITY
AND MEMBERS OF THE CITY COUNCIL

Dave Potter, *Mayor*
Bobby Richards, *Mayor Pro Tem*
Jeff Baron, *Councilmember*
Jan Reimers, *Councilmember*
Carrie Theis, *Councilmember*

AUTHORITY/CITY OFFICIALS

Chip Rerig, *City Administrator*
Maxine Gullo, *Assistant City Administrator*
Sharon Friedrichsen, *Director of Budget and Contracts*
Britt Avrit, MMC, *City Clerk*
Brian Pierik of Burke, Williams & Sorensen LLP, *City Attorney*

SPECIAL SERVICES

BOND COUNSEL AND DISCLOSURE COUNSEL

Jones Hall, A Professional Law Corporation
San Francisco, California

MUNICIPAL ADVISOR

NHA Advisors, LLC
San Rafael, California

TRUSTEE AND ESCROW AGENT

MUFG Union Bank, N.A.
San Francisco, California

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

Use of Official Statement. This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not to be construed as a contract with the purchasers of the Bonds.

Estimates and Forecasts. When used in this Official Statement and in any continuing disclosure by the City, in any press release and in any oral statement made with the approval of an authorized officer of the City, the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," "forecast," "expect," "intend" and similar expressions identify "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, give rise to any implication that there has been no change in the affairs of the City since the date hereof.

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

Limited Scope of Information. The City has obtained certain information set forth herein from sources which are believed to be reliable, but such information is neither guaranteed as to accuracy or completeness, nor to be construed as a representation of such by the City. The information and expressions of opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof. All summaries of or references to the documents referred to in this Official Statement are made subject to the provisions of such documents and do not purport to be complete statements of any or all of such provisions. All capitalized terms used herein, unless noted otherwise, have the meanings given in the Indenture.

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

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

THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXCEPTION FROM THE REGISTRATION REQUIREMENTS CONTAINED IN SUCH ACT. THE BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

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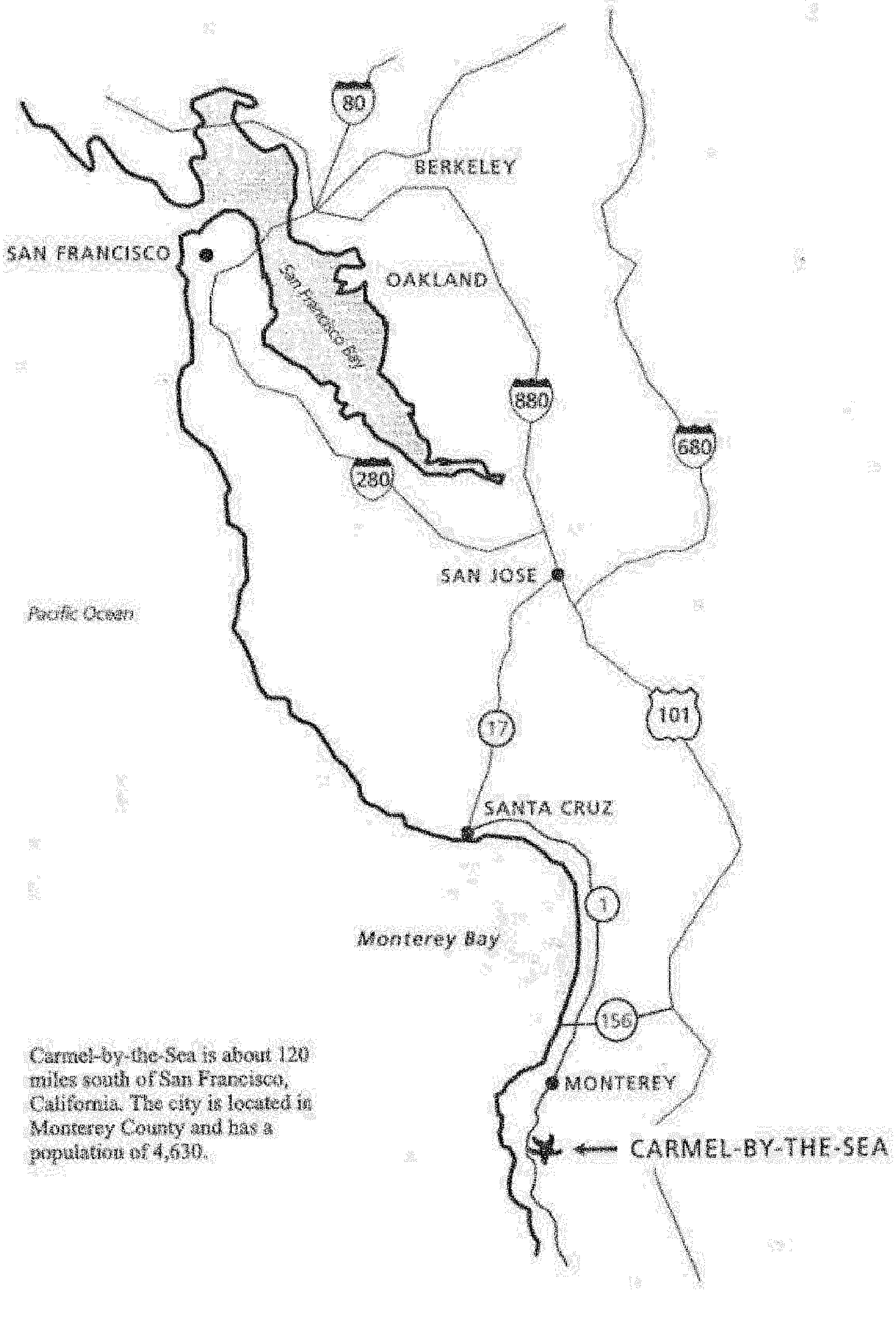
APPENDIX A: COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2019
APPENDIX B: GENERAL INFORMATION ABOUT THE CITY OF CARMEL-BY-THE-SEA AND THE COUNTY OF MONTEREY
APPENDIX C: SUMMARY OF PRINCIPAL LEGAL DOCUMENTS
APPENDIX D: FORM OF CONTINUING DISCLOSURE CERTIFICATE
APPENDIX E: FORM OF OPINION OF BOND COUNSEL
APPENDIX F: DTC AND THE BOOK-ENTRY ONLY SYSTEM



Carmel-by-the-Sea is about 120 miles south of San Francisco, California. The city is located in Monterey County and has a population of 4,630.

OFFICIAL STATEMENT

$3,895,000
CITY OF CARMEL-BY-THE-SEA PUBLIC IMPROVEMENT AUTHORITY
2020 Refunding Lease Revenue Bonds
(Sunset Cultural Center Project)

INTRODUCTION

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

Capitalized terms used but not defined in this Official Statement have the meanings set forth in the Indenture (as defined below). See "APPENDIX C – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS."

Authority for Issuance. The bonds captioned above (the "**Bonds**") are being issued by the City of Carmel-by-the-Sea Public Improvement Authority (the "**Authority**") under a resolution adopted by the Board of Directors of the Authority on September 3, 2020, the provisions of Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, commencing with Sections 53570 and 53580 of said Code (the "**Bond Law**"), and an Indenture of Trust dated as of October 1, 2020 (the "**Indenture**") between the Authority and MUFG Union Bank, N.A., as trustee (the "**Trustee**").

The Authority and the City. The Authority is a joint exercise of powers authority created in 1988 by the City of Carmel-by-the-Sea (the "**City**") and the City's parking authority. The Authority was created to provide financial assistance to the City. The Authority is governed by a board of directors which consists of the members of the City Council. The City was incorporated in 1916 as a general law city in the County of Monterey (the "**County**"), and had an estimated population according to the State Department of Finance as of January 1, 2020 of 3,949.

Located 120 miles south of San Francisco on the Monterey Peninsula, the City is a one-square-mile, built-out coastal community. In addition to various recreational opportunities afforded by its location on the coast, the City is also known for its architecture and dining and shopping opportunities, which may be found in the walkable downtown area. In addition to many City sponsored events like the City Parade, Sandcastle Contest and Pumpkin Roll, other special events also occur throughout the year, including at such venues as the Sunset Cultural Center performing arts center and the Forest Theater, an outdoor amphitheater.

For additional background on the City, and certain demographic and economic information regarding the City and the County, see APPENDIX B.

Bond Terms; Book-Entry Only. The Bonds will bear interest at the rates shown on the inside cover page, payable semiannually on November 1 and May 1 of each year, commencing May 1, 2021. The Bonds will be issued in fully registered form, registered in the name of The Depository Trust Company ("**DTC**"), or its nominee, which will act as securities depository for the Bonds. Purchasers of the Bonds will not receive certificates representing the Bonds that are purchased. See "THE BONDS – Book-Entry Only System" and "APPENDIX F – DTC AND THE BOOK-ENTRY ONLY SYSTEM."

Purpose of the Bonds. The Bonds are being issued to (i) refund, in full, the Authority's 2010 Refunding Lease Revenue Bonds (the "**2010 Bonds**"), which are currently outstanding in the principal amount of $4,890,000, and (ii) pay the costs of issuing the Bonds. See "FINANCING PLAN."

Security for the Bonds and Pledge of Revenues. Under the Indenture, the Bonds are payable from and secured by a first pledge of and lien on "**Revenues**" (as defined in this Official Statement) received by the Authority under the Second Amended and Restated Lease Agreement dated as of October 1, 2020 (the "**Lease**"), between the Authority, as lessor, and the City, as lessee, consisting primarily of semi-annual lease payments (the "**Lease Payments**") made by the City under the Lease. The Bonds are also secured by certain funds on deposit under the Indenture. See "SECURITY FOR THE BONDS."

The City and the Authority will enter into a Second Amended and Restated Site Lease dated as of October 1, 2020 (the "**Site Lease**"), under which the City will lease certain real property to the Authority, consisting generally of the land and improvements which constitute the Sunset Cultural Center located in the City (the "**Leased Property**"), as further described herein under the caption "THE LEASED PROPERTY," in return for a single upfront payment. Concurrently, the City and the Authority will enter into the Lease, under which the Authority will lease the Leased Property back to the City in return for semi-annual Lease Payments. See "SECURITY FOR THE BONDS" and "THE LEASED PROPERTY" below.

No Reserve Fund. Neither the Authority nor the City will fund a reserve fund for the Bonds.

Redemption. The Bonds are subject to extraordinary mandatory redemption from Net Proceeds of insurance in certain circumstances, but not optional redemption, prior to their stated maturity dates. See "THE BONDS – Redemption."

Abatement. The Lease Payments are subject to complete or partial abatement in the event and to the extent that there is substantial interference with the City's use and possession of the Leased Property or any portion thereof. If the Lease Payments are abated under the Lease, the Bond Owners would receive less than the full amount of principal of and interest on the Bonds. To the extent proceeds of rental interruption insurance are available, Lease Payments (or a portion thereof) may be made from those proceeds during periods of abatement. See "SECURITY FOR THE BONDS – Abatement" and "BOND OWNERS' RISKS."

Risks of Investment. Debt service on the Bonds is payable only from Lease Payments and other amounts payable by the City to the Authority under the Lease. The Lease Payments are payable from revenues available in the City's general fund, which revenues may be materially adversely affected by numerous factors outside the City's control, including the ongoing COVID-19 pandemic and the governmental responses to the pandemic. For a discussion of some of the risks associated with the purchase of the Bonds, see "BOND OWNERS' RISKS."

NEITHER THE BONDS, THE OBLIGATION OF THE AUTHORITY TO PAY PRINCIPAL OF OR INTEREST THEREON, NOR THE OBLIGATION OF THE CITY TO MAKE THE LEASE PAYMENTS, CONSTITUTE A DEBT OR A LIABILITY OF THE CITY, THE STATE OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL LIMITATION ON INDEBTEDNESS, OR A PLEDGE OF THE FULL FAITH AND CREDIT OF THE CITY. THE BONDS ARE SECURED SOLELY BY THE PLEDGE OF REVENUES AND CERTAIN FUNDS HELD UNDER THE INDENTURE. THE BONDS ARE NOT SECURED BY A PLEDGE OF THE TAXING POWER OF THE CITY.

FINANCING PLAN

General

The Bonds are being issued to (i) refund, in full, the 2010 Bonds, which are currently outstanding in the principal amount of $4,890,000, and (ii) pay the costs of issuing the Bonds.

The net proceeds of the Bonds will be deposited with MUFG Union Bank, N.A., as trustee for the 2010 Bonds and escrow agent (the "**Escrow Agent**"). Such amount, together with amounts held by the Escrow Agent related to the 2010 Bonds, will be sufficient to defease the 2010 Bonds as of the closing date for the Bonds and pay and redeem the 2010 Bonds on November 1, 2020.

Estimated Sources and Uses

The estimated sources and uses of funds relating to the Bonds are as follows:

Sources:	
Principal Amount of Bonds	$3,895,000.00
Plus: Original Issue Premium	866,901.35
Plus: Amounts Related to 2010 Bonds	400,434.46
TOTAL SOURCES	$5,162,335.81
Uses:	
Refunding 2010 Bonds	$4,978,343.75
Costs of Issuance(1)	183,992.06
TOTAL USES	$5,162,335.81

(1) Represents funds to be used to pay costs of issuance, which includes Underwriter's discount, legal fees, municipal advisor fees, printing costs, rating agency fees and other costs of issuing the Bonds.

THE LEASED PROPERTY

General

The Leased Property consists of the land and improvements constituting the "Sunset Cultural Center," which is located in the City, and has an estimated insured value of $26,445,382 (which does not include the value of the land). The Sunset Cultural Center is part of the larger Sunset Community & Cultural Center complex, which includes (1) the outdoor Forest Theater, (2) an activity building (Boy Scout House), and (3) the Sunset Cultural Center. *The only portion of the Sunset Community & Cultural Center complex that is part of the Leased Property is the Sunset Cultural Center.*

The Sunset Cultural Center is the largest single building in the City. The City acquired the property in 1964 from the Carmel Unified School District. It is home to musical, dance, and theatrical performances, a film festival, and other cultural events. Local artists teach at the center and seven rooms are available for rental to groups ranging from 40 to 150 people. The Sunset Theater, which is part of the Sunset Cultural Center, seats 718 and is used for performances varying from chamber music to dance productions and drama. The theater is cathedral-domed with a proscenium stage and lighting and sound facilities.

In addition to the Sunset Theater, the Sunset Cultural Center includes offices, meeting rooms, main and promenade lobbies, an outdoor plaza and terraces. This includes offices maintained by the staff of the Sunset Cultural Center, Inc, meeting rooms and permanent offices rented to arts organizations, meeting rooms available for City functions, community groups, events and conferences and the performing arts theatre.

The Sunset Cultural Center was renovated in September 2001 through July 2003. Since the renovation, Sunset Cultural Center has typically hosted more than 150 main stage events, which includes 50 classical music performances each year. Due to the COVID-19 pandemic, however, the Sunset Cultural Center has been closed to large group gatherings. For additional information on the impact of the COVID-19 pandemic on the City, see "BOND OWNERS' RISKS – Dependence on Tourism; COVID-19 Pandemic."

Substitution and Release

Substitution of Leased Property. Under the Lease, the City has the option at any time and from time to time, to substitute other real property (the "**Substitute Property**") for the Leased Property or any portion thereof (the "**Former Property**"), upon satisfaction of all of the conditions set forth in the Lease, which include (among others) the following:

- No Event of Default has occurred and is continuing.

- The City has filed with the Authority and the Trustee, and caused to be recorded in the office of the Monterey County Recorder sufficient memorialization of, an amendment of the Site Lease and the Lease which removes the Former Property from the Lease and the Site Lease and which adds the Substitute Property to the Lease and the Site Lease.

- The City has obtained a CLTA policy of title insurance insuring the City's leasehold estate in the Substitute Property, subject only to Permitted Encumbrances, in an amount at least equal to the estimated value thereof.

- The City has certified in writing to the Authority and the Trustee that the Substitute Property serves the municipal purposes of the City and constitutes property which the City is permitted to lease under the laws of the State of California.

- The City and the Authority have filed with the Trustee a written certificate stating that (a) based on the estimated value of the Substitute Property, the remaining Lease Payments constitute fair rental value for the use and occupancy of the Substitute Property, taking into consideration certain factors set forth in the Lease and (b) the useful life of the Substitute Property at least extends to November 1, 2042.

Upon the satisfaction of all the conditions precedent contained in the Lease, the term of the Lease will end as to the Former Property and commence as to the Substitute Property, and all references to the Former Property will apply with full force and effect to the Substitute Property. The City is not entitled to any reduction, diminution, extension or other modification of the Lease Payments whatsoever as a result of any substitution of property under the Lease.

Release of Leased Property. Under the Lease, the City has the option at any time and from time to time to release any portion of the Leased Property from the Lease and the Site Lease (the "**Released Property**") provided that the City has satisfied all of the requirements under the Lease that are conditions precedent to such removal, which include (among others) the following:

- No Event of Default has occurred and is continuing.

- The City has filed with the Authority and the Trustee, and caused to be recorded in the office of the Monterey County Recorder sufficient memorialization of, an amendment of the Lease and the Site Lease that removes the Released Property from the Site Lease and the Lease.

- The City and the Authority have filed with the Trustee a written certificate stating that based on the estimated value of the property which remains subject to the Lease following such release, the remaining Lease Payments constitute fair rental value for the use and occupancy of such property, taking into consideration certain factors set forth in the Lease.

Upon the satisfaction of all the conditions precedent set forth in the Lease, the term of the Lease will end as to the Released Property. The City is not entitled to any reduction, diminution, extension or other modification of the Lease Payments whatsoever as a result of such release.

In addition to the substitution and release provisions described above, the City may amend the Lease to obligate the City to pay additional amounts of rental for the use and occupancy of the Leased Property and pledge such amounts to other bonds or obligations under certain circumstances. Any such additional amounts of rental will not constitute "Revenues" which are pledged to the payment and security of the Bonds. See "SECURITY FOR THE BONDS – No Additional Bonds; Other Financings Using Leased Property."

DEBT SERVICE SCHEDULE

The table below shows annual debt service payments on the Bonds.

Year Ending Nov. 1	Principal	Interest	Total Debt Service
2021	--	$160,127.78	$160,127.78
2022	--	155,800.00	155,800.00
2023	$355,000	155,800.00	510,800.00
2024	375,000	141,600.00	516,600.00
2025	380,000	126,600.00	506,600.00
2026	405,000	111,400.00	516,400.00
2027	425,000	95,200.00	520,200.00
2028	440,000	78,200.00	518,200.00
2029	455,000	60,600.00	515,600.00
2030	475,000	42,400.00	517,400.00
2031	480,000	23,400.00	503,400.00
2032	105,000	4,200.00	109,200.00
Total:	**$3,895,000**	**$1,155,327.78**	**$5,050,327.78**

THE BONDS

This section provides summaries of the Bonds and certain provisions of the Indenture. See APPENDIX C for a more complete summary of the Indenture. Capitalized terms used but not defined in this section have the meanings given in APPENDIX C.

Authority for Issuance

The Bonds are being issued under the Bond Law, the Indenture, and a Resolution adopted by the Board of Directors of the Authority on September 3, 2020. The City Council of the City adopted its resolution on September 3, 2020, approving the issuance of the Bonds, the execution and delivery of the Site Lease and the Lease and other related matters.

General Provisions

Bond Terms. The Bonds will be dated their date of delivery and issued in fully registered form without coupons in denominations of $5,000 or any integral multiple of $5,000. The Bonds will mature in the amounts and on the dates, and bear interest at the annual rates, set forth on the inside cover page of this Official Statement.

Payments of Principal and Interest. Interest on the Bonds will be payable on May 1 and November 1 in each year, commencing May 1, 2021 (each an "**Interest Payment Date**"). Interest on the Bonds is payable from the Interest Payment Date next preceding the date of its authentication unless: a Bond is authenticated on or before an Interest Payment Date and after the close of business on the preceding Record Date, in which event it will bear interest from such Interest Payment Date, a Bond is authenticated on or before the first Record Date, in which event interest thereon will be payable from the Closing Date, or interest on any Bond is in default as of the date of authentication thereof, in which event interest thereon will be payable from the date to which interest has been paid in full, payable on each Interest Payment Date.

Interest is payable on each Interest Payment Date to the persons in whose names the ownership of the Bonds is registered on the Registration Books at the close of business on the immediately preceding Record Date, except as provided below. Interest on any Bond which is not punctually paid or duly provided for on any Interest Payment Date is payable to the person in whose name the ownership of such Bond is registered on the Registration Books at the close of business on a special record date for the payment of such defaulted interest to be fixed by the Trustee, notice of which is given to such Owner by first-class mail not less than 10 days prior to such special record date.

The Trustee will pay interest on the Bonds by check of the Trustee mailed by first class mail, postage prepaid, on each Interest Payment Date to the Owners of the Bonds at their respective addresses shown on the Registration Books as of the close of business on the preceding Record Date. At the written request of the Owner of Bonds in an aggregate principal amount of at least $1,000,000, which written request is on file with the Trustee as of any Record Date, the Trustee will pay interest on such Bonds on each succeeding Interest Payment Date by wire transfer in immediately available funds to such account of a financial institution within the United States of America as specified in such written request, which written request will remain in effect until rescinded in writing by the Owner. The Trustee will pay principal of the Bonds in lawful money of the United States of America by check of the Trustee upon presentation and surrender thereof at the Office of the Trustee.

While the Bonds are subject to the book-entry system, the principal, interest and any redemption premium with respect to the Bonds will be paid by the Trustee to DTC for subsequent disbursement to beneficial owners of the Bonds. See "– Book-Entry Only System" below.

Record Date. Under the Indenture, "Record Date" means, with respect to any Interest Payment Date, the 15th calendar day of the month preceding such Interest Payment Date, whether or not such day is a Business Day.

Transfer, Registration and Exchange

The following provisions regarding the exchange and transfer of the Bonds apply only during any period in which the Bonds are not subject to DTC's book-entry system. While the Bonds are subject to DTC's book-entry system, their exchange and transfer will be effected through DTC and the Participants and will be subject to the procedures, rules and requirements established by DTC. See "APPENDIX F – DTC AND THE BOOK-ENTRY ONLY SYSTEM."

Bond Register. The Trustee will keep or cause to be kept, at the Office of the Trustee, sufficient records for the registration and transfer of ownership of the Bonds, which shall upon reasonable notice as agreed to by the Trustee, be open to inspection during regular business hours by the Authority; and, upon presentation for such purpose, the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on such records, the ownership of the Bonds as hereinbefore provided.

Transfer and Exchange. Any Bond may, in accordance with its terms, be transferred, upon the Registration Books, by the person in whose name it is registered, in person or by a duly authorized attorney of such person, upon surrender of such Bond to the Trustee at its Office for cancellation, accompanied by delivery of a written instrument of transfer in a form acceptable to the Trustee, duly executed. The Trustee shall collect any tax or other governmental charge on the transfer of any Bonds under the Indenture. Whenever any Bond or Bonds shall be surrendered for transfer, the Authority shall execute and the Trustee shall authenticate and deliver to the transferee a new Bond or Bonds of like series, interest rate, maturity and aggregate principal amount. The Authority shall pay the cost of any services rendered or expenses incurred by the Trustee in connection with any transfer of Bonds. Prior to any transfer of the Bonds outside the book-entry system (including, but not limited to, the initial transfer outside the book-entry system) the transferor shall provide or cause to be provided to the Trustee all information necessary to allow the Trustee to comply with any applicable tax reporting obligations, including without limitation any cost basis report obligations under Section 6045 of the Tax Code. The Trustee shall conclusively rely on the information provided to it and shall have no responsibility to verify or ensure the accuracy of such information.

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

The Trustee may refuse to transfer or exchange any Bonds selected by the Trustee for redemption under the Indenture, or any Bonds during the period established by the Trustee for the selection of Bonds for redemption.

Redemption

No Optional Redemption. The Bonds are not subject to redemption at the option of the City prior to maturity.

Extraordinary Mandatory Redemption. The Bonds are subject to redemption as a whole, or in part by lot on a pro rata basis among maturities, on any date, from any Net Proceeds required to be used for such purpose as provided in the Indenture, at a redemption price equal to 100% of the principal amount thereof plus interest accrued thereon to the date fixed for redemption, without premium.

Selection of Bonds for Redemption. Whenever provision is made in the Indenture for the redemption of less than all of the Bonds of a single maturity, the Trustee shall select the Bonds of that maturity to be redeemed by lot in any manner which the Trustee in its sole discretion deems appropriate. For purposes of such selection, the Trustee shall treat each Bond as consisting of separate $5,000 portions and each such portion shall be subject to redemption as if such portion were a separate Bond.

Notice of Redemption. The Trustee will mail notice of redemption of the Bonds by first class mail, postage prepaid, not less than 20 nor more than 60 days before any redemption date, to the respective Owners of any Bonds designated for redemption at their addresses appearing on the Registration Books and to one or more Securities Depositories and to the Information Services.

Each notice of redemption shall state the date of the notice, the redemption date, the place or places of redemption, whether less than all of the Bonds (or all Bonds of a single maturity) are to be redeemed, the CUSIP numbers and (in the event that not all Bonds within a maturity are called for redemption) Bond numbers of the Bonds to be redeemed and the maturity or maturities of the Bonds to be redeemed, and in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that on the redemption date there will become due and payable on each of said Bonds the redemption price thereof, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such Bonds be then surrendered.

Neither the failure to receive any notice nor any defect therein shall affect the sufficiency of the proceedings for such redemption or the cessation of accrual of interest from and after the redemption date. Notice of redemption of Bonds shall be given by the Trustee, at the expense of the Authority, for and on behalf of the Authority.

However, while the Bonds are subject to DTC's book-entry system, the Trustee will be required to give notice of redemption only to DTC as provided in the letter of representations executed by the Authority and received and accepted by DTC. DTC and the Participants will have sole responsibility for providing any such notice of redemption to the beneficial owners of the Bonds to be redeemed. Any failure of DTC to notify any Participant, or any failure of Participants to notify the Beneficial Owner of any Bonds to be redeemed, of a notice of redemption or its content or effect will not affect the validity of the notice of redemption, or alter the effect of redemption set forth in the Indenture.

Effect of Redemption. Notice of redemption having been duly given as aforesaid, and moneys for payment of the redemption price of, together with interest accrued to the date fixed for redemption on the Bonds (or portions thereof) so called for redemption being held by the

Trustee, on the redemption date designated in such notice, the Bonds (or portions thereof) so called for redemption shall become due and payable, interest on the Bonds so called for redemption shall cease to accrue, said Bonds (or portions thereof) shall cease to be entitled to any benefit or security under the Indenture, and the Owners of said Bonds shall have no rights in respect thereof except to receive payment of the redemption price thereof.

Book-Entry Only System

The Bonds will be issued as fully registered bonds in book-entry only form, registered in the name of Cede & Co. as nominee of DTC, and will be available to ultimate purchasers in the denomination of $5,000 or any integral multiple of $5,000, under the book-entry system maintained by DTC. While the Bonds are subject to the book-entry system, the principal, interest and any redemption premium with respect to a Bond will be paid by the Trustee to DTC, which in turn is obligated to remit such payment to its DTC Participants for subsequent disbursement to Beneficial Owners of the Bonds. Purchasers of the Bonds will not receive certificates representing their interests therein, which will be held at DTC.

See "APPENDIX F – DTC AND THE BOOK-ENTRY ONLY SYSTEM" for further information regarding DTC and the book-entry system.

SECURITY FOR THE BONDS

The Bonds are a limited obligation of the Authority payable only from the Revenues and other amounts pledged under the Indenture. The principal of and interest on the Bonds are not a debt of the City, nor a legal or equitable pledge, charge, lien or encumbrance, upon any of its property, or upon any of its income, receipts, or revenues.

This section provides summaries of the security for the Bonds and certain provisions of the Indenture, the Lease and the Site Lease. See "APPENDIX C – Summary of Principal Legal Documents" for a more complete summary of the Indenture, the Lease and the Site Lease. Capitalized terms used but not defined in this section have the meanings given in APPENDIX C.

Revenues; Pledge of Revenues

Pledge of Revenues and Other Amounts. Under the Indenture, subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein, all of the Revenues and all amounts (including proceeds of the sale of the Bonds) held in any fund or account established under the Indenture are pledged to secure the payment of the principal of and interest on the Bonds in accordance with their terms and the provisions of the Indenture. This pledge constitutes a lien on and security interest in the Revenues and such amounts and will attach, be perfected and be valid and binding from and after the Closing Date, without the need for any physical delivery thereof or further act.

Definition of Revenues. "**Revenues**" are defined in the Indenture as follows:

(a) all amounts received by the Authority or the Trustee under or with respect to the Lease, including, without limiting the generality of the foregoing, all of the Lease Payments (including both timely and delinquent payments, any late charges, and whether paid from any source), but excluding any additional amounts of rental which the City may agree to pay to the Authority in connection with the issuance of additional obligations of the City; and

(b) all interest, profits or other income derived from the investment of amounts in any fund or account established under the Indenture.

Assignment to Trustee

Under the Assignment Agreement, the Authority transfers to the Trustee all of the rights of the Authority in the Lease (other than the rights of the Authority under the provisions of the Lease regarding Additional Rental Payments, repayment of advances, indemnification, and the payment of attorneys' fees). The Trustee is entitled to collect and receive all of the Revenues, and any Revenues collected or received by the Authority will be deemed to be held, and to have been collected or received, by the Authority as the agent of the Trustee and will immediately be paid by the Authority to the Trustee. The Trustee is also entitled to and will, subject to the provisions of the Indenture regarding duties of the Trustee, take all steps, actions and proceedings which the Trustee determines to be reasonably necessary in its judgment to enforce, either jointly with the Authority or separately, all of the rights of the Authority and all of the obligations of the City under the Lease.

Allocation of Funds by Trustee

Deposit of Revenues into Bond Fund. All Revenues shall be promptly deposited by the Trustee upon receipt thereof in a special fund designated as the "Bond Fund" which the Trustee shall establish, maintain and hold in trust; except that all moneys received by the Trustee and required under the Indenture or under the Lease to be deposited in the Redemption Fund or the Insurance and Condemnation Fund shall be promptly deposited in such funds. All Revenues deposited with the Trustee shall be held, disbursed, allocated and applied by the Trustee only as provided in the Indenture. Any surplus remaining in the Bond Fund, after payment in full of (i) the principal of and interest on the Bonds or provision therefore under the Indenture, and (ii) any applicable fees and expenses to the Trustee, shall be withdrawn by the Trustee and remitted to the City.

Transfers from the Bond Fund. On or before each Interest Payment Date, the Trustee will transfer from the Bond Fund and deposit into the following respective accounts (each of which the Trustee will establish and maintain within the Bond Fund), the following amounts in the following order of priority:

Deposit to Interest Account. The Trustee will deposit in the Interest Account an amount required to cause the aggregate amount on deposit in the Interest Account to be at least equal to the amount of interest becoming due and payable on such Interest Payment Date on all Bonds then Outstanding.

Deposit to Principal Account. The Trustee will deposit in the Principal Account an amount required to cause the aggregate amount on deposit in the Principal Account to equal the principal amount of the Bonds coming due and payable on such Interest Payment Date, including the principal amount of any Term Bonds which are subject to mandatory sinking fund redemption on such Interest Payment Date.

Application of Accounts within Bond Fund.

Application of Interest Account. All amounts in the Interest Account will be used and withdrawn by the Trustee solely for the purpose of paying interest on the Bonds as it comes due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity).

Application of Principal Account. All amounts in the Principal Account will be used and withdrawn by the Trustee solely to pay the principal amount of the Bonds (including the principal amount of Term Bonds which are subject to mandatory sinking fund redemption under the Indenture).

Application of Redemption Fund. The Trustee shall establish and maintain the Redemption Fund, into which the Trustee shall deposit a portion of the Revenues received, in accordance with a Written Request of the Authority, amounts in which shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of any Bonds to be redeemed pursuant to the extraordinary mandatory redemption provisions of the Indenture.

Lease Payments

Requirement to Make Lease Payments. Under the Lease, subject to the provisions of the Lease concerning rental abatement (see – "Abatement," below) and prepayment of Lease Payments, the City agrees to pay to the Authority, its successors and assigns, the Lease Payments in the respective amounts specified in the Lease, to be due and payable in immediately available funds on the Interest Payment Dates immediately following each of the respective Lease Payment Dates specified in the Lease, and to be deposited by the City with the Trustee on each of the Lease Payment Dates specified in the Lease (defined as the 5th Business Day immediately preceding each Interest Payment Date).

Any amount held in the Bond Fund, the Interest Account and the Principal Account on any Lease Payment Date (other than amounts resulting from the prepayment of the Lease Payments in part but not in whole under the Lease, and amounts required for payment of past due principal or interest on any Bonds not presented for payment) will be credited towards the Lease Payment then required to be paid hereunder.

The City is not required to deposit any Lease Payment with the Trustee on any Lease Payment Date if the amounts then held in the Bond Fund, the Interest Account and the Principal Account are at least equal to the Lease Payment then required to be deposited with the Trustee.

Rate on Overdue Lease Payments. If the City fails to make any of the payments of Lease Payments required in the Lease, the payment in default will continue as an obligation of the City until the amount in default has been fully paid, and the City agrees to pay the same with interest thereon, from the date of default to the date of payment at the highest rate of interest on any Outstanding Bond.

Fair Rental Value. The aggregate amount of the Lease Payments and Additional Rental Payments coming due and payable during each Rental Period constitute the total rental for the Leased Property for such Rental Period, and are payable by the City in each Rental Period for and in consideration of the right of the use and occupancy of, and the continued quiet use and enjoyment of the Leased Property during each Rental Period. The Authority and the City have agreed and determined that the total Lease Payments represent the fair rental value of the Leased

Property. In making that determination, consideration has been given to the estimated value of the Leased Property, other obligations of the City and the Authority under the Lease, the uses and purposes which may be served by the Leased Property and the benefits therefrom which will accrue to the City and the general public.

Additional Rental Payments. In addition to the Lease Payments, the City shall pay when due the following amounts of Additional Rental Payments in consideration of the lease of the Leased Property by the City from the Authority:

(a) all fees and expenses incurred by the Authority in connection with or by reason of its leasehold estate in the Leased Property, when due;

(b) compensation to the Trustee for its services rendered under the Indenture and for all reasonable expenses, charges, costs, liabilities, legal fees and other disbursements incurred in and about the performance of its powers and duties under the Indenture;

(c) all fees and expenses of such accountants, consultants, attorneys and other experts as may be engaged by the Authority or the Trustee to prepare audits, financial statements, reports, opinions or provide such other services required under the Lease or the Indenture;

(d) all amounts coming due and payable as Excess Investment Earnings in accordance with the Lease; and

(e) all out-of-pocket expenses of the Authority in connection with the execution and delivery of the Lease or the Indenture, or in connection with the issuance of the Bonds, including but not limited to any and all expenses incurred in connection with the authorization, sale and delivery of the Bonds, or incurred by the Authority in connection with any litigation which may at any time be instituted involving the Lease, the Bonds, the Indenture or any of the other documents contemplated thereby, or otherwise incurred in connection with the administration of the Lease.

Limited Obligation

THE OBLIGATION OF THE CITY TO MAKE THE LEASE PAYMENTS DOES NOT CONSTITUTE A DEBT OF THE CITY, THE AUTHORITY OR THE STATE OR OF ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMIT OR RESTRICTION, AND DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

No Additional Bonds; Other Financings Using Leased Property

The Authority covenants in the Indenture that no additional bonds, notes or other indebtedness shall be issued or incurred which are payable out of the Revenues in whole or in part. However, the City and the Authority may amend the Lease to obligate the City to pay additional amounts of rental for the use and occupancy of the Leased Property, but only if:

- such additional rent payments are pledged or assigned for the payment of any bonds, notes or other obligations the proceeds of which are applied to finance or refinance the acquisition or construction of any real or personal property for which the City is authorized to expend funds subject to its control,

- the City has filed with the Trustee a Written Certificate of the City stating that the estimated value of the Leased Property is, or following the completion of the acquisition and construction of any improvements to be financed from the proceeds of such bonds, notes or other obligations will be, at least equal to the aggregate original principal amount of the Bonds and all such other bonds, notes or other obligations, and

- the City has filed with the Trustee written evidence that such amendments to the Lease will not of themselves cause a reduction or withdrawal of any rating then assigned to the Bonds.

Source of Lease Payments; Covenant to Budget and Appropriate

The Lease Payments are payable from any source of available funds of the City, subject to the provisions of the Lease regarding abatement. See "– Abatement" herein.

Under the Lease, the City covenants to take all actions required to include the Lease Payments in each of its budgets during the Term of the Lease and to make the necessary appropriations for all Lease Payments and Additional Rental Payments. This covenant of the City constitutes a duty imposed by law and each and every public official of the City is required to take all actions required by law in the performance of the official duty of such officials to enable the City to carry out and perform the covenants and agreements in the Lease agreed to be carried out and performed by the City.

Abatement

Termination or Abatement Due to Eminent Domain. Under the Lease, if the Leased Property is taken permanently under the power of eminent domain or sold to a government threatening to exercise the power of eminent domain, the Term of the Lease thereupon ceases as of the day possession is taken. If less than all of the Leased Property is taken permanently, or if the Leased Property is taken temporarily, under the power of eminent domain, then:

(a) the Lease will continue in full force and effect with respect thereto and does not terminate by virtue of such taking, and the parties waive the benefit of any law to the contrary; and

(b) the Lease Payments are subject to abatement in an amount determined by the City such that the resulting Lease Payments represent fair consideration for the use and occupancy of the remaining usable portions of the Leased Property.

Abatement Due to Damage or Destruction. The Lease Payments are subject to abatement during any period in which by reason of damage or destruction (other than by eminent domain as described above) there is substantial interference with the use and occupancy by the City of the Leased Property or any portion thereof.

The Lease Payments are subject to abatement in an amount determined by the City such that the resulting Lease Payments represent fair consideration for the use and occupancy of the remaining usable portions of the Leased Property not damaged or destroyed. Such abatement will continue for the period commencing with such damage or destruction and ending with the substantial completion of the work of repair or reconstruction.

Notwithstanding the foregoing, the Lease Payments may be paid with proceeds of rental interruption insurance during any period in which the Lease Payments would otherwise be subject to abatement, it being declared that such proceeds constitute a special fund for the payment of the Lease Payments. In the event of any such damage or destruction, the Lease continues in full force and effect and the City waives any right to terminate the Lease by virtue of any such damage and destruction.

Property Insurance

Liability and Property Damage Insurance. Under the Lease, the City is required to maintain or cause to be maintained throughout the Term of the Lease, but only if and to the extent available from reputable insurers at reasonable cost in the reasonable opinion of the City, a standard commercial general liability insurance policy or policies in protection of the Authority, the City, and their respective members, officers, agents, employees and assigns.

Such policy or policies must provide for indemnification of said parties against direct or contingent loss or liability for damages for bodily and personal injury, death or property damage occasioned by reason of the operation of the Leased Property. Such policy or policies must provide coverage in such liability limits and be subject to such deductibles as the City deems adequate and prudent.

Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the City, and may be maintained in whole or in part in the form of self-insurance by the City, subject to the provisions of the Lease regarding self-insurance, or in the form of the participation by the City in a joint powers agency or other program providing pooled insurance. The proceeds of such liability insurance must be applied toward extinguishment or satisfaction of the liability with respect to which paid.

Casualty Insurance. Under the Lease, the City is required to procure and maintain, or cause to be procured and maintained, throughout the Term of the Lease, casualty insurance against loss or damage to all buildings situated on the Leased Property, in an amount at least equal to the lesser of (a) 100% of the replacement value of the insured buildings, or (b) 100% of the aggregate principal amount of the Outstanding Bonds.

Such insurance must, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, fire and such other hazards as are normally covered by such insurance, and must include earthquake insurance if available at reasonable cost from reputable insurers in the judgment of the City. Such insurance may be subject to such deductibles as the City deems adequate and prudent.

Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the City, and may be maintained in whole or in part in the form of the participation by the City in a joint powers agency or other program providing pooled insurance; provided that such insurance may not be maintained by the City in the form of self-insurance. The Net Proceeds of such insurance must be applied as provided in the Lease.

Rental Interruption Insurance. Under the Lease, the City is required to procure and maintain, or cause to be procured and maintained, throughout the Term of the Lease, rental interruption or use and occupancy insurance to cover loss, total or partial, of the use of any portion of the Leased Property constituting buildings or other improvements as a result of any of the hazards covered in the casualty insurance requirements described above, in an amount at least equal to the maximum such Lease Payments coming due and payable during any consecutive two Fiscal Years.

Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the City, and may be maintained in whole or in part in the form of the participation by the City in a joint powers agency or other program providing pooled insurance; provided that such insurance may not be maintained by the City in the form of self-insurance. The Net Proceeds of such insurance, if any, must be paid to the Trustee and deposited in the Bond Fund, to be applied as a credit towards the payment of the Lease Payments allocable to the insured improvements as they become due and payable.

Insurance Net Proceeds; Form of Policies. Each policy of casualty insurance, rental interruption insurance and title insurance maintained under the Lease must name the Trustee as loss payee so as to provide that all proceeds thereunder are payable to the Trustee. The City shall pay or cause to be paid when due the premiums for all insurance policies required by the Lease. All such policies shall provide that the Trustee is given 30 days' notice of each expiration, any intended cancellation thereof or reduction of the coverage provided thereby.

The City must file with the Trustee annually, within 90 days following the close of each Fiscal Year, a certificate of the City stating that all policies of insurance required under the Lease are then in full force and effect. The Trustee has no responsibility for the sufficiency, adequacy or amount of any insurance or self-insurance herein required and is fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss.

If any liability and property damage insurance maintained under the Lease is provided in the form of self-insurance, the City must file with the Trustee annually, within 90 days following the close of each Fiscal Year, a statement of the risk manager of the City or an independent insurance adviser engaged by the City identifying the extent of such self-insurance and stating the determination that the City maintains sufficient reserves with respect thereto. If any such insurance is provided in the form of self-insurance by the City, the City has no obligation to make any payment with respect to any insured event except from those reserves.

THE AUTHORITY

The Authority is a joint exercise of powers authority created in 1988 by the City and the City's parking authority. The Authority was created to provide financial assistance to the City. The Authority is governed by the Board of Directors to provide financial assistance to the City. The Joint Exercise of Powers Agreement was entered into under Article 1 (commencing with Section 6500) of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California. The Authority is a separate entity constituting a public instrumentality of the State of California.

THE CITY

General

The City is located in the County, and had an estimated population according to the State Department of Finance as of January 1, 2020 of 3,949. The City is a general law city and operates under a council-administrator form of government, with a five-member city council elected at large for overlapping four-year terms.

Located 120 miles south of San Francisco on the Monterey Peninsula, the City is a one-square-mile, built-out coastal community known for its natural beauty, including a white sand beach, urban forest of over 9,000 public trees comprised of Monterey pines, live oaks, and Monterey cypress and natural parklands. In addition to recreational opportunities afforded by such scenery, the City is also known for its architecture and dining and shopping opportunities, which may be found in the walkable downtown area. In addition to many City sponsored events like the City Parade, Sandcastle Contest and Pumpkin Roll, other special events also occur throughout the year and cultural activities abound, including at such venues as the Sunset Cultural Center performing arts center and the Forest Theater, an outdoor amphitheater.

For additional background on the City, and certain demographic and economic information regarding the City and the County, see APPENDIX B.

City Government

All legislative power is held by the publicly elected, five-member City Council which consists of the Mayor and four Councilmembers. The Mayor serves a two-year term while Council members serve overlapping four-year terms, with municipal elections occurring in November of each even numbered year. The City Council appoints the City Administrator and the City Attorney.

The City provides administrative, police, ambulance, planning/building code, sidewalk/streets and parks service. Fire service is provided through a contract with the City of Monterey; water service is provided by the private utility California American Water Co.; and sewer service is provided by the Carmel Area Wastewater District.

The current members of the City Council are as follows:

Name and Office	Current Term Expires
Dave Potter, *Mayor*	November 2020
Bobby Richards, *Mayor Pro Tem*	November 2020
Jeff Baron, *Council Member*	November 2022
Jan Reimers, *Council Member*	November 2020
Carrie Theis, *Council Member*	November 2022

The City Administrator is responsible for the day-to-day administration of City business and the coordination of all City departments, including finance. Chip Rerig is the current City Administrator, and Sharon Friedrichsen is the current Director of Budget and Contracts. A brief biography of each of Mr. Rerig and Ms. Friedrichsen follows.

Chip Rerig, City Administrator. Mr. Rerig has been the City Administrator since 2016. Immediately prior to that, he was chief of planning, engineering and environmental compliance for the City of Monterey. He was with the City of Monterey for approximately 14 years. Before his time at the City of Monterey, Mr. Rerig was formerly the planning director for the City, having begun his career in the City's planning department right out of graduate school. He is a graduate of California Polytechnic State University–San Luis Obispo.

Sharon Friedrichsen, Director of Budget and Contracts. Ms. Friedrichsen has been with the City since 2013. Before assuming her current role, she was the Public Works Director for the City. She also has worked for the City and County of San Francisco and the County of Santa Barbara, before joining Carmel. She has a Master's in Public Administration (MPA) degree from Syracuse University and an MA in International Relations.

CITY FINANCIAL INFORMATION

Budgetary Process and Administration

Fund-Based Accounting. The accounts of the City are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balanced set of accounts. The minimum number of funds is maintained consistent with legal and managerial requirements. Annually appropriated budgets are legally adopted on a budgetary basis for the governmental fund types (General Fund, Special Revenue Fund, Debt Service Fund, and Capital Project Fund) and are controlled on a fund and departmental level. These funds are used to account for most of the City's general government activities. Governmental fund types use the flow of current financial resources measurement focus and the modified-accrual basis of accounting and budgeting. Expenditures are recognized as encumbrances when a commitment is made. Unencumbered appropriations lapse at year-end.

Annual Budget Adoption. The goal of the City Administrator is to present a balanced budget to the City Council for review and adoption. A balanced budget is a budget in which sources meet or exceed uses. Available funding sources shall be at least equal to recommended appropriations. As a general rule, the year-end undesignated General Fund balance should not be used to fund ongoing operations.

As set in the Carmel Municipal Code prior to the beginning of each Fiscal Year, the City Council shall adopt a budget for expenditures and anticipated revenues. On or before February 15th of each year, the City Administrator will present to the City Council a proposed budget schedule. The City Administrator prepares and submits to the City Council a proposed operating and capital budget for the forthcoming Fiscal Year. The City Council is required to adopt the budget by July 1st.

Budget Transfers. The City Administrator has the right to approve the transfer of appropriations within a departmental budget; however, no additional positions may be created without the authorization of the City Council. All transfers of appropriations between departments or in regards to capital items or projects must be approved by the City Council. The City Administrator is charged with the responsibility of controlling the expenditures for all departments in accordance with the approved budget. A report on current year revenues, expenditures and fund balances must be maintained.

Financial Policies

General. The City has financial policies that provide City Council direction to allow staff to provide sound fiscal planning and continued management of fiscal integrity. The financial policies are divided into five categories:

- Capital Budget Policies,
- Operating Management Policies,
- Fund Balance Policy,
- Debt Policies, and
- Investment Policies.

The financial policies that are adopted by the City Council with review every two years during the budget development process. The financial policies help ensure that the City maintains a healthy financial foundation into the future. A description of each of these types of policies follows.

Capital Budget Policies. The City develops an annual five-year plan for capital improvements; it includes project design, development, implementation, and operating and maintenance costs. Each project in the Capital Improvement Plan ("**CIP**") shows the estimated capital and on-going maintenance costs, known and potential funding sources and a design/development schedule. As used in the CIP, projects include land acquisition, buildings and facilities construction; these projects do not have a cost threshold. A capital outlay (fixed asset) purchase is any single item or piece of equipment that costs more than $10,000 and has an expected useful life exceeding one year. The development of the Capital Improvement Plan is coordinated with the development of the operating budget. The CIP is a planning document; the City Council appropriates funding for capital projects in the annual operating budget. Costs for professional services needed to implement the CIP are to be included in the appropriate year's operating budget.

Pursuant to City policy, capital expenditures shall be effectively planned and controlled. Guidelines for capital expenditures include, for example:

- The level of capital improvement expenditures, excluding road maintenance program expenditures and lease payments, is established at 3.5% of total revenues.
- At least 10% of the unrestricted funds designated for capital project expenditures shall be set aside for unanticipated expenditures.
- Capital projects that are not encumbered or completed during the Fiscal Year are required to be re-budgeted to the next Fiscal Year and subsequently approved by the City Council. All re-budgeted capital projects should be so noted in the proposed budget.

Operating Management Policies. The City's operating management policies provide the operating revenues shall exceed operating expenditures. Guidelines for operating expenditures include, for example:

- The annual operating budget shall contain a current surplus (or "revenue buffer") of at least 5% of projected expenditures.

- An appropriated City Discretionary Account of at least 0.5% of total projected General Fund expenditures shall be maintained.

- The City's fees and charges for services shall be adjusted annually, based upon the San Francisco-Oakland Consumer Price Index

Fund Balance Policy. The Fund Balance Policy is designed to develop standards for setting reserve levels for various, significant City funds. Adequate fund balance and reserve levels are a necessary component of the City's overall financial management strategy and a key factor in external agencies' measurement of the City's financial strength. The City shall maintain reserves at a prudent level, and shall use reserves appropriately with a focus on contributing to the reserves in good times and drawing on the reserves in times of difficult budget periods to maintain a consistent level of service and quality operations. Use of reserves are to supplement the annual budget. Guidelines for the Fund Balance Policy include, for example:

- General Fund and Hostelry Fund reserves shall be maintained at no less than 10% of their annual projected revenues. (The Hostelry Fund is used to account for the TOT and is intended to fund the portion of the municipal budget covering community and cultural and recreation activities including but not limited to Sunset Cultural Center and the Forest Theater, parks, public facilities and municipal structures, and parking lots.)

- The City shall maintain prudent reserves for identified liabilities, such as a Vehicle Replacement reserve and a Technology Equipment reserve.

- A general capital reserve fund will be maintained with a targeted balance of 20% of the estimated total 5-year capital improvement plan project expenditure. Net proceeds from the sale of City owned property will be dedicated to the general capital reserve. Funds in the general capital reserve will be allocated through the budget process for capital projects.

Debt Policies. The City considers the use of debt financing for one-time capital improvements that benefit the residents of the City when the term of the financing is no longer than the project life, and when specific resources are found to be sufficient to provide for the debt. Use of long-term debt is limited to capital projects or special projects or obligations that cannot be financed from current revenues. The City has traditionally kept annual debt service payments to less than 5% of the budget.

Investment Policy. In accordance with the Municipal Code of the City and under authority granted by the City Council, the City Treasurer is responsible for investing the unexpended cash in the City Treasury. The investment of the City's funds is directed to the goals of safety, liquidity and yield, in that order. The authority governing investments for municipal government is set forth in the California Government Code, Sections 53601 through 53659.

For additional information regarding the City's investment portfolio, see "– Investment Policy and Portfolio."

City Budgets for Fiscal Years 2019-20 and 2020-21

Budget Categories. With respect to General Fund revenues, the major categories of revenues reflect the nature of the City as a primarily built-out residential community reliant on tourism to generate sales and Transient Occupancy Taxes ("**TOT**"). The City's three major sources of General Fund revenue include Property Tax, Sales and Use Tax and TOT, which typically make up about 80% of the City's revenues. Property taxes, in particular, have been a strong component to the City's financial health. Sales taxes have become increasingly important to the City, especially after the passage of a local sales tax measure by City voters in 2012, known as "Measure D" which was extended (for 20 years) and increased in 2020 pursuant to "Measure C." In recent years, TOT had also significantly contributed to the City's revenues and started to outpace property taxes as the leading source of revenue beginning in Fiscal Year 2013-14. However, due to the COVID-19 pandemic, TOT has been the most significantly negatively impacted. See "BOND OWNERS' RISKS – Dependence on Tourism; COVID-19 Pandemic."

With respect to General Fund expenditures, the categories of expenses generally line-up with the City services provided. The City provides a variety of services to its residents, businesses and visitors. Administration provides oversight of daily City functions and financial activity. Community Planning and Building provides building safety services, code compliance and planning functions, while Community Activities and Library manage new and ongoing special events and provide library services at two branch locations. Public safety services related to ambulance, law enforcement, crime prevention and fire protection are provided by the Ambulance and Police Department, respectively, while fire services are provided through a contract with the City of Monterey. Public Works is responsible for facility and vehicle maintenance, development and management of capital projects; construction, improvement and repair of streets, sidewalks, pathways and storm drain systems and maintaining the village forest, parks and shoreline areas.

Adopted Budget for Fiscal Year 2019-20. The City's budget for Fiscal Year 2019-20 was adopted by the City Council on June 4, 2019. The total budget amount was $24.2 million, of which the General Fund portion was $13.8 million. As is typical, following adoption of the budget, staff monitored and tracked revenues and expenditures for all funds, with an emphasis on the General Fund and the City's capital improvement program. Property taxes, sales and use taxes and transient occupancy taxes accounted for approximately 79% of projected revenues. Additional details regarding the Fiscal Year 2019-20 budget are shown in Table 1.

Adopted Budget for Fiscal Year 2020-21. The City's budget for Fiscal Year 2020-21 was adopted by the City Council on June 16, 2020. The City's planned expenditures totaled $19.7 million, of which $18.5 million represented General Fund expenditures and $1.2 million represented debt service payments. These expenses will be funded through a combination of anticipated revenue of $18.7 million and $1.0 million of fund balance. While the Fiscal Year 2020-21 budget is balanced from a fiscal perspective, the equilibrium is projected to be achieved by significantly curtailing expenditures and using prior years' savings to mitigate a structural deficit induced by the economic downturn caused by the COVID-19 pandemic. This approach results in a workforce reduction, changes in service delivery, and the postponement of capital projects and vehicle and equipment replacement.

As the extent of the economic impact of COVID-19 is unknown in terms of its magnitude and duration, the Fiscal Year 2020-21 budget is based upon conservative revenue projections, largely based on revenue performance for the last quarter of Fiscal Year 2019-20. These assumptions reflect significant declines in the City's sales and use taxes and transient occupancy taxes due to limited travel; decreased consumer spending, particularly in leisure-related spending; and the implementation of social distancing protocols for restaurants that impact seating capacity. The Fiscal Year 2020-21 revenues total $18.7 million, which reflects a $5.5 million, or 23% decrease compared to the Fiscal Year 2019-20 adopted budget of $24.2 million.

Even with the workforce reductions and other cuts within the operational budget, the Fiscal Year 2020-21 budget is balanced only by using approximately $1.0 million of prior years' savings, or fund balance. This represents 14% of the General Fund Estimated Fund Balance as of June 30, 2020. The use of fund balance underscores the precarious nature of the Fiscal Year 2020-21 budget; despite being based upon conservative revenue projections, the status of the budget is contingent upon the performance of the economy. In order to safeguard against further economic turmoil, to the extent possible, the City Administrator promulgated a four-fold strategy for the upcoming Fiscal Year: (1) limited use of fund balance in Fiscal Year 2020-21; (2) examination of service delivery and options to reduce costs with minimal community impacts, particularly as it relates to public safety, (3) research into the possibility of bond refinancing, and (4) exploration of options to diversify City revenues, including a review of possible new revenues such as paid parking in selected areas.

The 2020-21 budget notes that with respect to the 2019-20 Fiscal Year-end, various technical adjustments would be made. In particular, fund balance within the Hostelry Fund would be transferred to the General Fund to mitigate the expected decrease in transient occupancy tax revenue projected for Fiscal Year 2019-20. TOT is housed in a separate fund known as the Hostelry Fund and transferred to the General Fund to support Citywide operations. The Hostelry Fund includes savings from prior years when TOT performed better than expected and/or when the General Fund required less TOT revenue to meet expenditure requirements. It is anticipated that approximately $2.0 million of the $2.4 million in fund balance will be used in Fiscal Year 2019-20. As a result, very little fund balance remains in the Hostelry Fund to address any projected budget shortfall in Fiscal Year 2020-21 or thereafter. Given the uncertainties associated with the COVID-19 pandemic, City staff are providing budget updates to the City Council at least every 2 months during the current fiscal year.

Complete copies of the City's adopted Fiscal Year 2019-20 and 2020-21 budgets can be obtained from the City's Finance Department or the City's website at https://ci.carmel.ca.us/. *The information on this website is not incorporated by reference into this Official Statement.*

Adopted Budget Comparison. The following table shows the City's adopted budget for the General Fund for Fiscal Years 2019-20 and 2020-21, as well as estimated actuals for Fiscal Year 2019-20.

TABLE 1
City of Carmel-by-the-Sea
General Fund Budget Summary
Fiscal Years 2019-20 and 2020-21 and
Estimated Actuals Fiscal Year 2019-20 (Estimated Actuals)

	2019-20 Adopted Budget	2019-20 Estimated Actuals	2020-21 Adopted Budget
Revenues			
Transient Occupancy Tax	$6,842,900	$6,477,220 (1)	$2,488,198
Property Taxes	6,047,488	6,647,728	6,302,218
Measure D/Measure C(2)	3,023,000	2,512,086	3,050,000
Statewide Sales Tax	2,618,240	2,083,496	1,886,796
Business Tax & Franchise Fees	1,260,144	1,123,441	1,159,838
Charges for Services	2,487,435	2,131,694	2,080,159
Other	1,772,252	1,351,454	1,703,574
Total Revenues	**$24,051,459**	**$22,327,119**	**$18,670,783**
Expenditures			
General Government	$5,517,696	$4,971,241	$5,070,716
Community Planning and Building	1,144,353	1,083,984	1,224,098
Public Safety	8,535,170	7,774,913	8,082,474
Public Works	3,566,328	2,824,680	2,482,660
Library	1,185,675	1,075,386	676,524
Community Activities	246,449	206,883	90,490
Economic Revitalization	1,106,097	1,076,542	824,500
Capital Outlay/Debt Service	2,651,012	2,176,596	1,244,515
Total Expenditures	**$23,952,780**	**$21,190,225**	**$19,695,977**
Net Operating Results	**$98,679**	**$1,136,894**	**($1,025,194)**

(1) Fiscal Year 2019-20 Transient Occupancy Tax revenues consists of revenues of $4,891,025.62, plus excess Hostelry Fund Balance transferred-in ($1,586,194.38).
(2) Measure D is 1.0% sales and use tax approved by the voters in 2012. Measure D was replaced by the voters on March 3, 2020 with a 1.5% sales and use tax known as Measure C that became effective on July 1, 2020 for 20 years. Measure D and Measure C were, and will be, accounted for in a separate revenue fund and not in the General Fund. However, revenues from Measure D/Measure C are available to pay debt service on the Bonds.
Source: City of Carmel-by-the-Sea Adopted Budgets.

Financial Statements

Overview. Set forth in the following tables are the City's General Fund balance sheets and statements of revenues, expenditures and changes in General Fund Balance for Fiscal Years 2015-16 through 2018-19, which are based on the City's audited financial statements and estimated actual figures for Fiscal Year 2019-20. The balance sheets and statements presented in this Official Statement are subject to the various notes attached to the City's financial statements for the respective years. The City's Comprehensive Annual Financial Report ("**CAFR**") for Fiscal Year ended June 30, 2019, which includes the City's 2018-19 audited financial statements, is set forth in Appendix A.

Changes in General Fund Balance Sheets. As shown in the following table, the Total Assets of the General Fund increased from Fiscal Year 2015-16 to Fiscal Year 2018-19, before declining in Fiscal Year 2019-20. The majority of these assets are held in cash and cash investments. With only a modest increase in Total Liabilities, the balances in the various reserves held within the General Fund grew substantially.

TABLE 2
City of Carmel-by-the-Sea
General Fund Balance Sheets
Fiscal Years 2015-16 through 2018-19 (Audited)
and Fiscal Year 2019-20 (Estimated Actuals)

	2015-16	2016-17	2017-18	2018-19	Estimated 2019-20
Assets					
Cash and investments	$6,213,049	$7,965,693	$6,976,284	$8,456,322	$8,614,711
Accounts receivable	2,844,683	1,587,809	1,872,135	2,367,659	682,005
Interest receivable	6,228	--	--	--	--
Intergovernmental	479,377	--	--	--	--
Due from other funds	1,199,785	1,553,677	254,146	434,711	--
Other assets	--	--	--	404	--
Total Assets	**10,743,122**	**11,107,179**	**9,102,565**	**11,259,096**	**9,296,716**
Liabilities					
Accounts payable	1,017,774	861,768	485,646	895,637	578,892
Accrued liabilities	593,733	568,988	607,052	1,111,830	313,795
Deposits payable	301,747	360,927	1,300	1,500	1,500
Unearned revenues	--	--	2,173	--	-
Total Liabilities	**1,913,254**	**1,791,683**	**1,096,171**	**2,008,967**	**894,187**
Def. Inflow of Resources	**1,617,000**	**--**	**--**	**--**	**--**
Fund Balances					
Restricted	--	--	--	--	
Committed	2,166,165	2,173,138	2,806,045	2,808,138	2,421,938
Assigned	3,308,636	2,448,461	1,922,008	1,926,008	1,025,194
Unassigned	1,738,067	4,693,897	3,278,341	4,515,983	4,955,397
Total Fund Balance	**7,212,868**	**9,315,496**	**8,006,394**	**9,250,129**	**8,402,529**
Total Liabilities & Fund Balance	**$10,743,122**	**$11,107,179**	**$9,102,565**	**$11,259,096**	**$9,296,716**

Source: City of Carmel-by-the-Sea audited financial statements for Fiscal Years 2015-16 through 2018-19; City for Fiscal Year 2019-20.

Changes in General Fund Revenues, Expenditures and Fund Balance. The following table shows changes in Statements of Revenues, Expenditures and Changes in Fund Balance for the City's General Fund for Fiscal Years 2015-16 through 2018-19 based on the City's audited financial statements and estimated actual figures for Fiscal Year 2019-20.

TABLE 3
City of Carmel-by-the-Sea
Statements of Revenues, Expenditures and Changes in General Fund Balance
Fiscal Years 2015-16 through 2018-19 (Audited)
and Fiscal Year 2019-20 (Estimated)

	2015-16	2016-17	2017-18[7]	2018-19	Estimated 2019-20
Revenues					
Taxes[1]	$15,124,699	$16,296,757	--	--	--
Property taxes	--	--	$6,192,126	$6,524,331	$6,647,727
Sales and use taxes[1]	--	--	2,588,004	2,652,971	2,083,496
Transient occupancy taxes	--	--	6,329,074	6,882,015	4,891,026
Franchise fees	--	--	637,136	636,397	530,975
Motor vehicle in-lieu	--	--	462,989	486,445	515,591
Business license tax	--	--	544,392	594,941	592,466
Intergovernmental	74,014	136,367	42,846	97,128	104,902
Licenses and permits	553,602	762,257	1,087,953	1,192,242	871,066
Contributions	--	--	--	--	--
Fines and forfeitures	7,245	8,422	91,813	121,470	12,153
Charges for services	57,818	66,957	1,056,205	1,251,072	1,260,628
Use of money and property	159,632	170,631	--	--	--
Interest	--	--	22,483	124,262	152,721
Rents and Concessions	--	--	100,899	185,156	91,527
Other revenue	389,136	1,979,561	211,153	132,776	231,799
Total Revenues	**16,366,146**	**19,420,952**	**19,367,073**	**20,881,206**	**17,986,077**
Expenditures					
Current:					
General Government	5,033,811	5,681,103	4,693,813	5,517,516	4,971,241
Community Planning and Building[2]	1,525,038	1,138,983	1,128,977	1,116,689	1,083,984
Public Safety	5,129,664	5,781,793	7,024,092	7,617,310	7,774,913
Public Works[3]	1,283,023	2,549,397	2,769,129	2,902,461	2,824,680
Library	--	--	--	--	--
Community Activities	--	--	--	--	--
Forest, Parks, and Beaches	547,211	108,764	--	--	--
Culture and Recreation[4]	883,145	1,185,946	1,035,575	1,145,151	1,282,269
Economic Revitalization[5]	306,505	351,425	1,095,636	1,103,993	1,076,542
Capital Outlay	4,439,279	1,877,053	--	--	--
Debt Service: principal	--	--	--	--	--
Debt Service: interest and fiscal charges	--	--	--	--	--
Total expenditures	**19,147,676**	**18,674,464**	**17,747,222**	**19,403,120**	**19,013,629**
Excess (deficiency) of revenues over (under) exp.	(2,781,530)	746,488	1,619,851	1,478,086	(1,027,552)
Other financing sources(uses)					
Transfers in	3,859,428	1,892,067	7,507,522	855,660	906,286
Transfers out	(1,981,255)	(535,927)	(10,436,475)	(1,111,477)	(726,334)
Total other fin. sources (uses)	1,878,173	1,356,140	(2,928,953)	(255,817)	179,952
Net change in fund balance	**(903,357)**	**2,102,628**	**(1,309,102)**	**1,222,269**	**(847,600)**
Fund balances (deficits), July 1	7,849,809	7,212,868	9,315,496	8,006,394	9,250,129
Prior period adjustments[6]	266,416	--	--	21,466	--
Fund balance, beginning as restated	8,116,225	--	--	8,027,860	9,250,129
Fund balance, ending	**$7,212,868**	**$9,315,496**	**$8,006,394**	**$9,250,129**	**$8,402,529**

Footnotes are on following page.

(1) Sales and use taxes do not include amounts generated by Measure D, which was a 1% sales and use tax approved by the voters in 2012, and accounted for in a separate fund. Measure D revenues for Fiscal Years 2015-16 through Fiscal Year 2019-20 were: $2,718,256, $2,889,380, $2,898,445, $3,079,914, and $2,512,086 (estimated), respectively. Measure D was replaced by the voters on March 3, 2020 with a 1.5% sales and use tax known as Measure C that became effective on July 1, 2020 for 20 years and, similarly, will be accounted for in a separate fund.
(2) Community Planning and Building previously referred to as "Building Maintenance."
(3) Public Work includes categories previously referred to as "Forest, Parks, and Beaches."
(4) Economic Revitalization previously referred to as "Economic Development."
(5) Culture and Recreation includes categories previously preferred to as "Library" and "Community Activities."
(6) Prior period adjustment for Fiscal Year 2015-16 due to general revenue being posted to the deposit fund and not the general fund. Prior period adjustment for Fiscal Year 2018-19 due to items posted to deposit fund in prior years found to be revenue of the general fund.
(7) In Fiscal Year 2017-18, the City updated its accounting software, including fund and account structure. Approximately 12 funds were closed, combining the balance sheets of the various funds. For financial reporting purposes, equity transfers between funds were treated as operating transfers. Page 51 of the City's 2018 financial report includes the details of these transfers.

Source: City Finance Department and City of Carmel-by-the-Sea audited financial statements for Fiscal Years 2015-16 through 2018-19; City for Fiscal Year 2019-20.

Revenues Available for Lease Payments

The City will make Lease Payments on each Lease Payment Date from moneys held in the General Fund and Measure D amounts that are available for that purpose. For additional information on Measure D, see "– Sales and Use Taxes," below. The following table shows such revenues received by the City for the last three Fiscal Years for which audited financial statements are available.

TABLE 4
City of Carmel-by-the-Sea
Revenues by Revenue Source – General Fund and Measure D
Fiscal Years 2017-18 and 2018-19 (Audited)
and Fiscal Year 2019-20 (Estimated Actuals)

	2017-18		2018-19		Estimated 2019-20	
Category	**Revenues**	**% of Total**	**Revenues**	**% of Total**	**Revenues**	**% of Total**
General Fund						
Property taxes	$6,192,126	27.8%	$6,524,331	27.2%	$6,647,727	29.8%
Sales and use taxes	2,588,004	11.6	2,652,971	11.1	2,083,496	9.3
Transient occupancy taxes	6,329,074	28.4	6,882,015	28.7	6,477,220	29.0
Franchise fees	637,136	2.9	636,397	2.7	530,975	2.4
Motor vehicle-in-lieu	462,989	2.1	486,445	2.0	515,591	2.3
Business license tax	544,392	2.4	594,941	2.5	592,466	2.7
Other revenues(1)	2,613,352	11.7	3,104,106	13.0	2,967,558	13.3
Subtotal – General Fund	$19,367,073	87.0%	$20,881,206	87.1%	$19,815,033	88.7%
Measure D	$2,898,445	13.0%	$3,079,914	12.9%	$2,512,086	11.3%
Total	**$22,265,518**	**100.0%**	**$23,961,120**	**100.0%**	**$22,327,119**	**100.0%**

(1) Other revenues include Intergovernmental, licenses and permits, charges for services and others. See Table 3 for detail.
Source: City of Carmel-by-the-Sea Finance Department.

Property Taxes

For Fiscal Year 2020-21, Property Taxes are projected to represent the largest source of revenues to the City's General Fund. Property taxes represent a very stable source of revenue to the City, and are based in large part on assessed valuations of property located in the City. For Fiscal Year 2018-19, property tax revenue totaled $6.5 million, an increase of $332,205 over the prior Fiscal Year due to new construction activity and price escalation in transfers of ownership. Property tax revenues have increased an average of 4.3% per fiscal year from Fiscal Year 2015-16 to Fiscal Year 2019-20.

General Method of Property Tax Calculations. Proposition 13, passed in 1978, established the current property tax regime for local agencies, including the City, throughout the State. Under Proposition 13, subject to voter-approved debt and certain other exceptions, the base property tax rate on a parcel is limited to 1% of its assessed value and the property tax collected by this 1% County-wide rate is shared by the local agencies eligible to receive property taxes within the applicable County pursuant to applicable State law. Under Proposition 13, the 1975-76 Fiscal Year serves as the original base year used in determining the assessment for real property. Thereafter, annual increases to the base year value are limited to the inflation rate, as measured by the California Consumer Price Index, or 2%, whichever is less. A new base year value, however, is also established whenever a property, or portion thereof, has had a change in ownership or has been newly constructed. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS – Article XIIIA of the State Constitution" for additional information.

Proposition 8, enacted in 1978, allows for a temporary reduction in assessed value when a property suffers a "decline-in-value." As of the January 1st (lien date) each year, the Assessor must enroll either a property's Proposition 13 value (adjusted annually for inflation by no more than 2%) or its current market value, whichever is less. When the current market value replaces the higher Proposition 13 value, the lower value is commonly referred to as a "Proposition 8 Value." "Proposition 8 values" are temporary and, once enrolled, must be reviewed annually by the assessor until the Proposition 13 adjusted base year value is enrolled.

The California Tax on Commercial and Industrial Properties for Education and Local Government Funding Initiative has qualified to appear on the ballot in California as an initiated Constitutional amendment on November 3, 2020. The ballot initiative would amend the State Constitution to require commercial and industrial properties, except those zoned as commercial agriculture, to be taxed based on their market value. The proposal to assess taxes on commercial and industrial properties at market value, while continuing to assess taxes on residential properties based on purchase price as described above, is known as "split roll." See "BOND OWNERS' RISKS – Possible Future Initiatives." At this time, the City is unable to determine the likelihood of passage of the measure or the impact on the City's property tax receipts from passage.

Levy and Collection of Property Taxes. Property taxes are levied for each Fiscal Year on taxable real and personal property as of the preceding January 1. For assessment and collection purposes, property is classified either as "secured" or "unsecured" and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State-assessed public utilities property and real property the taxes on which have a viable tax lien, in the opinion of the County Assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll."

Property taxes on the secured roll are due in two installments, on November 1 and February 1 of each Fiscal Year, and become delinquent on December 10 and April 10, respectively. A penalty of 10% attaches immediately to all delinquent payments. Property on the secured roll with respect to which taxes are delinquent become tax defaulted on or about June 30 of the Fiscal Year. Such property may thereafter be redeemed by payment of a penalty of 1% per month to the time of redemption, plus costs and a redemption fee. If taxes are unpaid for a period of five years or more, the property is deeded to the State and may be sold at public auction.

Property taxes on the unsecured roll are due as of the January 1 lien dates and become delinquent on August 31. A 10% penalty attaches to delinquent unsecured taxes. If unsecured taxes are unpaid at 5:00 p.m. on October 31, an additional penalty of 1% attaches to them on the first day of each month until paid. The County has four ways of collecting delinquent unsecured personal property taxes: (1) a civil action against the taxpayer; (2) filing a judgment in the office of the County Clerk specifying certain facts in order to obtain a lien on certain property of the taxpayer; (3) filing a certificate of delinquency for record in the County Recorder's office in order to obtain a lien on certain property of the taxpayer; and (4) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the assessee.

Beginning in Fiscal Year 1978-79, Proposition 13 and its implementing legislation shifted the function of property tax allocation to the counties, except for levies to support prior voted debt, and prescribed how levies on county-wide property values are to be shared with local taxing entities within each county.

Property Tax Delinquencies; No Teeter Plan. Certain counties in the State of California offer a statutory program entitled Alternate Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "**Teeter Plan**"). Under the Teeter Plan local taxing entities receive 100% of their tax levies net of delinquencies, but do not receive interest or penalties on delinquent taxes collected by the county. Monterey County has not adopted the Teeter Plan and, accordingly, each local agency in the County (including the City) receives only the actual amount of property taxes collected by the City, but also allows the City to retain delinquent taxes, penalties and interest, as and when received from delinquent property tax payers. Historical levy, collection and delinquency information for property taxes collected for the City for the past ten Fiscal Years is set forth in the following table.

TABLE 5
City of Carmel-by-the-Sea
Property Tax Levies, Collections and Delinquencies
Fiscal Year Ended June 30, 2010 – 2019

Fiscal Year Ended June 30	Total Tax levy	Current Tax Collections	% of Levy Collected	Supp. Tax Collections	Delinquent Tax Collections	Total Collections
2010	$4,189,288	$4,004,959	95.6%	$45,834	$209,176	$4,259,969
2011	4,157,789	3,970,688	95.5	57,222	192,080	4,219,991
2012	4,571,481	4,402,336	96.3	58,518	138,384	4,599,238
2013	4,652,176	4,601,002	98.9	68,734	93,605	4,763,341
2014	4,881,534	4,764,377	97.6	93,380	90,301	4,948,057
2015	5,127,974	5,010,031	97.7	95,355	73,000	5,178,385
2016	5,598,743	5,453,176	97.4	117,309	74,547	5,645,032
2017	5,825,889	5,674,416	97.4	106,567	80,397	5,861,380
2018	6,192,126	6,049,707	97.7	124,505	76,128	6,250,341
2019	6,524,331	6,374,271	97.7	124,505	76,128	6,574,905

Source: County of Monterey Auditor-Controller's Office; City of Carmel-by-the-Sea Finance Department.

Historical Assessed Valuations. The table below presents the assessed valuation of taxable property in the City for the past ten Fiscal Years.

TABLE 6
City of Carmel-by-the-Sea
Assessed Value of Taxable Property
Fiscal Years 2011-12 through 2020-21

Fiscal Year	Local Secured	Utility	Unsecured	Total
2011-12	$2,908,891,597	$0	$30,254,516	$2,939,146,113
2012-13	3,001,630,584	0	28,759,821	3,030,390,405
2013-14	3,153,416,179	0	27,307,767	3,180,723,946
2014-15	3,309,856,089	0	26,813,656	3,336,669,745
2015-16	3,569,065,524	0	26,719,717	3,595,785,241
2016-17	3,766,258,441	0	26,280,598	3,792,539,039
2017-18	3,999,182,757	0	25,708,168	4,024,890,925
2018-19	4,220,683,852	0	26,668,954	4,247,352,806
2019-20	4,446,041,301	0	28,251,679	4,474,292,980
2020-21	4,686,463,940	0	31,785,264	4,718,249,204

Source: California Municipal Statistics, Inc.

Assessed Valuations and Parcels by Land Use. The following table shows assessed valuations and parcels by land use for Fiscal Year 2020-21. As shown in the table, more than 90% of the parcels in the City, representing approximately 86% of the assessed valuation in the City, has residential uses.

Table 7
City of Carmel-by-the-Sea
Assessed Valuation and Parcels by Land Use
Fiscal Year 2020-21

Non-Residential:	2020-21 Assessed Valuation(1)	% of Total	No. of Parcels	% of Total
Commercial/Hotel	$645,805,218	13.78%	248	7.57%
Vacant Commercial	2,935,200	0.06	3	0.09
Government/Social/Institutional	3,866,181	0.08	75	2.29
Subtotal Non-Residential	$652,606,599	13.93%	326	9.95%
Residential:				
Single Family Residence	$3,879,177,976	82.77%	2,727	83.27%
Condominium/Townhouse	88,742,702	1.89	112	3.42
2-4 Residential Units	34,799,487	0.74	28	0.85
5+ Residential Units	9,614,682	0.21	11	0.34
Vacant Residential	21,522,494	0.46	71	2.17
Subtotal Residential	$4,033,857,341	86.07%	2,949	90.05%
Total	$4,686,463,940	100.00%	3,275	100.00%

(1) Local Secured Assessed Valuation; excluding tax-exempt property.
Source: California Municipal Statistics, Inc.

Per-Parcel 2020-21 Assessed Valuation of Single-Family Homes. The following table shows assessed valuations of single-family homes in the City for Fiscal Year 2020-21.

Table 8
City of Carmel-by-the-Sea
Per Parcel 2020-21 Assessed Valuation of Single-Family Homes

	No. of Parcels	2020-21 Assessed Valuation	Average Assessed Valuation	Median Assessed Valuation
Single Family Residential	2,727	$3,879,177,976	$1,422,508	$1,063,273

2020-21 Assessed Valuation	No. of Parcels[(1)]	% of Total	Cumulative % of Total	Total Valuation	% of Total	Cumulative % of Total
$0 - $199,999	362	13.275%	13.275%	$ 38,084,949	0.982%	0.982%
$200,000 - $399,999	232	8.508	21.782	69,279,674	1.786	2.768
$400,000 - $599,999	249	9.131	30.913	124,549,620	3.211	5.978
$600,000 - $799,999	226	8.287	39.201	159,769,273	4.119	10.097
$800,000 - $999,999	222	8.141	47.341	199,497,893	5.143	15.240
$1,000,000 - $1,199,999	232	8.508	55.849	254,873,466	6.570	21.810
$1,200,000 - $1,399,999	169	6.197	62.046	219,872,128	5.668	27.478
$1,400,000 - $1,599,999	160	5.867	67.913	237,704,072	6.128	33.606
$1,600,000 - $1,799,999	131	4.804	72.717	222,222,714	5.729	39.334
$1,800,000 - $1,999,999	107	3.924	76.641	203,093,667	5.235	44.570
$2,000,000 - $2,199,999	117	4.290	80.931	245,297,749	6.323	50.893
$2,200,000 - $2,399,999	85	3.117	84.048	195,007,877	5.027	55.920
$2,400,000 - $2,599,999	75	2.750	86.799	185,820,497	4.790	60.711
$2,600,000 - $2,799,999	52	1.907	88.706	140,406,967	3.620	64.330
$2,800,000 - $2,999,999	40	1.467	90.172	116,778,910	3.010	67.341
$3,000,000 - $3,199,999	35	1.283	91.456	108,495,617	2.797	70.137
$3,200,000 - $3,399,999	26	0.953	92.409	86,034,126	2.218	72.355
$3,400,000 - $3,599,999	22	0.807	93.216	76,903,879	1.982	74.338
$3,600,000 - $3,799,999	26	0.953	94.169	96,212,567	2.480	76.818
$3,800,000 - $3,999,999	20	0.733	94.903	77,700,380	2.003	78.821
$4,000,000 and greater	139	5.097	100.000	821,571,951	21.179	100.000
	2,727	100.000%		$3,879,177,976	100.000%	

(1) Improved single-family residential parcels. Excludes condominiums and parcels with multiple family units.
Source: California Municipal Statistics, Inc.

Principal Property Taxpayers. The top twenty largest local secured property taxpayers in the City, as shown on the 2020-21 secured tax roll, are listed in the table below. For Fiscal Year 2020-21, the total assessed valuation of the twenty largest local secured taxpayers is 8.14% of the total City Fiscal Year 2020-21 local secured assessed valuation of $4,686,463,940.

TABLE 9
City of Carmel-by-the-Sea
Principal Property Taxpayers
Fiscal Year 2020-21

	Property Owner	Primary Land Use	2020-21 Assess. Valuation	% of Total[1]
1.	OWRF Carmel LLC	Shopping Center	$59,607,384	1.27%
2.	Esperanza Carmel Commercial LLC	Hotel/Motel	33,507,013	0.71
3.	Jeffrey C. Hines	Residential	32,138,368	0.69
4.	Andrew M. Paul	Residential	28,161,918	0.60
5.	Esperanza Carmel LLC	Residential	22,385,779	0.48
6.	Richard and Margaret Gunner, Trustees	Hotel/Motel	21,993,438	0.47
7.	La Playa Carmel Hotel LLC	Hotel/Motel	18,108,021	0.39
8.	Alan R. Porter	Commercial	14,373,354	0.31
9.	Hoseit Management LLC	Hotel/Motel	14,240,263	0.30
10.	Paul DeBruce, Trust	Residential	14,011,472	0.30
11.	Goold Properties II LLC	Commercial	13,854,390	0.30
12.	CVI Investors LLC	Hotel/Motel	13,344,010	0.28
13.	Levett Family Properties LLC	Commercial	13,144,743	0.28
14.	Carla Morrison	Residential	12,958,404	0.28
15.	Moore Family Trust	Residential	12,834,784	0.27
16.	Sentimental Journey LLC	Hotel/Motel	12,702,651	0.27
17.	Cats Meow LLC	Residential	11,582,023	0.25
18.	Guy L. Tribble and Susan Kelly Barnes	Residential	11,170,139	0.24
19.	Susan R. Prest, Trust	Residential	10,784,356	0.23
20.	Larry T. and Deirdre C. Solari, Trustees	Residential	10,483,260	0.22
			$381,385,770	8.14%

(1) Fiscal year 2019-20 local secured assessed valuation: $4,686,463,940.
Source: California Municipal Statistics, Inc.

Sales and Use Taxes; Measure D/Measure C

General. For Fiscal Year 2020-21, Sales and use taxes are projected to represent the second largest source of revenues to the City's General Fund. Sales and uses taxes are a less stable source of revenues to the City than property taxes, given that they are based on consumer spending within the City which is impacted by a variety of factors including the overall economy and other factors. For example, the COVID-19 pandemic has, and is expected to continue to, materially adversely impact sales and use taxes collected by the City.

Sales tax revenues (the Countywide levy, plus Measure D levied in the City) totaled $5.7 million in Fiscal Year 2018-19, an increase of approximately $246,436 over the prior Fiscal Year due to an increase in consumer spending. Sales tax revenues are estimated to be $4.6 million in Fiscal Year 2019-20, a decrease of 19.3% (or $1.1 million) compared to Fiscal Year 2018-19 due to downward business level adjustment from recent actuals trends as a result of COVID-19. See "BOND OWNERS' RISKS – Dependence on Tourism; COVID-19 Pandemic."

Sales Tax Rate in the City. Taxable transactions in the City for Fiscal Year 2019-20 are subject to the following sales and use tax, consisting of certain State-wide sales tax rates and locally-approved sales tax rates. For additional information on Measure D (approved by the voters of the City in 2012) and Measure C (approved by the voters of the City in 2020), see "–Measure D/Measure C," below.

TABLE 10
City of Carmel-by-the-Sea
Sales Tax Rate
Effective July 1, 2020

Statewide Rate	7.250%
Monterey-Salinas MST Special Transit District (MSTD)	0.125
Monterey Transportation Safety Transactions and Use Tax (MTSF)	0.375
City of Carmel-by-the-Sea 2020 Transactions and Use Tax (CARC)[1]	1.500
Total	**9.250%**

(1) Locally known as "Measure C," which became effective July 1, 2020 for 20 years, and replaced "Measure D." For additional details, see "–Measure D/Measure C," below.
Source: City of Carmel-by-the-Sea Finance Department.

Bradley-Burns Uniform Local Sales and Use Tax. The City collects a percentage of taxable sales in the City (minus certain administrative costs) pursuant to the Bradley-Burns Uniform Local Sales and Use Tax (the "**Sales Tax Law**"). The State collects and administers the sales tax under the Sales Tax Law, and makes distributions on taxes collected within the City, a portion of which goes to the City.

Sales and use taxes are complementary taxes; when one applies, the other does not. In general, the statewide sales tax applies to gross receipts of retailers from the sale of tangible personal property in the State. The use tax is imposed on the purchase, for storage, use or other consumption in the State of tangible personal property from any retailer. The use tax generally applies to purchases of personal property from a retailer outside the State where the use will occur within the State. The sales tax is imposed upon the same transactions and items as the statewide sales tax and the statewide use tax.

Certain transactions are exempt from the State sales tax, including sales of the following products:

- food products for home consumption;
- prescription medicine;
- newspapers and periodicals;
- edible livestock and their feed;
- seed and fertilizer used in raising food for human consumption; and
- gas, electricity and water when delivered to consumers through mains, lines and pipes.

This is not an exhaustive list of exempt transactions. A comprehensive list can be found in the State Board of Equalization's Publication No. 61 (February 2017) entitled "Sales and Use Taxes: Exemptions and Exclusions," which can be found on the State Board of Equalization's website at http://www.boe.ca.gov/. *The reference to this Internet website is provided for reference* *and convenience only. The information contained within the website may not be current, has not been reviewed by the City and is not incorporated in this Official Statement by reference.*

Sales Tax Collection Procedures. Collection of the sales and use tax is administered by the California Department of Tax and Fee Administration (the "**CDTFA**"). This process was formerly administered by the State Board of Equalization. The Taxpayer Transparency and Fairness Act of 2017, which took effect July 1, 2017, restructured the State Board of Equalization and separated its functions among three separate entities: the State Board of Equalization, the CDTFA and the Office of Tax Appeals. The State Board of Equalization will continue to perform the duties assigned to it by the State Constitution, while all other duties will be transferred to the newly established CDTFA and the Office of Tax Appeals. CDTFA will handle most of the taxes and fees previously collected by the State Board of Equalization, including sales and use tax.

Under the Sales and Use Tax Law, all sales and use taxes collected by the CDTFA under a contract with any city, city and county, or county are required to be transmitted by the CDTFA to such city, city and county, or county periodically as promptly as feasible. These transmittals are required to be made at least twice in each calendar quarter.

Under its procedures, the CDTFA projects receipts of the sales and use tax on a quarterly basis and remits an advance of the receipts of the sales and use tax to the City on a monthly basis. The amount of each monthly advance is based upon the CDTFA's quarterly projection. During the last month of each quarter, the CDTFA adjusts the amount remitted to reflect the actual receipts of the sales and use tax for the previous quarter.

The CDTFA receives an administrative fee based on the cost of services provided by the Board to the City in administering the City's sales tax, which is deducted from revenue generated by the sales and use tax before it is distributed to the City.

As part of the State government's response to the COVID-19 pandemic, certain businesses were able to defer the payment of their sales taxes due to the City.

Measure D/Measure C. Measure D was a 1% sales and use tax approved by the voters in 2012, with a sunset date of March 2023. Measure D was replaced by the voters on March 3, 2020 with a 1.5% sales and use tax known as Measure C that became effective on July 1, 2020 for 20 years. The revenues collected by the City under Measure D and Measure C were, and will continue to be, accounted for in a special revenue fund separate from the General Fund. However, amounts collected under Measure D/Measure C are available for debt service, capital projects and general City services, including debt service on the Bonds. The following table presents Measure D revenues for the past five Fiscal Years.

TABLE 11
City of Carmel-by-the-Sea
Measure D Revenues
Fiscal Years 2015-16 to 2018-19 (Audited)
And Fiscal Year 2019-20 (Estimated Actuals)

	2015-16	2016-17	2017-18	2018-19	Estimated 2019-20
Measure D	$2,889,380	$2,745,154	$2,898,445	$3,079,914	2,512,086

Source: City of Carmel-by-the-Sea audited financial statements for Fiscal Years 2015-16 to 2018-19; City for Fiscal Year 2019-20.

Historic Taxable Transactions. The following table shows historical taxable transactions in the City for the most recent four years available.

TABLE 12
City of Carmel-by-the-Sea
Taxable Transactions
Fiscal Years 2015 through 2018
(In Thousands)

	2015	**2016**	**2017**	**2018(1)**
Home Furnishings and Appliances	$9,467	$7,879	$9,306	$8,560
Food and beverage stores	5,252	5,323	7,213	6,382
Apparel stores	63,755	64,717	65,469	68,044
General merchandise stores	2,573	2,872	2,760	2,659
Food services and drinking places	78,251	82,356	86,872	89,705
Other retail stores	34,421	31,681	36,861	40,317
All other outlets	15,543	13,241	13,787	12,961
Total All Outlets	**$209,278**	**$208,069**	**$222,268**	**$228,628**

(1) Most current information available.
Source: California Department of Tax and Fee Administration.

Transient Occupancy Taxes

Transient Occupancy Taxes ("**TOT**") have historically been the largest source of General Fund revenues to the City. However, as a result of the COVID-19 pandemic, TOT receipts were significantly lower than anticipated in Fiscal Year 2019-20 and are anticipated to continue to be lower than historical averages for Fiscal Year 2020-21. TOT revenues grew by approximately 80% between Fiscal Year 2009-10 to Fiscal Year 2018-19, before declining due to the COVID-19 pandemic in Fiscal Year 2019-20 which is expected to continue in Fiscal Year 2020-21.

The TOT is often referred to as a "hotel tax". The City's TOT is 10% of the rent charged by an operator imposed on persons staying 30 days or less in a hotel or similar lodging. There are currently 46 lodging establishments (hotels/inns/motels) and 20 short-term rentals within the commercial district that collect this tax on behalf of the City.

The Fiscal Year 2019-20 adopted budget assumed an amount of $6,842,900, which would have been an increase of 3% over the Fiscal Year 2018-19 estimated actual figures for transient occupancy tax revenues; however, estimated actuals for Fiscal Year 2019-20 show a substantial decline compared to Fiscal Year 2018-19 receipts. The timing of COVID-19 coincided with the spring and early summer season for the City's hotel establishments. As such, the Fiscal Year 2019-20 estimated actual figure of $4.5 million is based on little to no revenue received from March to June. This represents a loss of $2.3 million in budgeted revenue, or a decrease of 34% compared to the Fiscal Year 2019-20 adopted budget. The Fiscal Year 2020-21 budget of $2.5 million reflects a continued decline in revenue, representing a loss of $2.0 million, or 45% over the Fiscal Year 2019-20 estimated actual. It is $4.4 million, or 64%, less than the Fiscal Year 2019-20 adopted budget based on conservative assumptions regarding travel and hotel revenues.

Other Sources of Revenues

Other Taxes. Other taxes include real estate transfer taxes and business license taxes. As residential units are being developed and occupied, it is anticipated that the City will collect more real estate transfer tax; at the same time, the COVID-19 pandemic may have a material adverse impact on the number of real estate transactions.

Franchise Fees. Franchise fees are a regulatory fee charged to utility companies for the privilege of doing business in the City (i.e., garbage franchise fee, gas and electric franchise fee).

License and Permits. Licenses and permits consist of building permits and fire permits which are primarily construction related. Because they follow the development economic cycle, they are highly volatile in times of economic change, such as the current environment resulting from COVID-19.

Charges for Services. Charges for services are fees collected from a specific user of a City service, such as administering business licenses; issuing planning, building tree removal and special event permits; and ambulance transports. These are considered personal choice services as the user has a choice on whether to use the service or not. In accordance with State law, the City is legally allowed to charge a fee to the user to recover the City's cost of providing the service.

O*perating Transfers In*. Operating transfers in are the transfers of Measure D sales tax and other grants intended to support General Fund operations. While Measure D sales tax is considered to be General Fund revenue and available for general City services, capital projects and debt service, it is maintained within a separate fund and transferred into the General Fund as needed to fund operating expenditures. Net transfers into the general fund increase in conjunction with operating expenditure increases, an average of 3% annually.

Recent Developments Under Construction

There are various projects in the City that are either under construction or under review for future planned construction. Projects that are under construction include: (1) Dolores Street Phase II, which is a mixed-use project of 11,679 square feet (commercial space and 8 residential units), (2) Lincoln Lane, which is an 8,000 square feet mixed-use renovation project (two single-story commercial buildings surrounding a courtyard and 3 new transient rentals), and (3) Dolores Street (second story condominium addition to a restaurant).

Long-Term Obligations

In addition to the 2010 Bonds, which will be refunded in full by the Bonds, the City has certain other long-term obligations payable from the General Fund. These include the obligations of the City payable for the pension plans provided by the City (see "– Pension Plans," below), as well as certain other obligations. These are summarized in the table on the following page. Additional details are set forth in Note 6 to the City's audited financial statements for the Fiscal Year ending June 30, 2019, included as APPENDIX A.

TABLE 13
City of Carmel-by-the-Sea
Long-Term Obligations of the General Fund
As of June 30, 2020 (Unaudited)

Investment Type	Principal Outstanding	Final Maturity
2010 Lease Revenue Bonds (1)	$4,890,000	November 1, 2031
2012 Pension Obligation Bonds	1,980,000	June 1, 2023
Countywide Radio Project(2)	186,636	June 30, 2023
Compensated Absences	581,521	N/A
Net Pension Liability(2)	19,920,568	N/A
Net OPEB Liability(2)	3,650,439	N/A
Total	$31,209,164	

(1) 2010 Lease Revenue Bonds will be refunded, in full, by the Bonds.
(2) Countywide Radio Project principal outstanding as of June 30, 2019. Reconciliation with County for Fiscal Year 2019-20 not yet completed. Net Pension Liability and Net OPEB Liability amounts in progress for Fiscal Year 2019-20 and may change.
Source: City of Carmel-by-the-Sea Finance Department.

Investment Policy and Portfolio

The City's investment portfolio is managed in accordance with applicable law and the City's investment policies. For additional information concerning City investments, see the City's audited financial statements for the Fiscal Year ended June 30, 2019 attached hereto as part of APPENDIX A.

The following table summarizes the City's investment portfolio as of June 30, 2020.

TABLE 14
City of Carmel-by-the-Sea
Summary of Investment Portfolio
as of June 30, 2020 (Unaudited)

Investment Type	% of Investment Portfolio	Market Value
LAIF	64.7%	$4,136,761
Money Market Funds	17.5	1,119,162
Negotiable CDs	17.8	1,135,182
Total	100.0%	$6,391,105

Source: City of Carmel-by-the-Sea Finance Department.

Employee Relations

The City's relations with its employees are generally considered good, and the City has not experienced a work stoppage or similar event in the past 5 years. The City's employees are part of four different bargaining groups, as shown in the following table.

TABLE 15
City of Carmel-by-the-Sea
Status of Employee Bargaining Unit Contracts
as of June 30, 2020

Bargaining Unit	No. of Budgeted Positions	MOU Expiration Date
General Employees Unit[1]	21	June 30, 2022
Police Officers Association	20	June 30, 2022
Carmel Fire Ambulance Association	6	June 30, 2022
Management Employees Unit[1]	5	June 30, 2022

(1) General Employees Unit and Management Employees Unit are affiliated units of the Laborers' International Union of North America, United Public Employees of California, LIUNA/UPEC.
Source: City of Carmel-by-the-Sea.

Pension Plans

*This caption contains certain information relating to California Public Employees' Retirement System ("**CalPERS**"). The information is primarily derived from information produced by CalPERS, its independent accountants and actuaries. The City has not independently verified the information provided by CalPERS and makes no representations and expresses no opinion as to the accuracy of the information provided by CalPERS.*

The comprehensive annual financial reports of CalPERS are available on its Internet website at www.calpers.ca.gov. The CalPERS website also contains CalPERS' most recent actuarial valuation reports and other information concerning benefits and other matters. Such information is not incorporated by reference in this Official Statement. None of the Authority, City or Underwriter can guarantee the accuracy of such information. Actuarial assessments are "forward-looking" statements that reflect the judgment of the fiduciaries of the pension plans, and are based upon a variety of assumptions, one or more of which may not materialize or may be changed in the future. Actuarial assessments will change with the future experience of the pension plans.

Overview of City's Pension Plans and Funded Status. The City has two pension plans with CalPERS – the Safety Plan for its sworn employees and the Miscellaneous Plan for all others. Over the past decade, like many public agencies in the State, the City has seen that the cost of the City's pension benefits has risen dramatically. The primary reasons for the cost increases are investment losses caused by the last recession, demographic changes, and CalPERS policy changes. Certain CalPERS policy charges are described below.

Implementation of GASB Nos. 68 and 71. In June 2012 and November 2013, the Governmental Accounting Standards Board issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* ("**GASB Statement No. 68**") and GASB No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68* ("**GASB Statement No. 71**"), respectively. The primary objective of GASB Statement No. 68, as amended, is to improve accounting and financial reporting by state and local governments for pensions and improve information provided by state and local governmental employers about financial support for pensions that is provided by other entities.

GASB Statement No. 68, as amended, revised the accounting treatment of defined benefit pension plans, changing the way expenses and liabilities are calculated and how state and local government employers report those expenses and liabilities in their financial statements. Major changes include: (i) the inclusion of unfunded pension liabilities on the government's balance sheet (previously, such unfunded liabilities were typically included as notes to the government's financial statements); (ii) pension expense incorporates more rapid recognition of actuarial experience and investment returns and is no longer based on the employer's actual contribution amounts; (iii) lower actuarial discount rates that are required to be used for underfunded plans in certain cases for purposes of the financial statements; (iv) closed amortization periods for unfunded liabilities that are required to be used for certain purposes of the financial statements; and (v) the difference between expected and actual investment returns to will be recognized over a closed five-year smoothing period. The reporting requirements took effect in Fiscal Year 2014-15. Based on the adoption of the new accounting standards, beginning with the Fiscal Year 2014-15 actuarial valuation, the annual required contribution and the annual pension expense will be different. GASB Statement No. 68, as amended, changes the reporting and disclosure requirements for financial statement accounting purposes, but it does not change the City's pension plan funding obligations and, therefore, had no effect on the City's General Fund.

Plan Description. All qualified permanent and probationary employees are eligible to participate in the City's Miscellaneous and Safety Employee Pension Plans (the "**Plans**"), which are cost-sharing multiple employer defined benefit pension plans administered by CalPERS. Benefit provisions under the Plans are established by State statute and City resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided. CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full-time employment. The cost of living adjustments for the Plans are applied as specified by the Public Employees' Retirement Law.

The provisions and benefits of each Plan that were in effect at June 30, 2019, are summarized as follows:

Miscellaneous Plan

	Classic Tier I	Classic Tier II	PEPRA
Hire Date	<4/15/2012	>=4/15/2012	>=1/1/2013
Benefit Formula	2% @ 55	2% @ 60	2% @ 62
Benefit Vesting Schedule	5 Years	5 Years	5 Years
Benefit Payments	Monthly for Life	Monthly for Life	Monthly for Life
Retirement Age	55	60	62
Monthly Benefits, As a % of Eligible Compensation	2.0% to 2.5%	2.00%	2.00%
Required Employee Contribution Rates	6.902%	6.912%	6.250%
Required Employer Contributions Rates	9.409%	7.634%	6.842%
Contractual employee contribution rates	9.902%	9.912%	9.250%
Contractual employer contribution rates	6.409%	4.634%	3.842%

Safety Plan

	Classic Tier I	Classic Tier II	PEPRA
Hire Date	<4/15/2012	>=4/15/2012	>=1/1/2013
Benefit Formula	2% @ 55	2% @ 60	2% @ 62
Benefit Vesting Schedule	5 Years	5 Years	5 Years
Benefit Payments	Monthly for Life	Monthly for Life	Monthly for Life
Retirement Age	50	50	57
Monthly Benefits, As a % of Eligible Compensation	2.00%	2.00%	2.00%
Required Employee Contribution Rates	8.989%	8.936%	12.000%
Required Employer Contributions Rates	20.556%	15.719%	12.141%
Contractual employee contribution rates	11.989%	11.936%	15.000%
Contractual employer contribution rates	17.556%	12.719%	9.141%

Source: Carmel-by-the-Sea Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2019.

Beginning in Fiscal Year 2015-16, CalPERS collects employer contributions for the Plan as a percentage of payroll for the normal cost portion as noted in the rates above and as a dollar amount for contributions toward the unfunded liability ("**UAL**"). The dollar amounts are billed on a monthly basis or the City can elect a lump sum payment option.

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

Employees	Miscellaneous	Safety
Active	53	19
Transferred	17	19
Separated	33	11
Retired	104	51
Total	207	100

Source: Carmel-by-the-Sea Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2019.

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

For Fiscal Year 2018-19, the City made a total contribution of $1.6 million to the Plans ($0.7 million for Miscellaneous, and $0.8 million for Safety), and for Fiscal Year 2019-20, the City made a total contribution of $1.9 million to the Plans ($0.9 million for Miscellaneous, and $1.0 million for Safety). This is projected to grow to an estimated total contribution of $2.4 million in Fiscal Year 2020-21.

Net Pension Liability. The City's net pension liability for the Plans is measured as the proportionate share of the net pension liability. The net pension liability of the Plans are measured as of June 30, 2018, and the total pension liability for the Plans used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017 rolled forward to June 30, 2018 using standard update procedures. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined.

As of June 30, 2019, the City reported net pension liabilities for its proportionate shares of the net pension liability as follows:

	Proportionate Share of Net Pension Liability/(Asset)
Miscellaneous	$10,060,596
Safety	9,859,972
Total	**19,920,568**

Source: Carmel-by-the-Sea Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2019.

Changes in Net Pension Liability are subject to various assumption and are sensitive to changes in the discount rate for the Miscellaneous Plan and the Safety Plan, among other things. For additional details on the Miscellaneous Plan and the Safety Plan and related matters, see Note 8 to the City's audited financial statements for the Fiscal Year ending June 30, 2019, attached hereto as Appendix A.

Recent Actions Taken by CalPERS. At its April 17, 2013, meeting, CalPERS' Board of Administration (the "**Board of Administration**") approved a recommendation to change the CalPERS amortization and smoothing policies. Prior to this change, CalPERS employed an amortization and smoothing policy that spread investment returns over a 15-year period with experience gains and losses paid for over a rolling 30-year period. As a result, CalPERS now employs an amortization and smoothing policy that will pay for all gains and losses over a 30-year period with a five-year ramp-up, and five-year ramp-down, period. The new amortization and smoothing policy was used for the first time in the June 30, 2013 actuarial valuations in setting employer contribution rates for Fiscal Year 2015-16. On February 13, 2018, the Board of Administration voted to shorten the period over which CalPERS will amortize actuarial gains and losses from 30 years to 20 years for new pension liabilities, effective for the June 30, 2019 actuarial valuations. Amortization payments for all unfunded accrued liability bases will be computed to remain a level dollar amount throughout the amortization period, and certain 5-year ramp-up and ramp-down periods will be eliminated.

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

On November 18, 2015, the Board of Administration adopted a funding risk mitigation policy intended to incrementally lower its discount rate – its assumed rate of investment return – in years of good investment returns, help pay down the pension fund's unfunded liability, and provide greater predictability and less volatility in contribution rates for employers. The policy establishes a mechanism to reduce the discount rate by a minimum of 0.05 percentage points to a maximum of 0.25 percentage points in years when investment returns outperform the existing discount rate, currently 7.375%, by at least four percentage points. CalPERS staff modeling anticipates the policy will result in a lowering of the discount rate to 6.5% in about 21 years, improve funding levels gradually over time and cut risk in the pension system by lowering the volatility of investment returns. More information about the funding risk mitigation policy can be accessed through CalPERS' web site at the following website address: https://www.calpers.ca.gov/page/newsroom/calpers-news/2015/adopts-funding-risk-mitigation-policy. This policy is in suspense until the discount rate is fully reduced to 7.000% as described below. *The reference to this Internet website is provided for reference and convenience only. The information contained within the website may not be current, has not been reviewed by the City and is not incorporated in this Official Statement by reference.*

On December 21, 2016, the Board of Administration voted to lower its discount rate from 7.5% to 7.0% over a three-year period. For public agencies like the City, the discount rate of 7.000% became effective on July 1, 2019. Lowering the discount rate means employers that contract with CalPERS to administer their pension plans will see increases in their normal costs and unfunded actuarial liabilities.

Other Post-Employment Benefits (OPEB). The City Healthcare Plan (the "**Plan**") is a single-employer defined benefit healthcare plan administered by the City. The Plan provides access to lifetime healthcare benefits to eligible retirees and their dependents. The City provides retiree medical benefits through the California Public Employees' Retirement System healthcare program (PEMHCA). For eligible retirees, the City contributes not less than 5% of the active contribution times years in PEMHCA (max $100/month increase). For purposes of its contract with PEMHCA, the City uses a statutory schedule to determine its monthly contribution on behalf of each active employee. The statutory amount is $133.00 for 2018 and will be indexed by the Medical CPI each year thereafter.

The City offers the same medical plans to its retirees and surviving spouses as to its active employees, with the exception that once a retiree become eligible for Medicare, he or she must join a Medicare HMO or a Medicare Supplement plan, with Medicare becoming the primary payer. Employees become eligible to retire and receive City-paid healthcare benefits upon attainment of age 50 and 5 years of service (age 52 for Miscellaneous PEPRA employees). The City contribution towards retiree health benefits is determined under the "equal contribution method" under PEMHCA, whereby the contribution is 100% of the City's statutory contribution for active employees ($133/month for 2018 and scheduled to be indexed by medical inflation for years after 2018). No stand-alone financial are issued for this plan as it is not a trusted plan.

The City makes contributions based on a pay-as-you-go basis as approved by the authority of the City's board. Total benefit payments included in the measurement period were $159,107. The actuarially determined contribution for the measurement period was $476,574. The City's contributions and benefit payments were 2.49% of payroll during the measurement period June 30, 2019 (reporting period June 30, 2019). Employees are not required to contribute to the plan. There have been no assets accumulated in a trust to provide for the benefits of this plan.

To set aside amounts to address its OPEB liabilities, the City has established an OPEB Liability Reserve Fund. There is no minimum requirement for this fund. There is currently $1.8 million in the fund and, as a result of the COVID-19 pandemic, no planned activity in the budget for Fiscal Year 2020-21.

See Note 9 to the City's audited financial statements for the Fiscal Year Ended June 30, 2019, included in Appendix A hereto, for additional details regarding the City's pension and other employee benefits, including as relates to OPEB.

Potential Establishment* of *Section 115 Trust and Other Options to Address Pension Obligations. In 2019, the City Council authorized City staff to move forward with gathering additional information regarding establishing a Section 115 Retirement Trust to address some of its unfunded future pension obligations. In February 2019, City staff released a request for proposals for ongoing trust administration duties. Due to various factors, the City has not yet established a Section 115 Retirement Trust and continues to evaluate that option, along with various other options, to address its unfunded future pension obligations.

Risk Management

The City is a member of CSAC-EIA (California State Association of Counties Excess Insurance Authority) which is a shared risk pool. CSAC-EIA covers claims for the City for both Workers Compensation and General Liability. The City's Liability SIR is pre-funded through CSAC-EIA for 8 quarters of payments made on behalf of City. Currently, the SIR fund for the City with CSAC-EIA is maintained at $8,183. If the pre-funded SIR balance drops below this amount, the City is billed by CSAC-EIA to replenish the fund to the $8,183 level. The City does not make claim payments, they are all issued by the City's third-party administrator from the CSA-EIA account.

The City has two layers of Liability coverage through CSAC-EIA and under the first layer, the Primary General Liability layer, there is an SIR (Self-Insured Retention) of $10,000 per claim. Thereafter, the next layer of coverage kicks in (General Liability 1 program) which carries an SIR of $100,000, which is satisfied by exhausting the coverage limit of $100,000 under the Primary Liability program. The maximum limit of coverage under the primary General Liability 1 program is $25 million. The City retains the risk of loss above $25 million.

For Workers Compensation, the City is a member of both the CSAC-EIA Primary Workers Compensation program and then, the CSAC-EIA Excess Workers Compensation program. The Primary Workers compensation program provides dollar 1 coverage to the City for Workers Compensation claims. In other words, City has no deductible or SIR. This layer of Workers Compensation coverage carries a maximum limit of $125,000 per occurrence. Thereafter, CSAC-EIA's excess coverage steps in and the SIR is $125,000 which again, is satisfied by exhausting the limits of coverage under the Primary Workers Compensation program. The upper limit of coverage under the Excess Workers Compensation program is "statutory". What this means is that regardless of the total cost of the claim, it is covered under the CSAC-EIA Excess Workers Compensation program. There is absolutely no monetary exposure to the City under these two Workers Compensation programs except for the premium costs to purchase this coverage. The City has had no settlements which exceeded insurance coverage in the last three Fiscal Years and no significant changes or reductions in insurance coverage during the current year.

Direct and Overlapping Debt

Set forth on the following page is a direct and overlapping debt report for the City (the "**Debt Report**") prepared by California Municipal Statistics, Inc. and dated as of September 1, 2020.

The Debt Report is included for general information purposes only. The City has not reviewed the Debt Report for completeness or accuracy and makes no representations in connection therewith. The Debt Report generally includes long term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the City in whole or in part. Such long-term obligations generally are not payable from revenues of the City (except as indicated) nor are they necessarily obligations secured by land within the City. In many cases long-term obligations issued by a public agency are payable from the general fund or other revenues of such public agency. The total 2020-21 assessed valuation of $4,718,249,204 reflected in the Debt Report is provided by California Municipal Statistics, Inc. Neither the City, the Authority nor the Underwriter has verified this information.

TABLE 16
City of Carmel-by-the-Sea
Direct and Overlapping Debt Statement
As of September 1, 2020

2020-21 Assessed Valuation: $4,718,249,204

OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	Debt 9/1/20
Monterey Peninsula Community College District	11.570%	$12,711,788
Carmel Unified School District	23.935	4,647,805
Monterey County Water Resources Authority Zone 2C	6.371	1,297,773
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT		$18,657,366
DIRECT AND OVERLAPPING GENERAL FUND DEBT:		
Monterey County General Fund Obligations	6.371%	$ 9,443,263
Monterey County Office of Education Certificates of Participation	6.371	85,053
City of Carmel-by-the-Sea General Fund Obligations	**100.000**	**4,890,000**(1)
City of Carmel-by-the-Sea Pension Obligation Bonds	**100.000**	**1,980,000**
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT		$16,398,316
Less: Monterey County supported obligations		223,032
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT		$16,175,284
GROSS COMBINED TOTAL DEBT		$35,055,682(2)
NET COMBINED TOTAL DEBT		$34,832,650

Ratios to 2020-21 Assessed Valuation:
Combined Direct Debt ($6,870,000).................................. 0.15%
Total Overlapping Tax and Assessment Debt....................... 0.40%
Gross Combined Total Debt.. 0.74%
Net Combined Total Debt.. 0.74%

(1) Excludes issue to be sold.
(2) Excludes tax and revenue anticipation notes, revenue, mortgage revenue and non-bonded capital lease obligations.
Source: California Municipal Statistics, Inc.

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS

The constitutional and statutory provisions discussed in this section have the potential to affect the ability of the City to levy taxes and spend tax proceeds for operating and other purposes.

Article XIIIA of the State Constitution

Section 1(a) of Article XIIIA of the State Constitution limits the maximum ad valorem tax on real property to 1% of full cash value (as defined in Section 2 of Article XIIIA), to be collected by counties and apportioned according to law. Section 1(b) of Article XIIIA provides that the 1% limitation does not apply to ad valorem taxes to pay interest or redemption charges on (1) indebtedness approved by the voters prior to June 1, 1978 or (2) any bonded indebtedness for the acquisition or improvement of real property approved on or after June 1, 1978, by two thirds of the votes cast by the voters voting on the Proposition. Section 2 of Article XIIIA defines "full cash value" to mean "the county assessor's valuation of real property as shown on the 1975–76 tax bill under 'full cash value' or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment." The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or to reflect a reduction in the consumer price index or comparable data for the area under taxing jurisdiction or reduced in the event of declining property value caused by substantial damage, destruction or other factors. Legislation enacted by the State Legislature to implement Article XIIIA provides that notwithstanding any other law, local agencies may not levy any ad valorem property tax except to pay debt service on indebtedness approved by the voters as described above.

The voters of the State subsequently approved various measures that further amended Article XIIIA. One such amendment generally provides that the purchase or transfer of (i) real property between spouses or (ii) the principal residence and the first $1,000,000 of the full cash value of other real property between parents and children, does not constitute a "purchase" or "change of ownership" triggering reassessment under Article XIIIA. This amendment could serve to reduce the property-tax revenues of the City. Other amendments permitted the State Legislature to allow persons over 55 or "severely disabled homeowners" who sell their residences and buy or build another of equal or lesser value within two years in the same county, to transfer the old residence's assessed value to the new residence.

In the November 1990 election, the voters approved the amendment of Article XIIIA to permit the State Legislature to exclude from the definition of "newly constructed" the construction or installation of seismic retrofitting improvements or improvements utilizing earthquake hazard mitigation technologies constructed or installed in existing buildings after November 6, 1990.

Article XIIIA has also been amended to permit reduction of the "full cash value" base in the event of declining property values caused by damage, destruction or other factors, provided 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.

Article XIIIB of the State Constitution

Article XIIIB of the State Constitution limits the annual appropriations of the State and of any city, county, school district, special district, authority or other political subdivision of the State to the appropriations limit for the prior Fiscal Year, as adjusted for changes in the cost of living, population and services for which the fiscal responsibility is shifted to or from the governmental entity. The "base year" for establishing this appropriations limit is the 1978–79 Fiscal Year. The appropriations limit may also be adjusted in emergency circumstances, subject to limitations.

Appropriations of an entity of local government subject to Article XIIIB generally include authorizations to expend during a Fiscal Year the "proceeds of taxes" levied by or for the entity, exclusive of certain State subventions, refunds of taxes, and benefit payments from retirement, unemployment insurance and disability insurance funds. "Proceeds of taxes" include but are not limited to, all tax revenues, certain State subventions received by the local governmental entity and the proceeds to the local governmental entity from (1) regulatory licenses, user charges, and user fees (to the extent that such proceeds exceed the cost of providing the service or regulation) and (2) the investment of tax revenues. Article XIIIB provides that if a governmental entity's revenues in any year exceed the amounts permitted to be spent, the excess must be returned by revising tax rates or fee schedules over the subsequent two Fiscal Years.

Article XIIIB does not limit the appropriation of moneys to pay debt service on indebtedness existing or authorized as of January 1, 1979, or for bonded indebtedness approved thereafter by a vote of the electors of the issuing entity at an election held for that purpose, or appropriations for certain other limited purposes. Furthermore, Article XIIIB was amended in 1990 to exclude from the appropriations limit "all qualified capital outlay projects, as defined by the Legislature" from proceeds of taxes. The Legislature has defined "qualified capital outlay project" to mean a fixed asset (including land and construction) with a useful life of 10 or more years and a value which equals or exceeds $100,000. As a result of this amendment, the appropriations to pay the lease payments on the City's long term General Fund lease obligations are generally excluded from the City's appropriations limit.

The City has never exceeded its appropriations limit.

Articles XIIIC and XIIID of the State Constitution

General. On November 5, 1996, the voters of the State approved Proposition 218, known as the "Right to Vote on Taxes Act." Proposition 218 adds Articles XIIIC and XIIID to the California Constitution and contains a number of interrelated provisions affecting the ability of the City to levy and collect both existing and future taxes, assessments, fees and charges.

On November 2, 2010, California voters approved Proposition 26, entitled the "Supermajority Vote to Pass New Taxes and Fees Act." Section 1 of Proposition 26 declares that Proposition 26 is intended to limit the ability of the State Legislature and local government to circumvent existing restrictions on increasing taxes by defining the new or expanded taxes as "fees." Proposition 26 amended Articles XIIIA and XIIIC of the State Constitution. The amendments to Article XIIIA limit the ability of the State Legislature to impose higher taxes (as defined in Proposition 26) without a two-thirds vote of the Legislature. The amendments to Article XIIIC define "taxes" that are subject to voter approval as "any levy, charge, or exaction of any kind imposed by a local government," with certain exceptions.

Taxes. Article XIIIC requires that all new local taxes be submitted to the electorate before they become effective. Taxes for general governmental purposes of the City ("general taxes") require a majority vote; taxes for specific purposes ("special taxes"), even if deposited in the City's General Fund, require a two-thirds vote.

Property-Related Fees and Charges. Article XIIID also adds several provisions making it generally more difficult for local agencies to levy and maintain property-related fees, charges, and assessments for municipal services and programs. These provisions include, among other things, (i) a prohibition against assessments which exceed the reasonable cost of the proportional special benefit conferred on a parcel, (ii) a requirement that assessments must confer a "special benefit," as defined in Article XIIID, over and above any general benefits conferred, (iii) a majority protest procedure for assessments which involves the mailing of notice and a ballot to the record owner of each affected parcel, a public hearing and the tabulation of ballots weighted according to the proportional financial obligation of the affected party, and (iv) a prohibition against fees and charges which are used for general governmental services, including police, fire or library services, where the service is available to the public at large in substantially the same manner as it is to property owners.

Reduction or Repeal of Taxes, Assessments, Fees and Charges. Article XIIIC also removes limitations on the initiative power in matters of reducing or repealing local taxes, assessments, fees or charges. No assurance can be given that the voters of the City will not, in the future, approve an initiative or initiatives which reduce or repeal local taxes, assessments, fees or charges currently comprising a substantial part of the City's General Fund. If such repeal or reduction occurs, the City's ability to pay debt service on the Bonds could be adversely affected.

Burden of Proof. Article XIIIC provides that local government "bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor's burdens on, or benefits received from, the governmental activity." Similarly, Article XIIID provides that in "any legal action contesting the validity of a fee or charge, the burden shall be on the agency to demonstrate compliance" with Article XIIID.

Judicial Interpretation of Proposition 218. The interpretation and application of Articles XIIIC and XIIID will ultimately be determined by the courts, and it is not possible at this time to predict with certainty the outcome of such determination.

Impact on City's General Fund. The City does not believe that any material source of General Fund revenue is subject to challenge under Proposition 218 or Proposition 26.

The approval requirements of Articles XIIIC and XIIID reduce the flexibility of the City to raise revenues for the General Fund, and no assurance can be given that the City will be able to impose, extend or increase the taxes, fees, charges or taxes in the future that it may need to meet increased expenditure needs.

Proposition 1A; Proposition 22

Proposition 1A. Proposition 1A, proposed by the Legislature in connection with the State's Fiscal Year 2004-05 Budget, approved by the voters in November 2004 and generally effective in Fiscal Year 2006-07, provided that the State may not reduce any local sales tax rate, limit existing local government authority to levy a sales tax rate or change the allocation of local sales tax revenues, subject to certain exceptions. Proposition 1A generally prohibited the State from shifting to schools or community colleges any share of property tax revenues allocated to local governments for any Fiscal Year, as set forth under the laws in effect as of November 3, 2004. Any change in the allocation of property tax revenues among local governments within a county had to be approved by two-thirds of both houses of the Legislature.

Proposition 22. Proposition 22, entitled "The Local Taxpayer, Public Safety and Transportation Protection Act," was approved by the voters of the State in November 2010. Proposition 22 eliminates or reduces the State's authority to (i) temporarily shift property taxes from cities, counties and special districts to schools, (ii) use vehicle license fee revenues to reimburse local governments for State-mandated costs (the State will have to use other revenues to reimburse local governments), (iii) redirect property tax increment from redevelopment agencies to any other local government, (iv) use State fuel tax revenues to pay debt service on State transportation bonds, or (v) borrow or change the distribution of State fuel tax revenues.

Unitary Property

AB 454 (Chapter 921, Statutes of 1986) provides that revenues derived from most utility property assessed by the State Board of Equalization ("Unitary Property"), commencing with the 1988–89 Fiscal Year, are allocated as follows: (i) each jurisdiction will receive up to 102% of its prior year State–assessed revenue; and (ii) if county–wide revenues generated from Unitary Property are less than the previous year's revenues or greater than 102% of the previous year's revenues, each jurisdiction will share the burden of the shortfall or benefit of the excess revenues by a specified formula. This provision applies to all Unitary Property except railroads, whose valuation will continue to be allocated to individual tax rate areas.

The provisions of AB 454 do not constitute an elimination of the assessment of any State–assessed properties nor a revision of the methods of assessing utilities by the State Board of Equalization. Generally, AB 454 allows valuation growth or decline of Unitary Property to be shared by all jurisdictions in a county.

Possible Future Initiatives

Article XIIIA, Article XIIIB and Propositions 218, 26, IA and 22 were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time, other initiative measures could be adopted, further affecting the City's revenues or its ability to expend revenues. For example, the so-called "split roll" initiative has qualified for the November 2020 ballot. See "BOND OWNERS' RISKS – Split Roll Initiative" below.

BOND OWNERS' RISKS

The following describes certain special considerations and risk factors affecting the payment of and security for the Bonds. The following discussion is not meant to be an exhaustive list of the risks associated with the purchase of any Bonds and does not necessarily reflect the relative importance of the various risks. Potential investors in the Bonds are advised to consider the following special factors along with all other information in this Official Statement in evaluating the Bonds. There can be no assurance that other considerations will not materialize in the future.

Dependence on Tourism; COVID-19 Pandemic

The City's General Fund is highly dependent on tourism-generated tax revenues. The tourism industry accounts for all the TOT collected and a significant portion of the Sales Taxes collected by the City (including pursuant to Measure D/Measure C). Accordingly, downturns in the tourism industry for the City have in the past, and will continue to, result in substantial reductions in General Fund revenues. Depending on the length and severity of any such downturn, the City may not have sufficient resources in its General Fund to pay all of its obligations, including the Lease Payments securing the repayment of the Bonds. As described earlier in this Official Statement, the COVID-19 pandemic has caused a downturn in tourism having a material adverse effect on the City's General Fund revenues, which effect may continue to worsen.

The spread of COVID-19, a strain of coronavirus that has been labeled a pandemic, has impacted governments, businesses and people in a manner that is having negative effects on global and local economies, including the local economy in the City. In addition, stock markets in the U.S. and globally have seen significant declines and volatility attributed to coronavirus concerns. There can be no assurances that the spread of COVID-19 and/or responses intended to slow the spread of COVID-19 such as declining travel and business activity, will not materially adversely impact the financial condition of the City and the City's General Fund even more than has already occurred.

As part of the adoption of the City's Fiscal Year 2020-21 budget in June 2020, the City projected a shortfall in General Fund revenues versus expenses, and plans to use approximately $1.0 million of fund balance from the General Fund to cover the deficit. Deficit funding is not a solution that can be employed in perpetuity and the City will continue to need to offset anticipated reductions in General Fund revenues with corresponding reductions in expenditures to maintain a balanced budget. With respect to projected revenues, in particular, the actual impact to the City's General Fund will not be fully understood until actual tax proceeds and other revenues are received by the City, which occurs with a lag and which are subject to State and/or County-wide orders regarding "sheltering in place" and deferrals of payments of certain taxes that are outside the control of the City.

No Pledge of Taxes

General. The obligation of the City to pay the Lease Payments and Additional Rental Payments does not constitute an obligation of the City for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation. The obligation of the City to pay Lease Payments and Additional Rental Payments does not constitute a debt or indebtedness of the City, the State of California or any of its political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction.

The City is currently liable on other obligations payable from general revenues, which are described above under "CITY FINANCIAL INFORMATION – Long-Term Obligations Payable Out of General Fund."

Limitations on Taxes and Fees. Certain taxes, assessments, fees and charges presently imposed by the City could be subject to the voter approval requirements of Article XIIIC and Article XIIID of the State Constitution. Based upon the outcome of an election by the voters, such fees, charges, assessments and taxes might no longer be permitted to be imposed, or may be reduced or eliminated and new taxes, assessments fees and charges may not be approved. The City has assessed the potential impact on its financial condition of the provisions of Article XIIIC and Article XIIID of the State Constitution respecting the imposition and increase of taxes, fees, charges and assessments and does not believe that an election by the voters to reduce or eliminate the imposition of certain existing fees, charges, assessments and taxes would substantially affect its financial condition. However, the City believes that if the initiative power was exercised so that all local taxes, assessments, fees and charges that may be subject to

Article XIIIC and Article XIIID of the State Constitution are eliminated or substantially reduced, the financial condition of the City, including its General Fund, could be materially adversely affected.

Although the City does not currently anticipate that the provisions of Article XIIIC and Article XIIID of the State Constitution would adversely affect its ability to pay Lease Payments and its other obligations payable from the General Fund, no assurance can be given regarding the ultimate interpretation or effect of Article XIIIC and Article XIIID of the State Constitution on the City's finances. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS."

Additional Obligations of the City

General. The City has existing obligations payable from its General Fund. See "CITY FINANCIAL INFORMATION – Long-Term Obligations Payable Out of General Fund." In addition, the City is permitted to enter into other obligations which constitute additional charges against its revenues without the consent of Owners of the Bonds, and may in the future be subject to liabilities payable from the general fund (some of which are described below). To the extent that additional obligations are incurred by (or imposed upon) the City, the funds available to pay Lease Payments may be decreased.

The Lease Payments and other payments due under the Lease (including payment of costs of repair and maintenance of the Leased Property, taxes and other governmental charges levied against the Leased Property) are payable from funds lawfully available to the City. If the amounts that the City is obligated to pay in a Fiscal Year exceed the City's revenues for such year, the City may choose to make some payments rather than making other payments, including Lease Payments and Additional Rental Payments, based on the perceived needs of the City. The same result could occur if, because of California Constitutional limits on expenditures, the City is not permitted to appropriate and spend all of its available revenues or is required to expend available revenues to preserve the public health, safety and welfare.

Litigation Unrelated to General Fund. The City is subject to litigation arising in the normal course of business. In the opinion of the City Attorney, there is no pending litigation which is likely to have a material adverse effect on the financial position of the City.

CalPERS Obligations. Many cities and other local agencies in the State have been faced with increased payments due to CalPERS in recent years. The City, like many other cities and local agencies in the State, is responsible for payments to CalPERS for its share of employee pension costs. Amounts owed to CalPERS for pension costs have increased in recent years and are expected to continue to increase, as CalPERS implements changes to its discount rate and other methodologies for calculating pension costs. See "THE CITY – Pension Plans" for additional information on CalPERS.

No Reserve Fund

No reserve fund will be established and maintained with respect to the Bonds. As a result, in the event on non-appropriation or non-payment of the Lease Payments in full when due, no other source of funds will be available to make payments of debt service Bonds while remedial actions are taken with respect to such non-appropriation or non-payment.

Default

Whenever any event of default referred to in the Lease happens and continues, the Trustee (as assignee of the Authority) is authorized under the terms of the Lease to exercise any and all remedies available under law or granted under the Lease. See "APPENDIX C – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS" for a detailed description of available remedies in the case of a default under the Lease.

If a default occurs, there is no remedy of acceleration of the total Lease Payments due over the term of the Lease. The Trustee is not empowered to sell the Leased Property and use the proceeds of such sale to prepay the Bonds or pay debt service on the Bonds.

The City will be liable only for Lease Payments on an annual basis and, in the event of a default, the Trustee would be required to seek a separate judgment each year for that year's defaulted Lease Payments. Any such suit for money damages would be subject to limitations on legal remedies against municipalities in the State, including a limitation on enforcement of judgments against funds of a Fiscal Year other than the Fiscal Year in which the Lease Payments were due and against funds needed to serve the public welfare and interest.

Abatement

Under certain circumstances related to damage, destruction, condemnation or title defects which cause a substantial interference with the use and possession of the Leased Property, the City's obligation to make Lease Payments will be subject to full or partial abatement and could result in the Trustee having inadequate funds to pay the principal and interest on the Bonds as and when due. See "SECURITY FOR THE BONDS – Abatement" and "APPENDIX C – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS."

Although the City is required under the Lease to maintain property and liability insurance with respect to the Leased Property, the required insurance coverage is subject to certain conditions and restrictions. See "SECURITY FOR THE BONDS – Property Insurance."

In addition, the City is required to use the proceeds of rental interruption insurance maintained under the Lease to make debt service payments on the Bonds during any period of abatement. See "SECURITY FOR THE BONDS – Property Insurance." However, there is no assurance that the City will receive proceeds of rental interruption insurance in time to make debt service payments on the Bonds when due.

Property Taxes

Property taxes are typically one of the largest sources of General Fund revenue to the City.

Levy and Collection. The City does not have any independent power to levy and collect property taxes. Any reduction in the tax rate or the implementation of any constitutional or legislative property tax decrease could reduce the City's property tax revenues, and accordingly, could have an adverse impact on the ability of the City to make Lease Payments. Likewise, delinquencies in the payment of property taxes could have an adverse effect on the City's ability to pay principal of and interest on the Bonds when due. The County has not adopted a Teeter Plan, which means all local agencies in the County (including the City) receive only the actual amount of property taxes collected by the County on their behalf, including any fees or penalties associated with delinquent property tax payments. See Table 5, above, for historical levy, collection and delinquency information.

Reduction in Inflationary Rate. Article XIIIA of the California Constitution provides that the full cash value base of real property used in determining assessed value may be adjusted from year to year to reflect the inflationary rate, not to exceed a 2% increase for any given year, or may be reduced to reflect a reduction in the consumer price index or comparable local data. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS." Such measure is computed on a calendar year basis. Because Article XIIIA limits inflationary assessed value adjustments to the lesser of the actual inflationary rate or 2%, there have been years in which the assessed values were adjusted by actual inflationary rates, which were less than 2%. Since Article XIIIA was approved, the annual adjustment for inflation has fallen below the 2% limitation a limited number of times, and was negative in one year.

The City is unable to predict if any adjustments to the full cash value base of real property within the City, whether an increase or a reduction, will be realized in the future.

Appeals of Assessed Values. There are two types of appeals of assessed values that could adversely impact property tax revenues:

> *Proposition 8 Appeals*. Most of the appeals that might be filed in the City would be based on Section 51 of the Revenue and Taxation Code, which requires that for each lien date the value of real property must be the lesser of its base year value annually adjusted by the inflation factor pursuant to Article XIIIA of the State Constitution or its full cash value, taking into account reductions in value due to damage, destruction, depreciation, obsolescence, removal of property or other factors causing a decline in value.
>
> Under California law, property owners may apply for a reduction of their property tax assessment by filing a written application with the appropriate county board of equalization or assessment appeals board. In most cases, the appeal is filed because the applicant believes that present market conditions (such as residential home prices) cause the property to be worth less than its current assessed value. These market-driven appeals are known as Proposition 8 appeals.
>
> Any reduction in the assessment ultimately granted as a Proposition 8 appeal applies to the year for which application is made and during which the written application was filed. These reductions are often temporary and are adjusted back to their original values when market conditions improve. Once the property has regained its prior value, adjusted for inflation, it once again is subject to the annual inflationary factor growth rate allowed under Article XIIIA.
>
> ***Base Year Appeals***. A second type of assessment appeal is called a base year appeal, where the property owners challenge the original (basis) value of their property. Appeals for reduction in the "base year" value of an assessment, if successful, reduce the assessment for the year in which the appeal is taken and prospectively thereafter. The base year is determined by the completion date of new construction or the date of change of ownership. Any base year appeal must be made within four years of the change of ownership or new construction date.

No assurance can be given that property tax appeals in the future will not significantly reduce the City's property tax revenues.

Sales Taxes

Sales tax revenues (including from Measure D/Measure C) are typically one of the largest sources of revenue to the City. Sales tax revenues are based upon the gross receipts of retail sales of tangible goods and products by retailers with taxable transactions in the City, which could be impacted by a variety of factors, including the local economic downturn that has been caused by COVID-19. See "BOND OWNERS' RISKS – Dependence on Tourism; COVID-19 Pandemic."

In times of economic recession, the gross receipts of retailers often decline, and such a decline causes the sales tax revenues received by the City to also decline. The City is already experiencing such a decline due to the COVID-19 pandemic.

In addition, changes or amendments in the laws applicable to the City's receipt of sales tax revenues, whether implemented by State legislative action or voter initiative, could have an adverse effect on sales tax revenues received by the City. For example, many categories of transactions are exempt from the statewide sales tax, and additional categories could be added in the future. Currently, most sales of food products for human consumption are exempt; this exemption, however, does not apply to liquor or to restaurant meals. The rate of sales tax levied on taxable transactions in the City or the fee charged by the CDTFA for administering the City's sales tax could also be changed.

Natural and Man-Made Disasters

The City is subject to various natural and man-made disasters that could have negatively impact private or public properties in the City and/or the City's tourism industry, which could have a material adverse effect on the City's General Fund. In particular, there can be no assurance that the occurrence of any natural calamity would not cause substantial interference to and costs for the City or impact the Leased Property. Risks from natural and man-made disasters include, but are not limited to, seismic risks, droughts, wildfires, and sea level rise. Some of these risks may be intensified by ongoing climate changes.

Among other things, the City has created a Climate Action and Adaptation Plan and a Climate Committee to evaluate the risks and potential mitigation measures for climate change on the City. No funds were allocated to the Climate Committee in the Fiscal Year 2020-21 budget.

Seismic. Like most of California, the City is located in a seismically active area. If there were to be an occurrence of severe seismic activity in the area of the City, such an occurrence may adversely affect economic activity in the City, and could have a negative impact on City finances, including as a result of destruction of public or private property.

Droughts. California is subject to droughts from time-to-time. On April 1, 2015, for the first time in California's history, Governor Edmund G. Brown directed the State Water Resources Control Board to implement mandatory water reductions in cities and towns across California to reduce water usage by 25%. Following a wet winter in 2016-17, most of the mandatory water reductions were lifted. However, there can be no assurance that drought conditions would not re-appear in the future, leading to interference to and costs for the City or reductions in values of property in the City.

Wildfires. Various communities throughout California have experienced devasting wildfires in recent years. Wildfire risk to property in the City could originate from within the forested areas within the City, from within the Pescadero Canyon, from the Mission Trail Park or from external areas that travel into the City. Hotter temperatures caused by climate change or other factors may lead to increased wildfire activity in the area of the City, and is widely believed to have occurred already in other parts of the State.

Sea Level Rise, Flooding and Other Impacts of Climate Change. City finances may be negatively impacted by future sea level rise or other negative impacts resulting from climate change. These other impacts may include intensity of severe storms, intensity of flooding, and species extinction in the coastal areas of the ocean near the City that are a tourism attraction for visitors to the City. The overall impact of climate change on the City is not definitive, but particular parcels in the City could experience changes to local and regional weather patterns; rising ocean levels; increased risk of flooding; coastal erosion; and water restrictions. Any of these factors may adversely impact property values of homes and businesses in the City and therefore property taxes collected by the City, as well as sales taxes and TOT collected by the City from visitors.

Split Roll Initiative

An initiative measure (the "**Split Roll Initiative**") to amend Article XIIIA has qualified for the State's November 2020 ballot. If adopted, the Split Roll Initiative would base property taxes for commercial and industrial properties on market values beginning in tax year 2020-21. Such market values would be reassessed by the applicable county assessor's office at least once every three years. The Split Roll Initiative includes exceptions for businesses with commercial and industrial properties with a total market value of less than $3 million (adjusted for inflation), which would continue to be subject to property taxes based on purchase price, and exempts from property tax assessments up to $500,000 of the value of personal property, or all personal property for businesses with fewer than 50 employees. There can be no assurance that the Split Roll Initiative will be adopted. Moreover, if the Split Roll Initiative is adopted, the City is unable to predict how it would affect the level of commercial building activity within the City and the relationship of the assessed value between land use types (i.e. residential versus commercial) in the City, or what other impacts the Split Roll Initiative might have on the local economy or the City's financial condition.

Cyber Security

The City, like many other public and private entities, relies on computer and other digital networks and systems to conduct its operations. As a recipient and provider of personal, private or other sensitive electronic information, the City is potentially subject to multiple cyber threats, including without limitation hacking, viruses, ransomware, malware and other attacks. The City maintains insurance coverage for loss resulting from cyber security incidents, however no assurance can be given that the City's efforts to manage cyber threats and attacks will be successful in all cases, or that any such attack will not materially impact the operations or finances of the City, or the administration of the Bonds. The City is also reliant on other entities and service providers in connection with the administration of the Bonds, including without limitation the County tax collector for the levy and collection of various taxes for the City, the Trustee, and the dissemination agent. No assurance can be given that the City and/or the other entities will not be affected by cyber threats and attacks in a manner that may affect the Bond owners.

Limitations on Remedies Available to Bond Owners

The ability of the City to comply with its covenants under the Lease may be adversely affected by actions and events outside of the control of the City, and may be adversely affected by actions taken (or not taken) by voters, property owners, taxpayers or payers of assessments, fees and charges. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS" above. Furthermore, any remedies available to the owners of the Bonds upon the occurrence of an event of default under the Lease or the Indenture are in many respects dependent upon judicial actions, which are often subject to discretion and delay and could prove both expensive and time consuming to obtain.

In addition to the limitations on Bond Owner remedies contained in the Lease and the Indenture, the rights and obligations under the Bonds, the Lease and the Indenture may be subject to the following: the United States Bankruptcy Code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect; usual equity principles which may limit the specific enforcement under State law of certain remedies; the exercise by the United States of America of the powers delegated to it by the Federal Constitution; 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 serving 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 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.

The opinion to be delivered by Bond Counsel, concurrently with the issuance of the Bonds, will include a qualification that the rights of the owners of the Bonds and the enforceability of the Bonds and the Indenture, the Lease and the Site Lease may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and may also be subject to the exercise of judicial discretion in accordance with principles of equity or otherwise in appropriate cases. See "APPENDIX E — FORM OF OPINION OF BOND COUNSEL."

Loss of Tax-Exemption

As discussed under the caption "TAX MATTERS," interest on the Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the Bonds were issued, as a result of future acts or omissions of the City or the City in violation of their respective covenants in the Lease and the Indenture. Should such an event of taxability occur, the Bonds are not subject to special redemption and will remain Outstanding until maturity or until redeemed under other provisions set forth in the Indenture.

Secondary Market for Bonds

There can be no guarantee that there will be a secondary market for the Bonds or, if a secondary market exists, that any Bonds can be sold for any particular price. 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 then-prevailing circumstances. Such prices could be substantially different from the original purchase price.

TAX MATTERS

Federal Tax Status. In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to the qualifications set forth below, under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax.

The opinions set forth in the preceding paragraph are subject to the condition that the City comply with all requirements of the Internal Revenue Code of 1986, as amended (the "**Tax Code**") that must be satisfied subsequent to the issuance of the Bonds in order that the interest thereon be, and continue to be, excludable from gross income for federal income tax purposes. The City has made certain representations and covenants in order to comply with each such requirement. Inaccuracy of those representations, or failure to comply with certain of those covenants, may cause the inclusion of such interest in gross income for federal income tax purposes, which may be retroactive to the date of issuance of the Bonds.

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

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

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

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

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

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

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

CERTAIN LEGAL MATTERS

Jones Hall, A Professional Law Corporation, Bond Counsel, will render an opinion with respect to the validity of the Bonds, the form of which is set forth in "APPENDIX E – FORM OF OPINION OF BOND COUNSEL." Certain legal matters will also be passed upon for the City and the Authority by Jones Hall, as Disclosure Counsel. Certain legal matters will be passed upon for the City by the City Attorney, and certain legal matters will be passed upon for the Underwriter by its counsel, Stradling Yocca Carlson & Rauth, a Professional Corporation.

NO LITIGATION

Except as may otherwise be set forth in this Official Statement, to the best knowledge of the City, there is no action, suit, proceeding, inquiry or investigation before or by any court or federal, state, municipal or other governmental authority pending and notice of which has been served on and received by the City or, to the knowledge of the City, threatened against or affecting the City or the assets, properties or operations of the City which, if determined adversely to the City or its interests, would have a material and adverse effect upon the consummation of the transactions contemplated by or the validity of the Lease, the Site Lease or the Indenture, or upon the financial condition, assets, properties or operations of the City, and the City is not in default with respect to any order or decree of any court or any order, regulation or demand of any federal, state, municipal or other governmental authority, which default might have consequences that would materially adversely affect the consummation of the transactions contemplated by the Lease, the Site Lease or the Indenture, or the financial conditions, assets, properties or operations of the City, including but not limited to the payment and performance of the City's obligations under the Lease.

RATING

S&P Global Ratings ("**S&P**"), a division of Standard & Poor's Financial Services LLC, has assigned its municipal bond rating of "AA+" to the Bonds.

This rating reflects only the views of S&P, and an explanation of the significance of this rating, and any outlook assigned to or associated with this rating, should 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. The City has provided certain additional information and materials to the rating agency (some of which does not appear in this Official Statement). There is no assurance that this rating will continue for any given period of time or that this rating will not be revised downward or withdrawn entirely by the rating agency, if in the judgment of the rating agency, circumstances so warrant. Any such downward revision or withdrawal of any rating on the Bonds may have an adverse effect on the market price or marketability of the Bonds.

CONTINUING DISCLOSURE

The City will covenant for the benefit of owners of the Bonds to provide certain financial information and operating data by not later than nine months after the end of the City's Fiscal Year, or April 1, of each year (based on the City's current Fiscal Year-end of June 30), commencing April 1, 2021, with the report for the 2019-20 Fiscal Year (the "**Annual Report**") and to provide notices of the occurrence of certain listed events.

These covenants have been made in order to assist the Underwriter in complying with Securities Exchange Commission Rule 15c2-12(b)(5) (the "**Rule**"). The specific nature of the information to be contained in the Annual Report or the notices of listed events by the City is set forth in "APPENDIX D – Form of Continuing Disclosure Certificate."

The City has previously entered into continuing disclosure undertakings under the Rule in connection with the issuance of long-term obligations. During the past five years, the City has not failed to comply, in all material respects, with its undertakings under the Rule.

MUNICIPAL ADVISOR

The City and the Authority have retained NHA Advisors, LLC, San Rafael, California, as municipal advisor (the "**Municipal Advisor**") in connection with the offering of the Bonds. All financial and other information presented in this Official Statement has been provided by the City and the Authority from their records, except for information expressly attributed to other sources. The Municipal Advisor takes no responsibility for the accuracy or completeness of the data provided by the City, Authority or others and has not undertaken to make an independent verification or does not assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement. The fee of the Municipal Advisor is contingent upon the successful closing of the Bonds.

UNDERWRITING

Raymond James & Associates, Inc., as underwriter (the "**Underwriter**"), has entered into a Bond Purchase Agreement with the Authority under which it will purchase the Bonds at a purchase price of $4,736,163.11 (which is equal to the par amount of the Bonds, less an Underwriter's discount of $25,738.24, and plus original issue premium of $866,901.35).

The Underwriter will be obligated to take and pay for all of the Bonds if any are taken. The Underwriter intends to offer the Bonds to the public at the offering prices set forth on the inside cover page of this Official Statement. After the initial public offering, the public offering price may be varied from time to time by the Underwriter.

PROFESSIONAL SERVICES

In connection with the issuance of the Bonds, fees payable to the following professionals involved in the offering are contingent upon the issuance and delivery of the Bonds: Jones Hall, A Professional Law Corporation, as Bond Counsel and Disclosure Counsel; NHA Advisors, LLC, as Municipal Advisor; Stradling Yocca Carlson & Rauth, a Professional Corporation, as counsel to the Underwriter; and MUFG Union Bank, N.A., as Trustee.

EXECUTION

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

CITY OF CARMEL-BY-THE-SEA PUBLIC IMPROVEMENT AUTHORITY

By:______________________________
Executive Director

CITY OF CARMEL-BY-THE-SEA

By:______________________________
City Administrator

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APPENDIX A

COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY
FOR FISCAL YEAR ENDING JUNE 30, 2019

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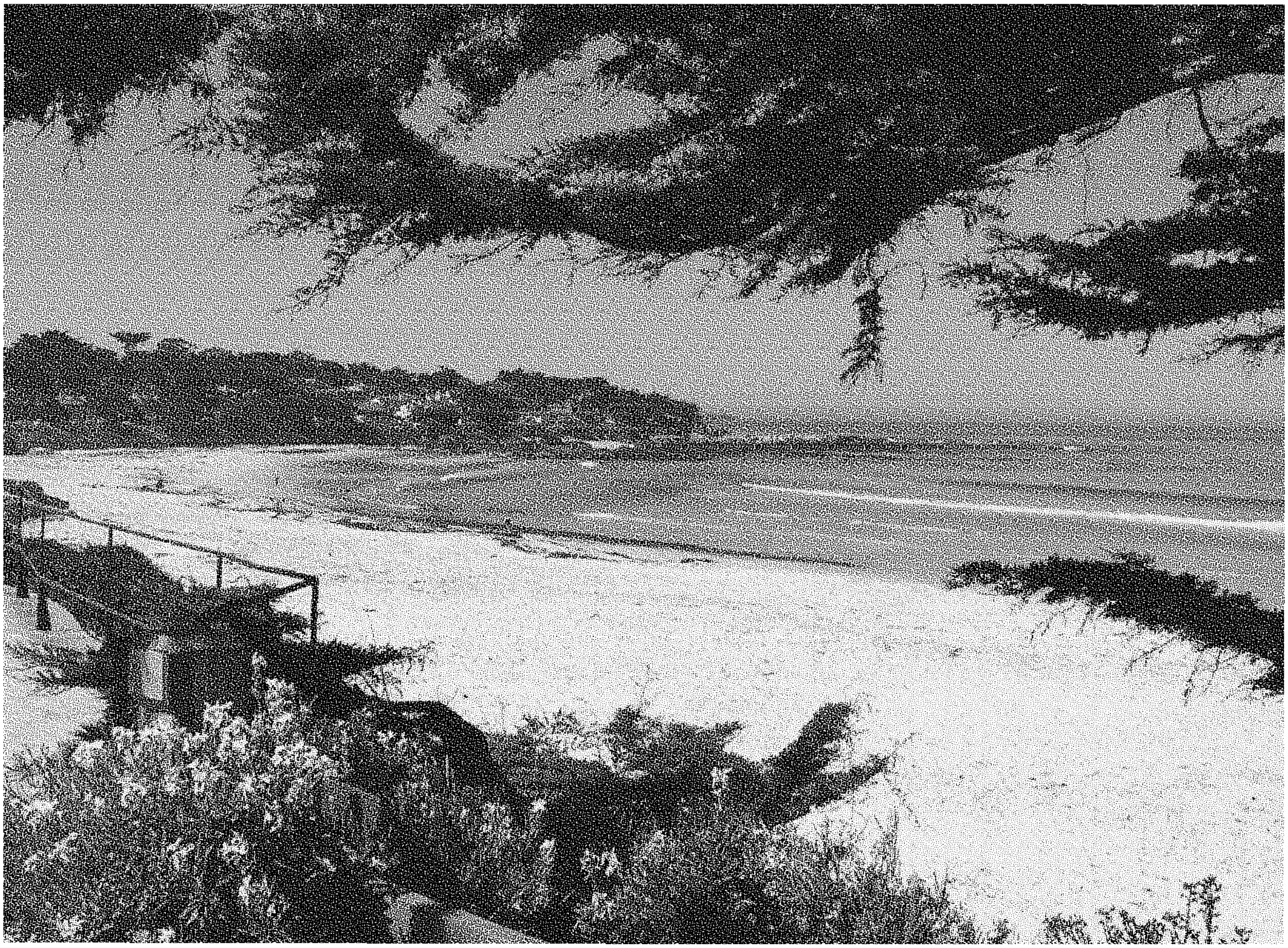
Comprehensive Annual Financial Report



City of Carmel-by-the-Sea
California

Fiscal Year Ended June 30, 2019

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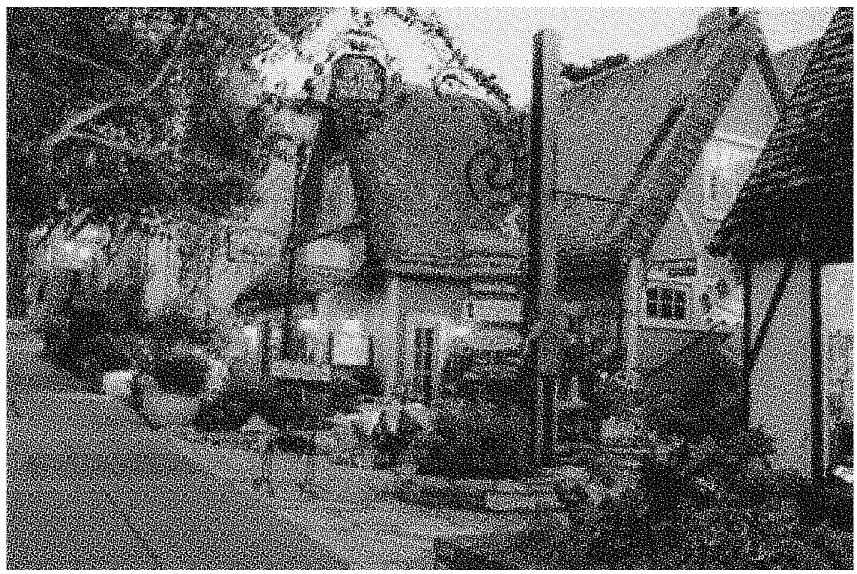
City of Carmel-by-the-Sea
California

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2019



Prepared by the Finance Department
Robin Scattini, Finance Manager

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TRANSMITTAL LETTER

CITY OF CARMEL-BY-THE-SEA
P.O. BOX CC
CARMEL-BY-THE-SEA, CA 93921

December 20, 2019

Honorable Mayor,
Members of the City Council, and
Citizens of Carmel-by-the-Sea

SUBJECT: Comprehensive Annual Financial Report - June 30, 2019

The Comprehensive Annual Financial Report (CAFR) for the City of Carmel-by-the-Sea for the fiscal year ended June 30, 2019 is hereby submitted.

REPORT PURPOSE AND ORGANIZATION

In accordance with State law, which requires that the accounts and fiscal affairs of all municipal entities be examined annually by an independent certified public accountant, the City of Carmel-by-the-Sea retained an independent auditor, Chavan and Associates, LLP, to audit the City's financial statements. Chavan and Associates, LLP, has issued an unmodified opinion that the financial statements for the year ended June 30, 2019, are fairly presented in conformity with generally accepted accounting principles (GAAP). This opinion, along with the basic financial statements, are submitted as the Comprehensive Annual Financial Report (CAFR) for the City for the fiscal year ended June 30, 2019. The information included in the financial section of this report fulfills the above requirement.

This report consists of City management's representations regarding the finances of the City of Carmel-by-the-Sea. Management assumes full responsibility for the completeness, data accuracy, and fairness of the information presented, including all footnotes and disclosures. Management believes the data presented are accurate in all material respects and presented in a manner designed to fairly set forth the financial position and results of operations of the City.

To provide a reasonable basis for making these representations, City management has established a comprehensive framework of internal controls that is designed to both protect the City's assets from loss, theft or misuse and to compile sufficiently reliable information for the preparation of the City's financial statements in conformity with generally accepted accounting principles.

Because the cost of internal controls should not exceed their benefits, the City's internal controls have been designed to provide reasonable, rather than absolute, assurance that the financial statements are free from material misstatements. The audit is intended to provide users with reasonable assurance that the information presented is free from material misstatements. As management, we assert, that to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

Generally accepted accounting principles require management to provide a narrative introduction, overview, and analysis that accompanies the basic financial statements in a format known as the Management's Discussion and Analysis (MD&A). This letter of transmittal is intended to augment the MD&A and is meant to be read in conjunction with the MD&A. The City's MD&A can be found in the Financial Section of this document, immediately following the report of the independent auditor.

CITY OF CARMEL-BY-THE-SEA PROFILE

Located 120 miles south of San Francisco on the Monterey Peninsula, the City of Carmel-by-the-Sea is a coastal village with a population of 3,987 that is renowned for its natural beauty, including a white sand beach, urban forest of over 9,000 public trees comprised of Monterey pines, live oaks, and Monterey cypress and natural parklands all within a one-square-mile, built-out community. In addition to recreational opportunities afforded by such scenery, the City is also known for its architecture and dining and shopping opportunities, which may be found in the walkable downtown area. In addition to many City sponsored events like the City Parade, Sandcastle Contest and Pumpkin Roll, other special events also occur throughout the year and cultural activities abound, including at such venues as the Sunset Center performing arts center and the Forest Theater, an outdoor amphitheater.

The median age of the City's residents is 55.8 years. Nearly 65 percent of the population age 25 or older have a bachelor's degree. The City's per capita income is $57,307. The Carmel area offers outstanding educational opportunities through the Carmel Unified School District as well as institutions of higher learning on the Monterey Peninsula including the Monterey Peninsula College, the Monterey Institute for International Studies, California State University Monterey Bay, and the Hopkins Marine Station operated by Stanford University.

Form of Government

The City of Carmel-by-the-Sea was incorporated on October 31, 1916. As a General Law City, Carmel-by-the-Sea operates under a Council-City Manager (City Administrator) style of government and derives its power from the California Constitution and laws enacted by the State legislature.

All legislative power is held by the publicly elected, five-member City Council which consists of the Mayor and four Councilmembers. The Mayor serves a two-year term while Council members serve a four-year term, with overlapping terms with municipal elections occurring in November of each even numbered year. The City Council is the policy making legislative body of the City and it adopts the annual budget, enacts ordinances, and approves major contracts, acquisitions and leases. The Council appoints the City Administrator to serve as the City's chief administrative officer.

The City Administrator is responsible for the enforcement of City laws and ordinances; ensuring that the orders of the City Council are executed; for supporting Council, which includes the preparation of agendas and the maintenance of records; and overseeing the City's day-to-day operations. Specifically, the City Administrator oversees the departments of Community Planning and Building, Library, Community Activities, Public Safety and Public Works and serves as the director of the centralized administrative functions of the City Clerk, Finance, Human Resources and Information Technology.

City Services

The City provides a variety of services to the residents, businesses and visitors to the village of Carmel-by-the-Sea. Administration provides oversight of daily City functions and financial activity. Community Planning and Building provides building safety services, code compliance and planning functions while Community Activities and Library manage new and ongoing special events and provide library services at two branch locations. Public safety services related to ambulance, law enforcement, crime prevention and fire protection are provided by the Ambulance and Police Department respectively while fire services are provided through a contract with the City of Monterey. Public Works is responsible for facility and vehicle maintenance, development and management of capital projects; construction, improvement and repair of streets, sidewalks, pathways and storm drain systems and maintaining the Village forest, parks and shoreline areas.

The CAFR includes all financial activities of the City. Financial data for all funds through which services are provided by the City have been included in this report using criteria adopted by the Governmental Accounting Standards Board (GASB), which is the authoritative body establishing U.S. Generally Accepted Accounting Principles (GAAP) for local governments.

Budgetary Policy and Control

The accounts of the City are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balanced set of accounts. The minimum number of funds is maintained consistent with legal and managerial requirements. Annually appropriated budgets are legally adopted on a budgetary basis for the governmental fund types and are controlled on a fund and departmental level. These funds are used to account for most of the City's general government activities. Governmental fund types use the flow of current financial resources measurement focus and the modified-accrual basis of accounting and budgeting. Expenditures are recognized as encumbrances when a commitment is made. Unencumbered appropriations lapse at year-end.

The goal of the City Administrator is to present a balanced budget to the City Council for review and adoption. A balanced budget is a budget in which sources meet or exceed uses. Available funding sources shall be at least equal to recommended appropriations. As a general rule, the year-end undesignated General Fund balance should not be used to fund ongoing operations.

As set in the Carmel Municipal Code prior to the beginning of each fiscal year, the City Council shall adopt a budget for expenditures and anticipated revenues. On or before 15 February of each year, the City Administrator will present to the City Council a proposed budget schedule. The City Administrator prepares and submits to the City Council a proposed operating and capital budget for the forthcoming fiscal year. The City Council shall adopt the budget by 1 July.

The City Administrator shall have the right to approve the transfer of appropriations within a departmental budget; however, no additional positions shall be created without the authorization of the City Council. All transfers of appropriations between departments or in regards to capital items or projects shall be approved by the City Council. The City Administrator shall be charged with the responsibility of controlling the expenditures for all departments in accordance with the approved budget. A report on current year revenues, expenditures and fund balances shall be maintained.

FACTORS AFFECTING FINANCIAL CONDITION

This brief narrative on the local economy, City financial policies and major initiatives outlined within the annual budget are intended to provide context to the MD&A and financial statements.

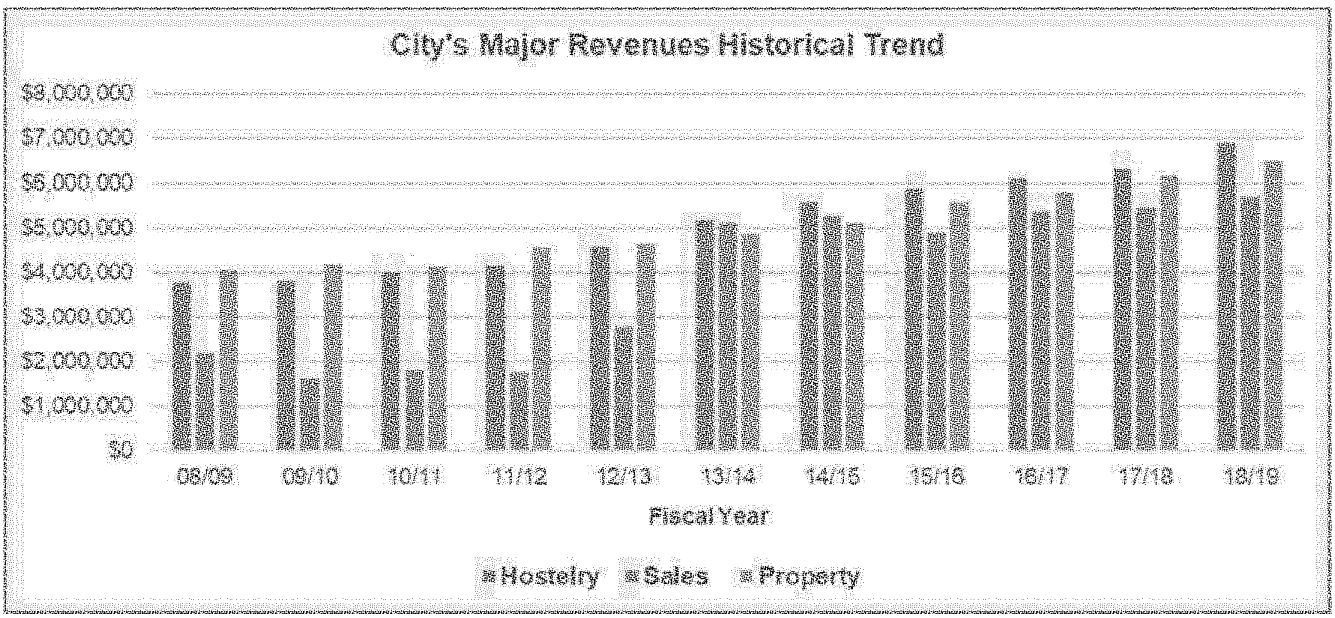
Local Economy

The City's three major sources of General Fund revenue include Property Tax, Sales and Use Tax and Transient Occupancy Tax, which make up about 80% of the City's revenues. As shown on the chart on the next page entitled "City's Major Revenues Historical Trend", property taxes have been a strong component to the City's financial health. Sales taxes have become increasingly important to the City, especially after the passage of a local sales tax measure by Carmel voters in 2012. Transient occupancy taxes also have significantly contributed to the City's revenues and started to outpace property taxes as the leading source of revenue beginning in fiscal year 2013-2014.

Historically, these revenues each represent about 1/3 of the City's total General Fund revenues. These revenues also illustrate the unique opportunities attributed to the City of Carmel-by-the-Sea, which refers to itself as a Village. Located within one square mile, the City is considered to be built out, which limits the availability of new housing stock. This limited supply, coupled with a high demand for housing driven by the City's desirability as a place to live, contributes to the City's strong property tax revenues.

Many of the features that contribute to residential quality of life, such as a temperate climate, natural beauty, architecture and unique design standards and cultural, dining and shopping opportunities also attract visitors. The variety of restaurants and other dining options located within the City's boundary as well as art galleries, jewelry and clothing retailers contributes to shopping opportunities for residents and visitors alike. Similarly, visitors have a multitude of lodging options within the Village and these lodging establishments charge a 10% transient occupancy tax for stays of 30 days or less.

Accordingly, both sales and use tax and transient occupancy tax are also significant sources of the City's revenue stream. On November 6, 2012, the Carmel electorate approved a temporary one percent transaction and use tax for ten years to raise revenue for general purposes, known as Measure D. The City received its first tranche of Measure D in the spring of 2013, and, as shown in the chart below "City's Major Revenues Historical Trend", the advent of Measure D has increased the viability of sales tax as one of the City's three major revenue source.

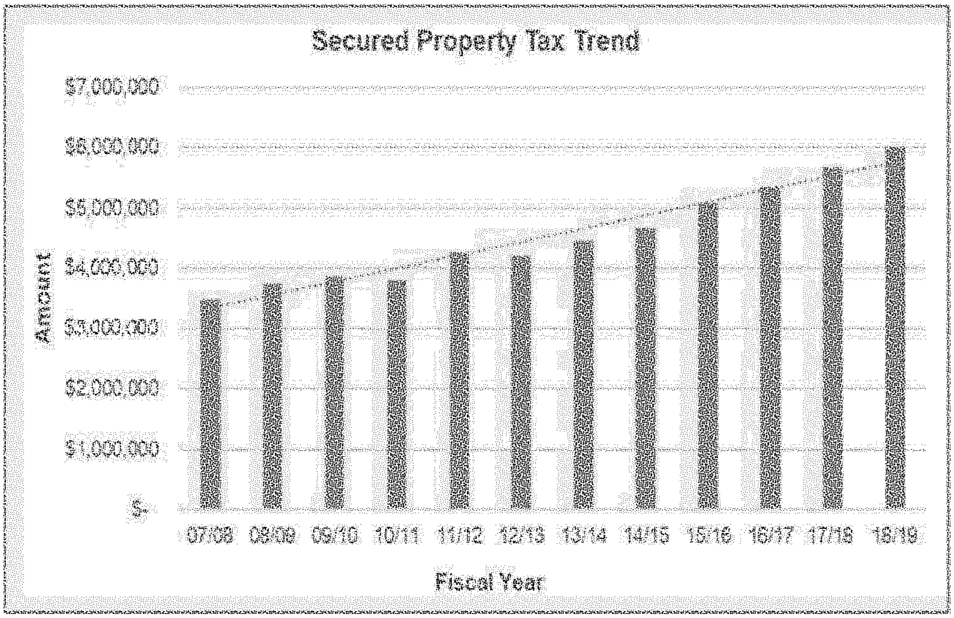


These three revenue sources continue to remain stable and sound. The economic health of these revenues reflect strong property values and high consumer confidence and associated spending due to continued economic growth and low unemployment rates. Transient occupancy taxes are particularly sensitive to changes in consumer spending, travel preferences and the international economy and policies to some extent. However, the City remains a desirable location to visit and expects transient occupancy taxes to remain strong. The City's economic viability relies on all three of these revenues.

Property Taxes

The desirability of Carmel-by-the-Sea as a place to reside, coupled with its limited housing stock, contributed to a strong local real estate market. In addition, the City's close proximately to the Bay Area, where six of the nine Bay area counties reported annual sales increases, also bolstered housing prices. According to the California Association of Realtors, the median selling price for Monterey County for

April 2018 was $607,750 compared to $569,000 in April 2017, reflecting an increase of 7%. According to the US Census and the 2013-2017 American Community Survey 5-Year Estimate data, there are 3,630 housing units within the City. The median home price is $1,290,070.



The City has historically averaged a 5% growth in property taxes each fiscal year, largely due to the increase in secured property taxes. As illustrated in the chart to the left entitled "Secured Property Tax Trend", secured property taxes rose from $3.5 million in fiscal year 2007-2008 to nearly $6.0 million in fiscal year 2018-2019.

In fiscal year 2018-2019, the total amount of revenue received from property taxes, which includes secured property tax, unsecured property tax, unitary property taxes and property transfer taxes, was $6.5 million. Property taxes represented 31% of the total citywide revenues received in fiscal year 2018-2019.

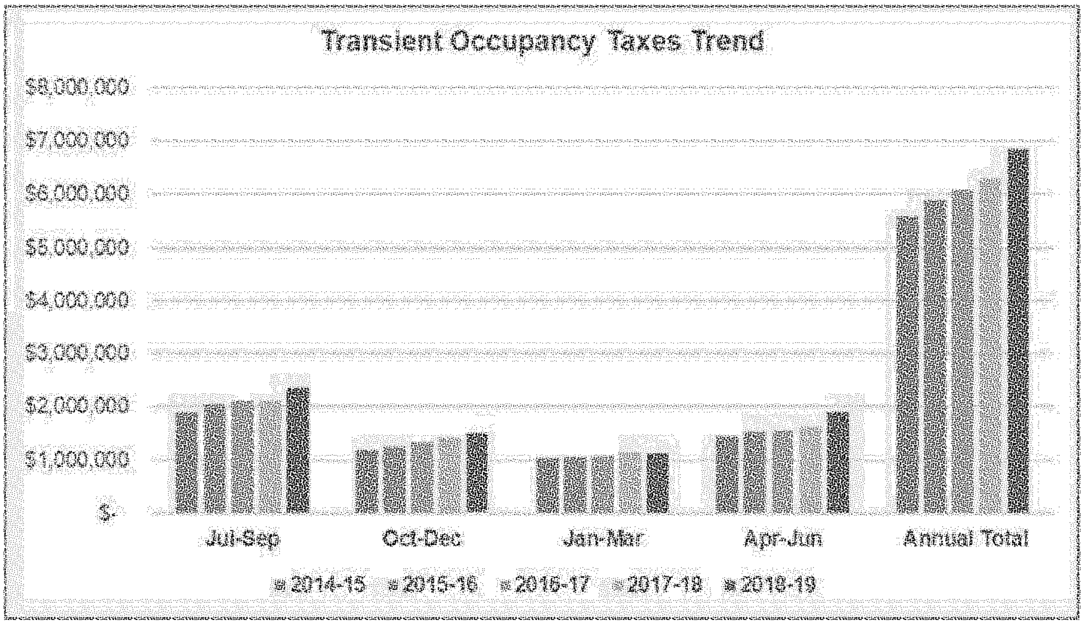
Sales and Use Taxes

Sales and use taxes includes the City's share of the statewide sales tax (Bradley Burns) as well as the City's 1% local sales tax known as Measure D. Together sales tax revenue totaled $5.7 million in fiscal year 2018-2019, which represented 27% of total citywide revenues. The majority of sales are attributed to General Consumer Goods (47%) and Restaurants and Hotels (36%). Sales tax revenue slightly exceeded the City's budgeted expectations, finishing the fiscal year at 4% over the fiscal year 2018-2019 adopted budget target.

Transient Occupancy Taxes

In addition to being a desirable place to live, Carmel-by-the-Sea also has a reputation for being a visitor destination and the City imposes a transient occupancy tax, or "hotel tax" of 10% of the rent charged by a lodging provider for stay of 30 days or less. There are currently 46 lodging establishments (hotels/inns/motels) that are subject to this tax. As shown on the chart "Transient Occupancy Taxes Trend" on the next page, transient occupancy taxes have been on the rise over the last five fiscal years.

Carmel-by-the-Sea continued to remain a popular travel destination, due in part to the popularity of golf and automobile-themed special events. The summer season of July through September is a popular time for guests to visit, although the autumn months have recently shown an uptick. Calendar year 2018 was plagued by a series of devastating wildfires, particularly to the northern part of the State, which also contributed to an increase in visitors. Moreover, the actual room rates imposed by lodging providers remained strong, which also contributed to the healthy performance of this revenue.



Transient occupancy tax generated $6.9 million in fiscal year 2018-2019, making it the City's leading revenue source, and representing 34% of total revenues. This revenue ended the fiscal year nearly $500,000 over the budget projection of $6.4 million. The fiscal year 2018-2019 actual was 8% over the fiscal year 2018-2019 adopted budget and well above the 3% anticipated growth.

Relevant Financial Policies

Financial and Budget Policies

The City Council adopted Council Policy C94-01: Financial and Budget Policies to provide direction to help ensure sound fiscal planning and the management of fiscal integrity. The Policies pertain to the capital and operating budgets, fund balance, debt management and investments.

Several capital policy guidelines were met, or exceeding, including:

- Capital improvement expenditures, less road maintenance expenditures, were budgeted at 18% of total revenues, well above the policy guideline of budgeting capital at 3.5% of total revenues.
- Funding for road maintenance has improved the Pavement Condition Index (PCI). The PCI has increased from 62 in 2017 to 78 in 2018.
- Public participation remained a priority. The development of the capital improvement program included several workshops and public meetings to solicit public comment.
- All projects were consistent with the City's General Plan.
- Capital projects that were not encumbered or completed during the fiscal year were re-budgeted.

The City was not financially able to set aside 20% of the estimated total five-year capital improvement plan project expenditures in a reserve nor was it able to set aside 10% of unrestricted capital project funds for unanticipated capital project expenditures.

Adherence to these guidelines would require additional revenues or a re-direction of funding for other planned expenditures, including foregoing funding for necessary capital projects pertaining to public safety, the protection of natural resources and critical infrastructure in order to place funds into a reserve for future capital projects.

Policy guidelines pertaining to the operating management were adhered to as feasible; although the increase in expenditure costs such as personnel and retirement, constrained the City from being able to implement guidelines to include a "revenue buffer" of at least 5% of projected expenditures and a City Discretionary Account of .5% of total General Fund expenditures within the adopted budget. However, the budget was balanced and ongoing expenses were not funded with one-time revenues. The fiscal year 2018-2019 adopted budget included the use of $1.9 million in General Fund balance; however, this was to support a one-time capital project, the Police Department Renovation, and no reserves were used. This project was modified throughout the course of the fiscal year and the project budget reduced to $900,000 with $1 million of the project's budget being returned to the General Fund.

In accordance with the City's Municipal Code, the General Fund Reserve is to be maintained at no less than 10% of annual revenues. This threshold was exceeded as the committed General Fund balance of $2.8 million is about $800,000 over the statutory required reserve limit.

Major Initiatives

Continued Investment in Protecting Natural Resources and Critical Infrastructure
The fiscal year 2018-2019 adopted budget allocated $4.1 million for capital improvement projects (CIP) intended to rehabilitate City facilities; address sidewalks and street improvements; enhance public safety, and protect and preserve the natural environment. These capital expenditures, contained within the Capital Projects Fund and the Vehicle and Equipment Fund, continue efforts to address deferred infrastructure and natural asset maintenance and improvement and deferred structural facilities maintenance and improvements.

In September 2018, the City Council adopted the City's Strategic Plan, which includes the goal of financial sustainability. Under this goal, two objectives have been established: (1) develop and implement a balanced, long-term sustainable plan to maintain fiscal stability and (2) develop additional funding strategies, which will be incorporated into the annual budget process moving forward. Two major initiatives were launched during fiscal year 2018-2019 as a two-pronged approach to fiscal stability: (1) to control citywide expenditures and mitigate the increased cost of pension liabilities and (2) to augment citywide revenues available for general purposes.

Addressing Pension and other Post Employment Benefit Liabilities
With a workforce staff of 90 full-time equivalent positions, salaries and benefits make up $11.2 million, or 44% of citywide budgeted expenditures. Part of the cost of benefits includes retirement, and the City, similar to other governmental entities, is challenged by the increasing cost of CalPERS pensions, which is the State retirement and health systems for state, school and various public agency members. In 2012, the City issued a pension obligation bond to mitigate these costs. However, largely due to changes in actuarial assumptions, including discount rate, mortality rates, and amortization policies, the City's normal and unfunded actuarial liability has increased, and these amounts are anticipated to continue to rise in future years.

In order to help mitigate these costs, the City Council examined a variety of options including: developing and implementing a plan to pay down the City's Unfunded Actuarial Liability (UAL); considering a local ballot measure to enhance revenues through the renewal of Measure D; creating a Pension Rate Stabilization Program (PRSP); reviewing service delivery methods and levels of certain public services; using procedures and transparent bargaining to increase employee pension contributions, and reviewing opportunities to issue pension obligation bonds. In January 2019, Council endorsed the City's participation in a Pension Rate Stabilization Program to pre-fund pension obligations and authorized staff to issue a request for proposals for a Section 115 Trust Administrator.

Sales Tax Renewal Measure
The City's current 1% sales tax measure sunsets in 2023. Recognizing the importance of this revenue to the City's financial health, the City Council began discussions regarding the renewal of Measure D in March 2019. Since then, the City Council has taken action to place an alternative sales tax measure that would increase the sales tax to 1.5% for 20 years on the ballot as part of the March 3, 2020 election.

AWARDS

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 Carmel-by-the-Sea for its comprehensive annual financial report for the fiscal year ended June 30, 2018. This was the first year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

ACKNOWLEDGEMENTS

As a result of the professionalism and dedication of the Finance Division staff, the City continues to make strides in updating and enhancing its financial policies, procedures and systems and its financial reporting capabilities, as evidenced by the production of this comprehensive annual financial report. The preparation of this report also required the involvement of many City departments in gathering statistics, as well as the guidance and support of the City's independent auditor, and we extend our appreciation to these individuals for the assistance provided.

The comprehensive annual financial report is a document that strives to achieve transparency and full disclosure in financial reporting. As such, the preparation of this document would not be possible without the support of the City Council. We wish to acknowledge the City Council's leadership and commitment to organizational excellence, public transparency and sound fiscal management.

Sharon Friedrichsen
Director of Budget and Contracts

Chip Rerig
City Administrator

Fiscal Year 2018-19

City Council

Dave Potter, Mayor

Bobby Richards, Mayor Pro Tempore

Jeff Baron, Councilmember

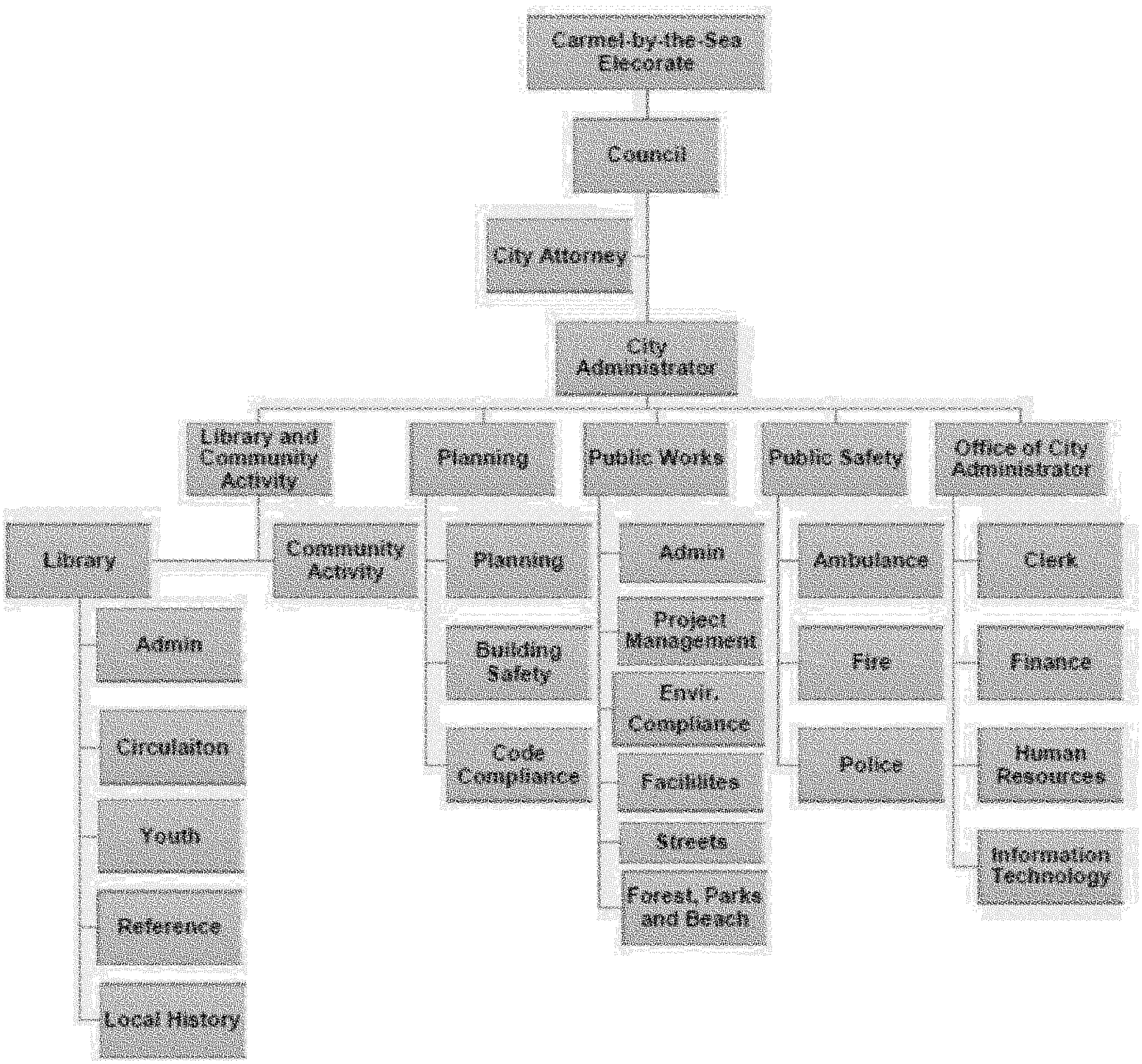
Jan Reimers, Councilmember

Carrie Theis, Councilmember

City Administrator

Chip Rerig

CITY OF CARMEL-BY-THE-SEA ORGANIZATIONAL CHART



Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Carmel-by-the-Sea

California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2018

Christopher P. Morrill

Executive Director/CEO

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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of the
City Council of the City of Carmel-By-The-Sea
Carmel-by-the-Sea, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Carmel-By-The-Sea (the "City"), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The City's 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, 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 City'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 City'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.

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Carmel-By-The-Sea, as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the City adopted new accounting guidance, GASB Statement No. 88, Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements. The City's financial statements were not significantly impacted by the implementation of this standard as of June 30, 2019. Our opinion has not been modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and other required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The introductory section, combining individual non-major fund schedules, statistical data, and other information as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the 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 financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and

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CERTIFIED PUBLIC ACCOUNTANTS

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

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 20, 2019 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control over financial reporting and compliance.

C & A LLP

December 20, 2019
San Jose, California

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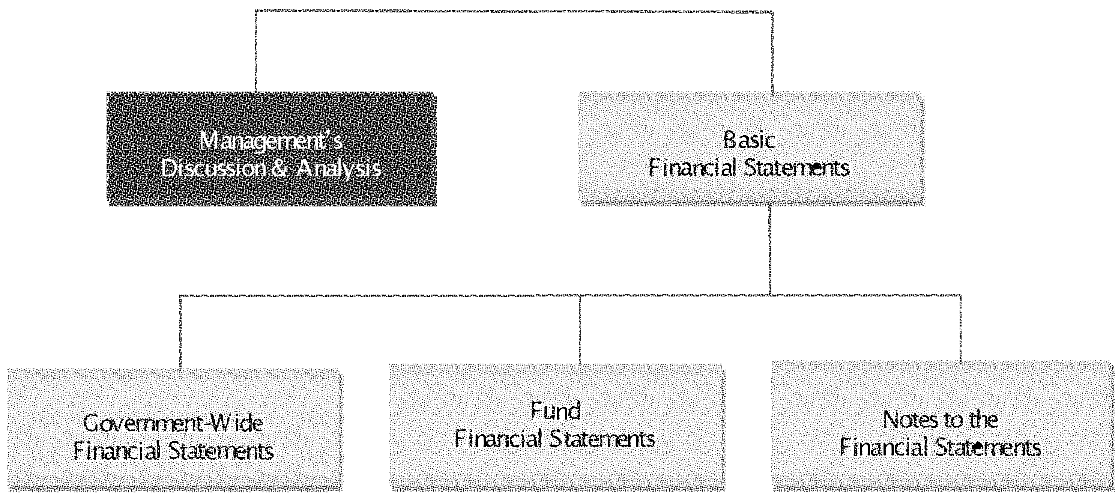
MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

As management of the City of Carmel-By-The-Sea, we offer readers of the City's financial statements this narrative overview and analysis of financial activities of the City of Carmel-By-The-Sea for the fiscal year that ended on June 30, 2019. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the other sections of the attached audited financial statements, required supplemental information and other supplemental information. The required components of the report are listed below.

Required Components of the Annual Financial Report



FISCAL YEAR 2018/19 FINANCIAL HIGHLIGHTS

Government-Wide Highlights

- The assets and deferred outflows of resources of the City of Carmel-by-the-Sea exceeded the liabilities at the close of the most recent fiscal year by $27.3 million (net position). Of this amount, net position included $37.1 million classified as net investment in capital assets; $2.8 million as restricted; and $12.6 million as a deficit unrestricted net position (negative net position). The negative unrestricted net position is largely due to the implementation of GASB 68 - Accounting and Financial Reporting for Pensions. This pronouncement requires local governments to record pension liabilities on the government-wide financial statements. The City's pension liability in accordance with GASB 68 as of June 30, 2019 was $19.9 million.

- The City of Carmel-by-the-Sea's total net position increased by $1.6 million from last fiscal year mostly due to an increase in taxes and intergovernmental revenue of $718 thousand and $545 thousand, respectively.

Fund Highlights

- At the close of Fiscal Year 18/19 the City of Carmel-by-the-Sea's governmental funds reported combined fund balances of $12.4 million, an increase of $169 thousand in comparison with the prior year. Approximately 36% or $4.5 million is classified as unassigned fund balance and is available for spending at the government's discretion, which is up from $3.3 million in the prior year.

- At the end of the current fiscal year, unrestricted fund balance (the total of the committed, assigned, and unassigned components of fund balance) for the general fund was $9.3 million, or 49% of total general fund expenditures, prior to transfers, versus $8 million and 45% in the prior year.

- The City's long-term liabilities decreased by $316 thousand primarily as the result of a scheduled debt service payments totaling $951 thousand which were offset by increases to employee benefit liabilities totaling $635 thousand.

- The City's net capital assets increased by 4% or $1.6 million primarily as a result of infrastructure improvements net of depreciation during the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis are intended to serve as an introduction to the City of Carmel-by-the-Sea's financial statements. The City of Carmel-by-the-Sea's basic financial statements are comprised of (1) Government-wide Financial Statements (2) Fund Financial Statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City of Carmel-by-the-Sea's finances, in a manner similar to a private-sector business. Government-wide financial statements are prepared on the accrual basis, which means they measure the flow of all economic resources of the City as a whole. Government-wide financial statements consist of the Statement of Net Position and the Statement of Activities.

The Statement of Net Position presents financial information on all of the City of Carmel-by-the-Sea's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City of Carmel-by-the-Sea is improving or deteriorating.

The Statement of Activities presents information showing how the City of Carmel-by-the-Sea's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. This is consistent with a full accrual concept, which may result in the reporting of revenues and expenses in the current fiscal year, with cash flows occurring in future fiscal periods (e.g. uncollected revenues and earned but not used vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Carmel-by-the-Sea that are principally support by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). An overview of the City's functions associated with each classification is listed below.

Governmental Activities – All of the City's basic services are considered to be governmental activities. This includes general government, public safety, public works, library, and community planning and building. These services are supported by general City revenues such as taxes, and by specific program revenues such as development and general government program fees. The City also operates three internal service funds, which are combined with the governmental funds and reported as governmental activities. The government-wide financial statements can be found on pages 23-24 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Fund financial statements provide detailed information about each of the City's most significant funds, called major funds. Major funds are presented individually, with all nonmajor funds summarized and presented only in a single column. Subordinate schedules present the detail of these nonmajor funds. Major funds present the major activities of the City for the fiscal year and may change from year to year as a result of changes in the pattern of the City's activities. The City's funds are segregated into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same function reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This represents a modified accrual basis of accounting, with capital assets, long-lived assets, and long-term liabilities excluded from the financial statements. Such information may be useful in evaluating the City's near-term financing requirements.

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

The City maintains eleven governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, the Measure D Sales Tax Fund and the Capital Projects Fund. These funds are considered to be major funds. Data from the other governmental funds are combined into a single aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements in the combining and individual fund statements and schedules section of this report.

The City of Carmel-by-the-Sea adopts an annual budget for its governmental funds. A budgetary comparison statements have been provided to demonstrate compliance with this budget. The basic governmental fund financial statements can be found on pages 25-27 of this report.

Proprietary Funds

Internal service funds are an accounting mechanism used to accumulate and allocate costs internally among the City of Carmel-by-the-Sea's various functions. The City uses internal service funds to account for the management of its retained risks associated with liability self-insurance, workers compensation and other post-employment benefits (OPEB). The City also uses an internal service fund, the Vehicle & Equipment Replacement Fund, to manage the costs of various equipment purchased, maintained and utilized to operate City services for various departments. Because these internal services predominately benefit governmental rather than business-type functions, they have been included within governmental activities in the Government-Wide Financial Statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The internal service funds are combined into a single aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds are provided in the form of combining statements in the combining and individual fund statements and schedules section of this report. The basic proprietary fund financial statements can be found on pages 29-31 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reported in the Government-Wide financial statements because the resources of these funds are not available to support the City of Carmel-by-the-Sea's own programs. The accounting for fiduciary funds is much like that used for business type activities. See pages 32 and 92 for fiduciary fund financial activity during the year and statements at the end of the year.

NOTES TO THE FINANCIAL STATEMENTS

Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found immediately following the fund financial statements.

OTHER INFORMATION

In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning the City of Carmel-by-the-Sea's budgetary information for the General Fund and Major Special Revenue Funds, and the City's funding progress for its employee pension and OPEB benefit obligations. The required supplementary information can be found on pages 67-71 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds and internal service funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 75-92 of this report.

An un-audited statistical section provides historical and current data on financial trends, revenue and debt capacity, demographic and economic information, and operating information. This information can be found on pages 126-153 of this document.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net position may serve as an indicator of a government's financial position. In the case of the City of Carmel-by-the-Sea, assets and deferred outflows of resources exceeded liabilities by $27.3 million at the close of the Fiscal Year. This represents an increase of $1.6 million over the prior year.

The following table summarizes the City's ending net position:

Table 1 - Net Position

	Governmental Activities		Increase
	2019	2018	(Decrease)
Assets			
Current and other assets	$ 17,980,918	$ 16,486,095	$ 1,494,823
Capital assets	42,533,614	40,953,831	1,579,783
Total Assets	$ 60,514,532	$ 57,439,926	$ 3,074,606
Deferred Outflows of Resources	$ 4,959,711	$ 5,606,418	$ (646,707)
Liabilities			
Current and other liabilities	$ 2,811,982	$ 1,344,148	$ 1,467,834
Noncurrent liabilities	33,355,596	33,671,349	(315,753)
Total Liabilities	$ 36,167,578	$ 35,015,497	$ 1,152,081
Deferred Inflows of Resources	$ 2,002,392	$ 2,327,444	$ (325,052)
Net Position			
Net investment in capital assets	$ 37,132,103	$ 35,216,550	$ 1,915,553
Restricted	2,817,741	2,628,238	189,503
Unrestricted	(12,645,571)	(12,141,385)	(504,186)
Total Net Position	$ 27,304,273	$ 25,703,403	$ 1,600,870

A significant portion or $37.1 million of the City's net position reflects its investment in capital assets, (e.g., land, buildings, general government infrastructure, equipment, etc.), less accumulated depreciation and any outstanding debt that was used to acquire or construct those assets. Capital assets represent infrastructure which provide services to citizens and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate the liabilities.

An additional $2.8 million of the City of Carmel-by-the-Sea's net position represents resources that are subject to external restrictions on how they may be used. The remaining deficit balance of $12.6 million is classified as unrestricted. This negative unrestricted balance is largely due to GASB 68 - Accounting and Financial Reporting for Pensions. The City participates in the CalPERS Miscellaneous and Safety pension plans. GASB 68 impacted local governments by requiring them to report a proportional share of their pension plan's net pension liabilities on financial statements. As of June 30, 2019, the City's proportionate share of the CalPERS pension liability was $19.9 million. See note 8 for detailed information related to the Plans, along with the required supplementary information section of this report.

At the end of the current fiscal year, the City of Carmel-by-the-Sea is able to report a positive balance for the government as a whole, with financial strength increasing. The reasons for the overall financial changes are discussed in the following sections for governmental activities.

Governmental Activities

As shown in the Statement of Changes in Net Position schedule below, the change in net position for governmental activities increased from a deficit balance of $784 thousand in the prior year to a surplus balance of $1.48 million in the current fiscal year. This increase is largely due to a one-time loss to write-off construction in-progress in the prior year that was not recurring, that was reported as a special item called "loss on the disposal of capital assets" in 2017/18. The loss on disposal totaled $2.4 million but was not a cash item or outflow of resources, but simply an accounting entry to adjust for ongoing construction that has not been completed and placed in service. Total governmental revenues increased by $2 million from the prior year, which included a $136 thousand increase in program revenues and a $1.6 million increase in general revenues. The net change in expenses from the prior year was an increase of $1.7 million.

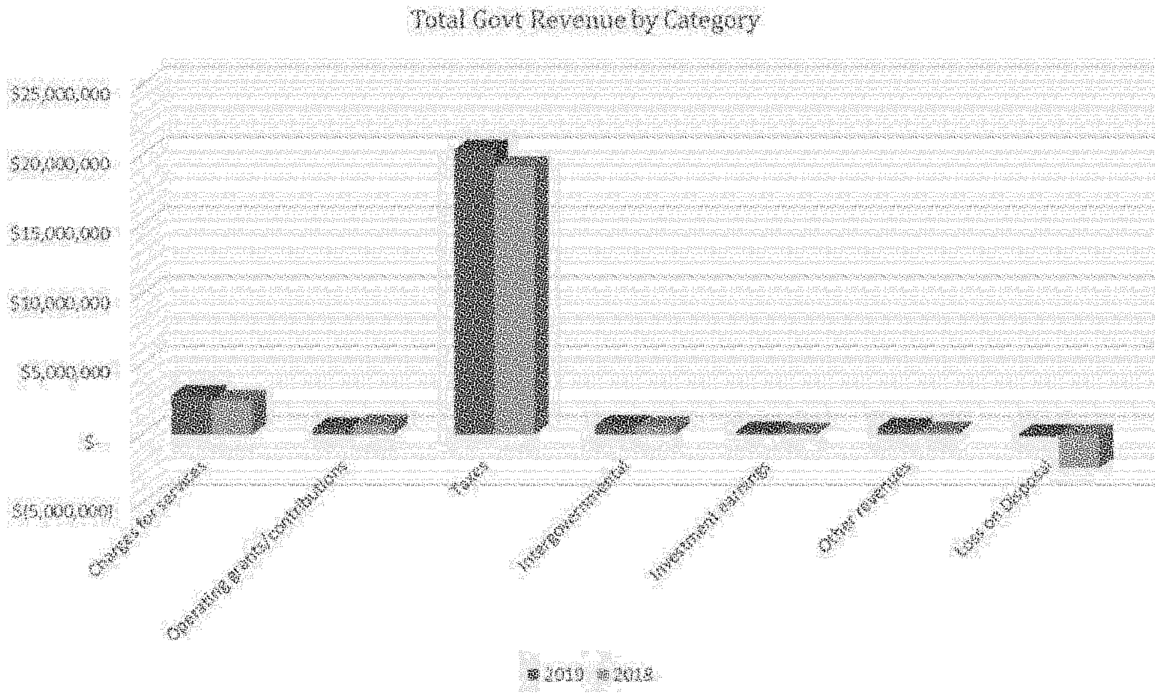
With total revenues for the fiscal year at $24.7 million and total expenses at $23.3 million, the change in net position for current activity yielded an increase of $1.48 million. An analysis of the changes in revenues and expenses is as follows:

Table 2 - Statement of Changes in Net Position

Functions/Programs	Governmental Activities 2019	Governmental Activities 2018	Increase (Decrease)
Program Revenues			
Charges for services	$ 2,795,041	$ 2,427,843	$ 367,198
Operating grants and contributions	450,920	681,240	(230,320)
Total Program Revenues	3,245,961	3,109,083	136,878
General Revenues			
Taxes	20,370,569	19,189,177	1,181,392
Intergovernmental	637,124	555,144	81,980
Investment earnings	205,791	101,743	104,048
Other revenues	437,475	212,820	224,655
Special item--loss on disposal of capital assets	(160,794)	(2,439,255)	2,278,461
Total General Revenues	21,490,165	17,619,629	3,870,536
Expenses			
General government	5,906,304	5,015,389	890,915
Community Planning and Building	1,191,826	1,207,555	(15,729)
Public Safety	8,390,616	7,919,720	470,896
Public Works	4,162,376	3,901,197	261,179
Library	1,894,410	1,790,210	104,200
Community Activities	283,512	233,794	49,718
Economic Revitalization	1,144,022	1,125,261	18,761
Interest on fiscal charges	283,606	319,974	(36,368)
Total Expenses	23,256,672	21,513,100	1,743,572
Increase / (Decrease) in Net Position	1,479,454	(784,388)	2,263,842
Prior Period Adjustments	121,416	38,904	82,512
Prior Period Adjustment - Pensions	-	99,832	(99,832)
Prior Period Adjustment - GASB 75 OPEB	-	(1,442,248)	1,442,248
Net Position, Beginning of Year	25,703,403	27,791,303	(2,087,900)
Net Position, End of Year	$ 27,304,273	$ 25,703,403	$ 1,600,870

Governmental Revenues

The following chart summarizes the changes in revenues by category during the fiscal year:



Significant changes in governmental revenues consisted of the following:

- Charge for Services, which included building permits, building plan check fees, planning permits, ambulance service fees, parking related service fees, in addition to other various City fees for services, increased by approximately by $367,198, or 15%, primarily due to an adjustment in citywide fees for services, increases in city services and popular annual special events.

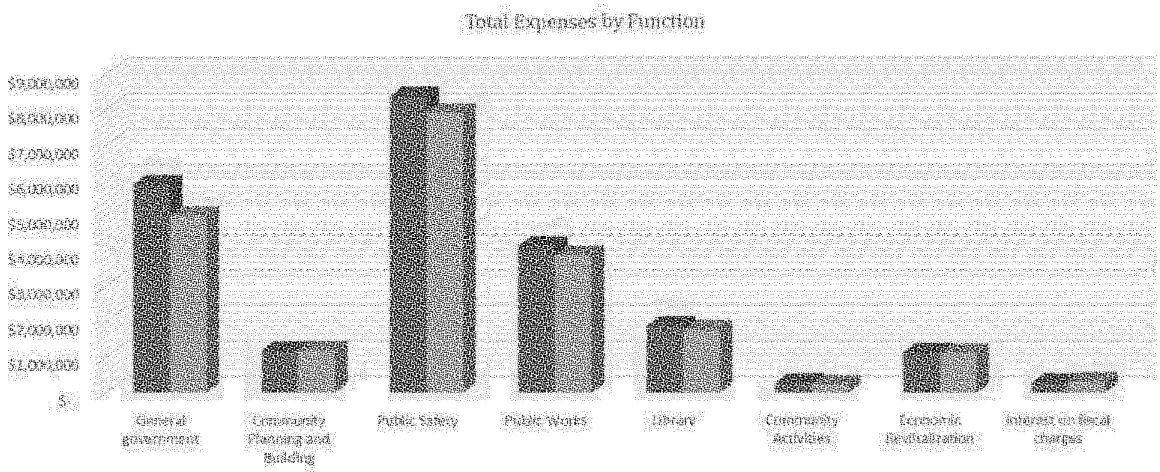
- Taxes increased by $1.18 million, or 6%, primarily due to the following:
  - Property tax revenue increased $332,205 over the prior year as a result of a strong real estate market.
  - Transient occupancy taxes increased by $552,941 as a result of higher than expected hotel occupancy rates and tourism, including special events such as the US Open.
  - Sales tax revenues increased by $246,436 largely due to a strong economy and an increase in sales tax statewide.

- The loss on disposal in the prior year was a one-time loss to write-off construction in-progress totaling $2.4 million. The loss on disposal was not a cash item or outflow of resources in the current year, but simply an accounting entry to adjust for ongoing construction that has not been completed and placed in service.

- Investment earnings increased by $104,048 primarily due to fair market value adjustments associated with GASB Statement 72 - Fair Value and Measurement Application.

Governmental Expenses

The following chart summarizes the changes in expenses by category during the fiscal year:



Significant changes in governmental expenses include increased contract costs for fire services, public safety salary increases, additional building and vehicle maintenance expenditures, and one time increased claims liability totaling approximately $1.3 million.

FINANCIAL ANALYSIS OF THE CITY'S GOVERNMENTAL FUNDS

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

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, the unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the City itself, or a group or individual that has been delegated authority to assign resources for particular purposes by the City of Carmel-by-the-Sea's Council.

The following is a summary of the changes in fund balance of the major and other (nonmajor) governmental funds:

Table 3 - Summary of Changes in Fund Balance - Governmental Funds

	Major Funds				
	General Fund	Measure D Sales Tax Fund	Capital Projects Fund	Other Governmental Funds	Total
Total Revenues	$ 20,881,206	$ 3,079,914	$ 25,253	$ 872,300	$ 24,858,673
Total Expenditures	19,403,120	-	3,778,271	1,530,041	24,711,432
Revenues Over (Under) Expenditures	1,478,086	3,079,914	(3,753,018)	(657,741)	147,241
Transfers in	855,660	-	2,487,954	1,237,980	4,581,594
Transfers out	(1,111,477)	(3,104,753)	-	(465,364)	(4,681,594)
Net change in fund balances	1,222,269	(24,839)	(1,265,064)	114,875	47,241
Beginning of year	8,006,394	205,626	1,627,098	2,422,129	12,261,247
Prior Period Adjustment	21,466	-	-	99,950	121,416
End of year	$ 9,250,129	$ 180,787	$ 362,034	$ 2,636,954	$ 12,429,904

The fund balance of the City's General Fund increased by $1.2 million mostly due to higher than expected tax and service revenues. The fund balance in the Capital Projects fund decreased by $1.3 million mostly due to significant investment in streets and storm drain improvements and replacements totaling $2.6 million.

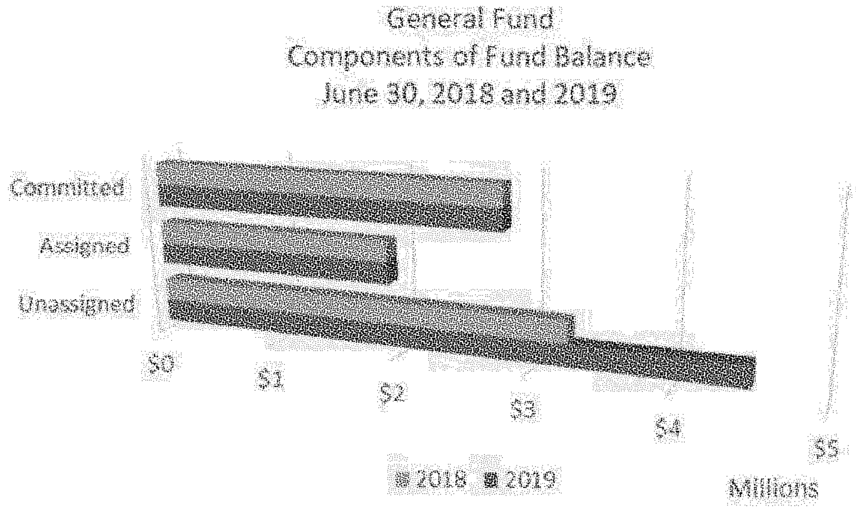
Combined Funds – Components of Fund Balance

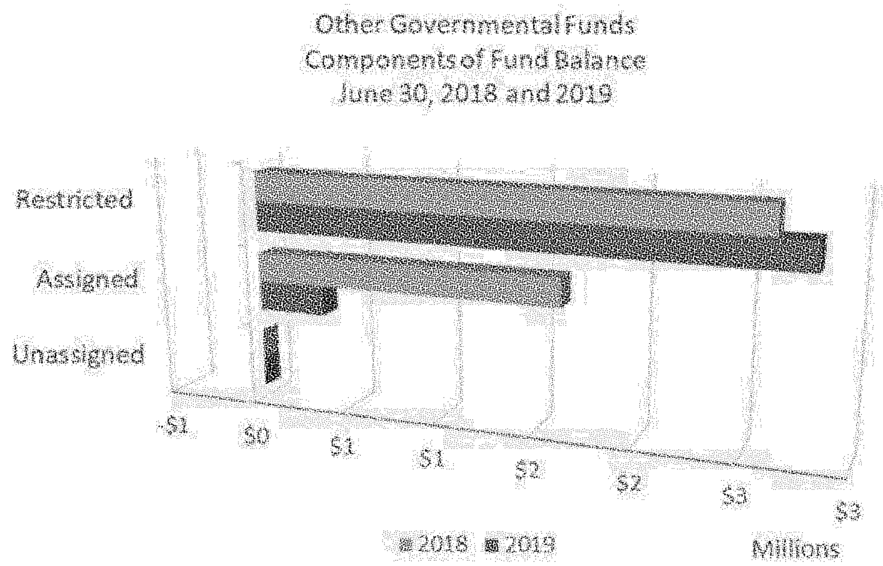
As of June 30, 2019, the City of Carmel-by-the-Sea's reported combined fund balances of $12.4 million, which represents a $168,657 increase over the prior year. Approximately 36%, or $4.5 million, is classified as unassigned fund balance, which is available for spending at the government's discretion. The remainder of the fund balance is either committed, restricted, or assigned. The committed balance of $2.8 million represents funds that are set-aside for specific purposes via resolution of the City Council. The restricted balance of $2.8 million reflects fund that are legally required to remain intact, while the remainder of $2.3 million represents funds that are assigned to a particular purpose by the City Council or management given legal authority by the Council.

General Fund – Components of Fund Balance

The general fund is the chief operating fund of the City of Carmel-by-the-Sea. At the end of the current fiscal year, the unassigned fund balance of the general fund was $4.5 million, and the total fund balance increased to $9.25 million. 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 general fund expenditures. The total general fund expenditures, prior to transfers was $19.4 million. Unassigned fund balance represents approximately 23% of the total general fund expenditures, while total fund balance represents approximately 48% of total general fund expenditures.

The following charts provide an annual comparison of the fund balance components included in the general fund and the other governmental funds.





The assigned fund balance in other governmental funds was from the Capital Projects Fund which had $362,034 in fund balance assigned for capital projects; a decrease from last year's assigned fund balance of $1.6 million.

FINANCIAL ANALYSIS OF CITY'S INTERNAL SERVICE FUNDS

The following is a summary of the changes in fund balance of the City's internal service funds:

Table 4 - Summary of Changes in Fund Balances - Internal Service Funds

	Workers Compensation Fund	OPEB Reserve Fund	Vehicle & Equipment Replacement Fund	Total
Total Revenues	$ -	$ -	$ -	$ -
Total Expenditures	27,570	-	244,575	272,145
Revenues Over (Under) Expenditures	(27,570)	-	(244,575)	(272,145)
Nonoperating Revenue (Expense)	9,628	28,619	17,823	56,070
Transfers in	-	-	100,000	100,000
Transfers out	-	-	-	-
Net change in fund balances	(17,942)	28,619	(126,752)	(116,075)
Beginning of year	49,275	1,788,432	1,275,549	3,113,256
End of year	$ 31,333	$ 1,817,051	$ 1,148,797	$ 2,997,181

CAPITAL ASSETS

The City of Carmel-by-the-Sea's investment in capital assets includes land, buildings, systems, improvements, machinery, equipment, facilities, roads, and other similar assets and infrastructure. The following table summarizes the City's capital assets at the end of the year:

Table 5 - Capital Assets at Year End - Net

	Governmental Activities		Increase
	2019	2018	(Decrease)
Land	$ 5,101,641	$ 5,101,641	$ -
Construction in Progress	621,085	1,799,679	(1,178,594)
Buildings and improvements	15,711,182	16,246,372	(535,190)
Infrastructure	20,187,281	17,102,239	3,085,042
Vehicles	193,180	164,091	29,089
Technology /Hardware and Software	347,859	419,675	(71,816)
Machinery and equipment	371,386	120,134	251,252
Total Capital Assets, Net	$ 42,533,614	$ 40,953,831	$ 1,579,783

The City reported additions to construction-in-progress totaling $3.8 million during the year and depreciation expense of $2 million.

See Note 5 in the notes to financial statements section for additional information.

DEBT ADMINISTRATION (LONG-TERM LIABILITIES)

During the year, Long-Term Liabilities from governmental activities decreased by $315,753 million primarily due to schedule debt service payments, net of slight increases in pension and OPEB obligations as shown below and described in the financial highlights section.

The following table summarizes the City's debt at the end of the year:

Table 6 - Outstanding Long-Term Liabilities

	Governmental Activities		Increase
	2019	2018	(Decrease)
Sunset Center COP	$ 5,215,000	5,530,000	$ (315,000)
Countywide Radio Project	186,511	207,281	(20,770)
Pension Obligation Bonds	2,605,000	3,220,000	(615,000)
Compensated Absences	831,579	580,146	251,433
Net Pension Liability	19,920,568	19,908,483	12,085
Claims Liability	575,000	575,000	-
Net OPEB Liability	4,021,938	3,650,439	371,499
Total Long-Term Liabilities	$ 33,355,596	$ 33,671,349	$ (315,753)

See Note 6 in the notes to financial statements section for additional information.

GENERAL FUND BUDGETARY HIGHLIGHTS

Changes from the City's General Fund original budget to the final budget are detailed in the Required Supplementary Information section along with a comparison to actual activity for the year ended. In Fiscal Year 18/19, the City originally estimated that a $1.9 million drawdown from fund balance was needed to fund operating activities; however due to increased performance in revenues and decreased annual spending, the City ended the year with an excess of revenues over expenditures of $1.2 million.

Revenues

The General Fund adopted and final revenue budgets were $19.3 and $19.6 million, with actual revenues recorded at $20.9 million. This $1.3 million difference primarily related to greater than anticipated performance in most tax categories and charges for services.

Expenditures

The General Fund adopted expenditure budget was $20.1 million and the final budget was $20.3 million. The actual expenditures totaled $19.4 million, which resulted in a net difference of $940,163. Most of the savings can be attributed to salary and benefit savings due to vacant positions.

ECONOMIC OUTLOOK

The City's foundation of revenue is based primarily on three pillars: (1) property taxes; (2) sales and use taxes and (3) transient occupancy taxes. In fiscal year 2019-2020, these revenues are collectively projected to generate $19 million, or 79% of total citywide budgeted revenues.

Located within one square mile, the City is considered to be built out, which limits the availability of housing stock. This limited supply, coupled with a high demand for housing driven by the City's desirability as a place to live, contributes to the City's strong property tax revenues. Staff anticipates property tax growth will remain strong in the upcoming fiscal year. The fiscal year 2019-2020 Recommended Budget of $6.6 million in property taxes reflects a 4% increase over the fiscal year 2018-2019 Estimated Actual. This assumption is based on the City's historical and recent performance and other indications of a continued strong housing market.

Low unemployment rates and increased personal income coupled with attractive mortgage rates indicate sustained growth in the real estate market. The California Department of Finance April 2019 Finance Bulletin notes that California personal income increased by 4.7% in 2018 while U.S. personal income rose by 4.5% since last year. The State's unemployment rate of 4.2% remained unchanged. The Governor's Proposed Budget forecasts a 6.8% increase in property taxes statewide. Beacon Economic predicts an increase of 4% for 2019-20 in median home prices. Recent data from the California Department of Finance (DOF) and the California Association of Realtors (C.A.R.) show improvements within the real estate market in the recent months. The DOF reports real estate sales statewide increased in February and the statewide median home price rose 2.2% from February 2018 to February 2019. C.A.R. also reports that statewide median home prices in March 2019 were up 5.9% from February and up .2% from March 2018. While sales were down 6.3% compared to March 2018, median prices were at their highest point since October 2018. In addition, mortgage rates are up one percentage point compared to a couple of year ago, rates are below 4.5%, with the 30-year fixed mortgage rate averaging 4.37% in February 2019, the lowest in a year. Low interest rates are expected to stimulate the housing market.

Many of the features that contribute to residential quality of life, such as a temperate climate, natural beauty, architecture and unique design standards and cultural, dining and shopping opportunities also attract visitors. Accordingly, both sales and use tax and transient occupancy tax are also significant sources of the City's revenue, including the local sales tax known as Measure D. The variety of restaurants and other dining options located within the City's boundary as well as art galleries, jewelry and clothing retailers contribute to shopping opportunities for residents and visitors alike.

While sales tax has been on the rise over the last several fiscal years, this trend is not expected to continue into fiscal year 2019-2020. HdI and Beacon Economic predict no growth in 2019-2020 for the category known as general consumer goods. This is largely due to consumer preferences for online shopping. Sales tax from online retailers largely benefits State and county pools rather than a specific locality like the City. Modest growth of 2% is forecasted for the category of restaurants/hotels, down from prior years due to competition among restaurants and rising industry costs. Together, the categories of general consumer goods and restaurants make up 83% of sales tax generated within the City. As a result, the fiscal year 2019-2020 Recommended Budget assumes a 0.1% decrease in statewide sales tax over the fiscal year 2018-2019 Estimated Actual and a 1% decrease in Measure D in the upcoming fiscal year.

Visitors have a multitude of lodging options within the Village and these lodging establishments charge a 10% transient occupancy tax for stays of 30 days or less. Transient occupancy taxes are more challenging to predict as the taxes are based upon personal choices regarding travel destinations. In addition to facing competition from other popular US destinations that neighbor the Monterey Peninsula to the north and south, the City also competes with other international destinations and is sensitive to changes in consumer spending, economic conditions, and to some extent, international policies. While the popularity of special events has helped to attract and retain visitors, overall occupancy rates have not rebounded from 2009. However, lodging providers have been able to offset this decline by increasing room rates. The fiscal year 2019-2020 adopted budget assumes a 3% growth over the fiscal year 2018-2019 estimated actual.

The City provides a variety of services that benefit specific customers, such as the administration of business licenses, ambulance transport, police response to false alarms and the issuance of planning and building, encroachment and tree removal and special event permits. Some of the larger types of charges for services are planning and building fees and these also sensitive to economic conditions. Charges for building service is the largest type of fee with a budget of $1.2 million. In terms of building fees, while staff have assumed the same volume of activity in fiscal year 2019-2020 as in the current fiscal year, building charges are reduced by $50,000 to reflect the continuation of a Council directed fee waiver program. Adopted by Council in November 2018, this pilot program is intended to promote hotel and commercial property improvements by waiving all planning and building fees. The program expires in December 2019.

The majority of services provided by government are people-driven, which is why salaries and benefits is the City's largest expenditure at $11.5 million, or 48% of the fiscal year 2019-2020 adopted budget, Salaries and benefits are projected to increase 3% compared to the fiscal year 2018-2019 adopted budget. In addition, the City anticipates its pension-related cost known as the unfunded actuarial liability to increase by $400,000 in fiscal year 2019-2020.

The City anticipates a 4% increase in the upcoming fiscal year for contract services and other operational items such as office supplies, postage and shipping, telecommunications, fuel, vehicle maintenance, and materials and supplies.

Request for Financial Information

This Annual Financial Report is intended to provide citizens, taxpayers, investors, and creditors with a general overview of the City's finances. If you have any questions about this report, need additional financial information, or would like to obtain component unit financial statements, contact the City of Carmel-by-the-Sea-by-the-Sea Finance Department, P O Box CC, Carmel-by-the-Sea, CA 93921, or visit the City's web page at http://ci.carmel.ca.us/carmel.

BASIC FINANCIAL STATEMENTS

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City of Carmel-By-The-Sea
Statement of Net Position
June 30, 2019

	Governmental Activities
ASSETS	
Current Assets:	
Cash and investments	$ 15,057,500
Receivables:	
Accounts	2,367,659
Due from other governments	555,355
Total Current Assets	17,980,918
Noncurrent Assets:	
Capital Assets:	
Nondepreciable	5,722,726
Depreciable, net of accumulated depreciation	36,810,888
Total Capital Assets - Net	42,533,614
Total Assets	$ 60,514,532
DEFERRED OUTFLOWS OF RESOURCES	
OPEB Adjustments	$ 156,220
Pension Adjustments	4,803,491
Total Deferred outflows of Resources	$ 4,959,711
LIABILITIES	
Current Liabilities:	
Accounts payable	$ 1,596,023
Payroll related liabilities	1,161,459
Deposits and other liabilities	1,500
Interest payable	53,000
Claims payable - current portion	57,500
Compensated absences - current portion	551,190
Long-term debt - due within one year	971,460
Total Current Liabilities	4,392,132
Noncurrent Liabilities:	
Long-term debt - due in more than one year	7,035,051
Claims payable	517,500
Compensated absences	280,389
Net pension obligation	19,920,568
Net OPEB liability	4,021,938
Total Noncurrent Liabilities	31,775,446
Total Liabilities	$ 36,167,578
DEFERRED INFLOWS OF RESOURCES	
OPEB Adjustments	$ 89,147
Pension Adjustments	1,913,245
Total Deferred Inflows of Resources	$ 2,002,392
NET POSITION	
Net investment in capital assets	$ 37,132,103
Restricted for:	
Transportation	30,999
Public safety	144,387
Debt service	324,599
Library	1,410,220
Public parking	725,828
Measure D	180,787
Asset seizure	921
Total Restricted	2,817,741
Unrestricted	(12,645,571)
Total Net Position	$ 27,304,273

The accompanying notes are an integral part of these financial statements.

City of Carmel-By-The-Sea
Statement of Activities
For the Year Ended June 30, 2019

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Total	Net (Expense) Revenue and Change in Net Position: Governmental Activities
Primary Government:					
Governmental Activities:					
General government	$ 5,906,304	$ 256,645	$ 450,920	$ 707,565	$ (5,198,739)
Community Planning and Building	1,191,826	1,454,523	-	1,454,523	262,697
Public Safety	8,390,616	790,428	-	790,428	(7,600,188)
Public Works	4,162,376	44,636	-	44,636	(4,117,740)
Library	1,894,410	-	-	-	(1,894,410)
Community Activities	283,512	146,443	-	146,443	(137,069)
Economic Reviltalization	1,144,022	102,366	-	102,366	(1,041,656)
Interest and fiscal charges	283,606	-	-	-	(283,606)
Total Governmental Activities	$ 23,256,672	$ 2,795,041	$ 450,920	$ 3,245,961	(20,010,711)

General Revenues and Special Items:	
Taxes:	
Property taxes	6,524,331
Sales and use taxes	5,732,885
Transient occupancy taxes	6.882,015
Franchise fees	636,397
Business license tax	594,941
Total taxes	20,370,569
Intergovernmental	637,124
Investment earnings	205,791
Other revenues	437,475
Special item - loss on disposal of capital assets	(160,794)
Total General Revenues and Special Item	21,490,165
Change in Net Position	1,479,454
Net Position - Beginning of Year	25,703,403
Prior Period Adjustment	121,416
Net Position - Beginning of Year, As Adjusted	25,824,819
Net Position - End of Year	$ 27,304,273

The accompanying notes are an integral part of these financial statements.

MAJOR GOVERNMENTAL FUNDS

Fund Title	Fund Description
General Fund	This fund is used to account for all of the general operations and other financial transactions of the City, which are not accounted for by another fund.
Measure D Sales Tax	This fund is used to account for the transaction and use tax increase to be used to maintain essential services, including fire, ambulance and police response times; fund capital needs, including streets, beach, parks, forest and trails; increase code compliance; maintain libraries, Sunset Center and other public facilities; address CalPERS pension liabilities and other debt; and provide other general City services.
Capital Projects	This fund accounts for resources utilized, committed, assigned or restricted for capital projects.

City of Carmel-By-The-Sea
Balance Sheet
Governmental Funds
June 30, 2019

	Major Funds				
	General Fund	Measure D Sales Tax Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and investments	$ 8,456,322	$ –	$ 1,047,492	$ 2,697,097	$ 12,200,911
Receivables:					
Accounts	2,367,659	–	–	–	2,367,659
Due from other governments	–	526,415	–	28,940	555,355
Due from other funds	434,711	–	–	–	434,711
Other assets	404	–	–	–	404
Total assets	$ 11,259,096	$ 526,415	$ 1,047,492	$ 2,726,037	$ 15,559,040
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	$ 895,637	$ –	$ 635,829	$ –	$ 1,531,466
Accrued liabilities	1,111,830	–	49,629	–	1,161,459
Deposits	1,500	–	–	–	1,500
Due to other funds	–	345,628	–	89,083	434,711
Total liabilities	2,008,967	345,628	685,458	89,083	3,129,136
Fund Balances:					
Restricted:					
Transportation	–	–	–	30,999	30,999
Public safety	–	–	–	144,387	144,387
Debt service	–	–	–	324,599	324,599
Library	–	–	–	1,410,220	1,410,220
Asset seizure	–	–	–	921	921
Public parking	–	–	–	725,828	725,828
Measure D	–	180,787	–	–	180,787
Committed:					
Holstery tax	635,000	–	–	–	635,000
Budget stabilization	2,173,138	–	–	–	2,173,138
Assigned:					
Operational reserves	1,926,008	–	–	–	1,926,008
Capital projects	–	–	362,034	–	362,034
Unassigned	4,515,983	–	–	–	4,515,983
Total fund balances	9,250,129	180,787	362,034	2,636,954	12,429,904
Total liabilities and fund balances	$ 11,259,096	$ 526,415	$ 1,047,492	$ 2,726,037	$ 15,559,040

The accompanying notes are an integral part of these financial statements.

City of Carmel-By-The-Sea
Reconciliation of the Government Funds Balance Sheet to the Government-Wide Statement of Net Position
June 30, 2019

Total Fund Balances - Total Governmental Funds	$	12,429,904
Amounts reported for governmental activities in the statement of net position were different because:		
Capital assets used in governmental activities were not current financial resources. Therefore, they were not reported in the Governmental Funds Balance Sheet. The capital assets were adjusted as follows:		
Capital assets		62,263,004
Less: accumulated depreciation		(20,509,539)
Total Capital Assets		41,753,465
Interest payable on long-term debt did not require current financial resources. Therefore, interest payable was not reported as a liability in Governmental Funds Balance Sheet.		(53,000)
Internal service funds are used by management to charge the costs of stores, vehicle maintenance and various insurance costs to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net position.		2,997,181
The differences from benefit plan assumptions and estimates versus actuals are not included in the plan's actuarial study until the next fiscal year and are reported as deferred inflows or deferred outflows of resources in the statement of net position.		2,957,319
Long-term obligations were not due and payable in the current period. Therefore, they were not reported in the Governmental Funds Balance Sheet. The long-term liabilities were adjusted as follows:		
Long-term debt		(8,006,511)
Compensated absences		(831,579)
Net pension obligation		(19,920,568)
Net OPEB liability		(4,021,938)
Total Long-Term Obligations		(32,780,596)
Net Position of Governmental Activities	$	27,304,273

The accompanying notes are an integral part of these financial statements.

City of Carmel-By-The-Sea
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2019

	Major Funds				
	General Fund	Measure D Sales Tax Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes:					
Property taxes	$ 6,524,331	$ –	$ –	$ –	$ 6,524,331
Sales and use taxes	2,652,971	3,079,914	–	–	5,732,885
Transient occupancy taxes	6,882,015	–	–	–	6,882,015
Franchise fees	636,397	–	–	–	636,397
Business license tax	594,941	–	–	–	594,941
Intergovernmental revenues	583,573	–	–	504,471	1,088,044
License and permits	1,192,242	–	–	–	1,192,242
Contributions	–	–	–	314,450	314,450
Fines and forfeitures	121,470	–	–	–	121,470
Charges for services	1,251,072	–	–	10,097	1,261,169
Interest	124,262	–	–	43,282	167,544
Rents and concessions	185,156	–	–	–	185,156
Other revenues	132,776	–	25,253	–	158,029
Total Revenues	20,881,206	3,079,914	25,253	872,300	24,858,673
EXPENDITURES					
Current:					
General government	5,517,516	–	–	–	5,517,516
Community Planning and Building	1,116,689	–	–	–	1,116,689
Public Safety	7,617,310	–	–	–	7,617,310
Public Works	2,902,461	–	–	–	2,902,461
Library	965,725	–	–	292,665	1,258,390
Community Activities	179,426	–	–	–	179,426
Economic Reviltalization	1,103,993	–	–	–	1,103,993
Capital outlay	–	–	3,778,271	–	3,778,271
Debt service					
Principal	–	–	–	950,770	950,770
Interest and fiscal charges	–	–	–	286,606	286,606
Total Expenditures	19,403,120	–	3,778,271	1,530,041	24,711,432
Excess (Deficiency) of Revenues over Expenditures	1,478,086	3,079,914	(3,753,018)	(657,741)	147,241
OTHER FINANCING SOURCES (USES)					
Transfers in	855,660	–	2,487,954	1,237,980	4,581,594
Transfers out	(1,111,477)	(3,104,753)	–	(465,364)	(4,681,594)
Total Other Financing Sources (Uses)	(255,817)	(3,104,753)	2,487,954	772,616	(100,000)
Net Change in Fund Balances	1,222,269	(24,839)	(1,265,064)	114,875	47,241
Fund Balances Beginning	8,006,394	205,626	1,627,098	2,422,129	12,261,247
Prior Period Adjustment	21,466	–	–	99,950	121,416
Fund Balances Beginning, Adjusted	8,027,860	205,626	1,627,098	2,522,079	12,382,663
Fund Balances Ending	$ 9,250,129	$ 180,787	$ 362,034	$ 2,636,954	$ 12,429,904

The accompanying notes are an integral part of these financial statements.

City of Carmel-By-The-Sea
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Government-Wide Statement of Activities
For the Year Ended June 30, 2019

Net Change in Fund Balances - Total Governmental Funds	$	47,241
Amounts reported for governmental activities in the Statement of Activities and Changes in net position were different because:		
Governmental Funds report capital outlay as expenditures. However, in the Government-Wide Statement of Activities and Changes in net position, the cost of those assets was allocated over their estimated useful lives as depreciation expense.		
Capital outlay		3,533,858
Depreciation expense		(1,818,185)
Gains and losses from the disposal of capital assets are recorded in the government-wide statement of activities as a special item, but only the proceeds from disposals are reported in the fund statements.		(164,483)
Internal service funds are used by management to charge the costs of stores, vehicle maintenance, and various insurance costs to individual funds.		
Net revenue (excess expenses) reported with governmental activities		(116,075)
Long-term compensated absences and claims payables were reported in the Government-Wide Statement of Activities, but they did not require the use of current financial resources and were not reported as expenditures in governmental funds.		
Compensated absences		(251,433)
In governmental funds, actual contributions to benefit plans are reported as expenditures in the year incurred. However, in the government-wide statement of activities, only the current year benefit expense as noted in the plans' valuation reports is reported as an expense, as adjusted for deferred inflows and outflows of resources.		(514,526)
Repayment of long-term debt was an expenditure in governmental funds, but the repayment reduced long-term liabilities in the Government-Wide Statement of net position.		950,770
Certain expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in the fund statements as follows:		
Other postemployment benefits		(190,713)
Interest expense on long-term debt was reported in the Government-Wide Statement of Activities and Changes in net position, but it did not require the use of current financial resources. Therefore, interest expense was not reported as expenditures in governmental funds. The following amount represented the net change in accrued interest from and accreted interest from prior year.		3,000
Change in Net Position of Governmental Activities	$	1,479,454

The accompanying notes are an integral part of these financial statements.

City of Carmel-By-The-Sea
Statement of Net Position
Proprietary Funds
June 30, 2019

	Governmental Activities - Internal Service Funds
ASSETS	
Current assets:	
Cash and investments	$ 2,856,589
Noncurrent Assets:	
Capital assets - net	780,149
Total assets	$ 3,636,738
LIABILITIES	
Current liabilities:	
Accounts payable	$ 64,557
Claims payable - current	57,500
Total current liabilities	122,057
Non-current liabilities:	
Claims payable	517,500
Total liabilities	$ 639,557
NET POSITION	
Net Investment in capital assets	$ 780,149
Unrestricted	2,217,032
Total net position	$ 2,997,181

The accompanying notes are an integral part of these financial statements.

City of Carmel-By-The-Sea
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
For the Year Ended June 30, 2019

	Governmental Activities - Internal Service Funds
OPERATING REVENUES	
Other	$ -
Total operating revenues	-
OPERATING EXPENSES	
Claims	27,570
Depreciation	244,575
Total operating expenses	272,145
Operating income (loss)	(272,145)
NONOPERATING REVENUES(EXPENSES)	
Gain (loss) on disposal of capital assets	17,823
Investment earnings	38,247
Income (loss) before operating transfers	(216,075)
Transfers in	100,000
Transfers out	-
Change in net position	(116,075)
Total net position - beginning	3,113,256
Total net position - ending	$ 2,997,181

The accompanying notes are an integral part of these financial statements.

City of Carmel-By-The-Sea
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2019

	Governmental Activities - Internal Service Funds
Cash flows from operating activities:	
Payments for claims	$ (487,570)
Payments for supplies and materials	48,592
Net cash provided (used) by operating activities	(438,978)
Cash flows from noncapital financing activities:	
Interfund transactions	560,000
Net cash provided (used) by noncapital financing activities	560,000
Cash flows from capital financing activities:	
Purchases of property and equipment	(255,345)
Net cash provided (used) by capital financing activities	(255,345)
Cash flows from investing activities:	
Investment income received	38,247
Net cash provided (used) by investing activities	38,247
Net increase (decrease) in cash and cash equivalents	(96,076)
Cash and cash equivalents - beginning	2,952,665
Cash and cash equivalents - ending	$ 2,856,589
Reconciliation of operating income to net cash provided (used) by operating activities:	
Operating income (loss)	$ (272,145)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	244,575
Change in operating assets and liabilities:	
Accounts payable	48,592
Claims payable	(460,000)
Net cash provided (used) by operating activities	$ (438,978)

The accompanying notes are an integral part of these financial statements.

City of Carmel-By-The-Sea
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2019

		Agency Funds
ASSETS		
Current assets:		
Cash and investments	$	286,807
Accounts receivable		3,086
Total assets	$	289,893
LIABILITIES		
Current liabilities:		
Interest payable	$	11,501
Deposits		278,392
Total liabilities	$	289,893

The accompanying notes are an integral part of these financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the City of Carmel-by-the-Sea, California, (the City) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental agencies. The Governmental Accounting Standards Boards (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

A. Financial Reporting Entity

The City of Carmel-by-the-Sea, California was incorporated on October 31, 1916, under the laws and regulations of the State of California (State). The City operates under a City Council/Manager form of government and provides the following services: general government, community planning and building, public safety (fire, police and ambulance), public works, library, economic revitalization and other community activities.

The City operates as a self-governing local government unit within the State. It has limited authority to levy taxes and has the authority to determine user fees for the services that it provides. The City's main funding sources include sales taxes, other intergovernmental revenue from state and federal sources, user fees, and federal and state financial assistance. All property taxes are paid to Monterey County (County) as part of the revenue neutrality payment obligation. The financial statements do not reflect the amounts received on behalf of the City and retained by the County.

The financial reporting entity consists of (a) the primary government, the City, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and either (a) the City has the ability to impose its will on the organization, or (b) there is a potential for the organization to provide a financial benefit to or impose a financial burden on the City.

As required by US GAAP, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. These component units are reported on a blended basis. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. The financial statements of the individual component units, if applicable as indicated below, may be obtained by writing to the City of Carmel-by-the-Sea, Finance Department, Post Office Box CC, Carmel-by-the-Sea, CA 93921.

The City's reporting entity includes the following blended component units:

- Carmel Public Improvement Authority
- Harrison Memorial Library

The above component units are included in the City's basic financial statements using the blended method. There are no component units of the City that meet the criteria for discrete presentation.

The City applies all applicable GASB pronouncements for certain accounting and financial reporting guidance. In December of 2010, GASB issued Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. GASB 62 incorporates pronouncements issued on or before November 30, 1989 into GASB authoritative literature. In June of 2015, GASB issued Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. GASB 76 supersedes Statement No. 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. GASB 76 also amends GASB 62 and AICPA Pronouncements paragraphs 64, 74, and 82. The GAAP hierarchy sets forth what constitutes GAAP for all state and local governmental entities. It establishes the order of priority of pronouncements and other sources of accounting and financial reporting guidance that a governmental entity should apply. The sources of authoritative GAAP are categorized in descending order of authority as follows:

a. Officially established accounting principles—Governmental Accounting Standards Board (GASB) Statements (Category A)
b. GASB Technical Bulletins; GASB Implementation Guides; and literature of the AICPA cleared by the GASB (Category B).

If the accounting treatment for a transaction or other event is not specified by a pronouncement in Category A, a governmental entity should consider whether the accounting treatment is specified by a source in Category B.

B. Basis of Accounting and Measurement Focus

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Government-Wide Financial Statements

The City's government-wide financial statements include a Statement of Net Position and a Statement of Activities and Changes in Net Position. These statements present summaries of governmental and business-type activities for the City. Fiduciary activities of the City are not included in 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 fees and charges for support. The City did not report any business-type activities for the year.

These statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the City's assets, deferred outflows of resources, liabilities, deferred inflows of resources (including capital assets, as well as infrastructure assets, and long-term liabilities), are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those clearly identifiable with a specific function or segment. In conformity with the City's indirect cost allocation plan, certain indirect costs are included in the program expense reported for individual functions and activities. Certain types of transactions are reported as program revenues for the City in three categories:

- Charges for services
- Operating grants and contributions
- Capital grants and contributions

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

Certain eliminations have been made as prescribed by GASB Statement No. 34 in-regards-to interfund activities, payables, and receivables. All internal balances in the Statement of Net Position have been eliminated. Interfund services provided and used are not eliminated in the process of consolidation. The following interfund activities have been eliminated:

- Transfers in/Transfers out
- Internal Service Fund charges

Governmental Fund Financial Statements

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in net position as presented in these statements to the net position presented in the government-wide financial statements. The City has presented all major funds that met the applicable criteria.

All governmental funds are accounted for on a spending or "current financial resources" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets, deferred outflows of resources, current liabilities, and deferred inflows of resources are included on the balance sheets. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally up to 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the City, are property tax, sales taxes, intergovernmental revenues, other taxes, interest revenue, rental revenue and certain charges for services. Fines, forfeitures, licenses and permits and parking meter revenues are not susceptible to accrual because they are usually not measurable until received in cash. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

Unearned revenues arise when potential revenues do not meet both the "measurable" and "available" criteria for recognition in the current period. Unearned revenues also arise when the government receives resources before it has a legal claim to them, as when grant monies are received prior to incurring qualifying expenditures. In subsequent periods when both revenue recognition criteria are met or when the government has a legal claim to the resources, the unearned revenue is removed from the combined balance sheet and revenue is recognized.

The following funds are major funds:

General Fund
The General Fund is used to account for all of the general operations and other financial transactions of the City, which are not accounted for by another fund.

The Measure D Sales Tax Fund
The Measure D Sales Tax Fund used to account for the transaction and use tax increase to be used to maintain essential services, including fire, ambulance and police response times; fund capital needs, including streets, beach, parks, forest and trails; increase code compliance; maintain libraries, Sunset Center and other public facilities; address CalPERS pension liabilities and other debt; and provide other general City services.

Capital Projects Fund
This fund accounts for resources utilized, committed, assigned or restricted for capital projects.

Additionally, the City reports the following nonmajor fund types of governmental funds:

Special Revenue Funds
Special revenue funds account for and report the proceeds of specific revenue sources that are restricted, committed or assigned to specific purposes other than debt service or capital projects.

Debt Service Funds
Debt service funds account for the accumulation of resources for, and payment on, long-term obligation debt principal and interest.

Proprietary Funds

In the fund financial statements, proprietary funds are presented using the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when the related goods or services are delivered. In the fund financial statements, proprietary funds are presented using the "economic resources measurement focus". This means all assets, deferred outflows of resources, liabilities (whether current or noncurrent) and deferred inflows of resources associated with their activities are included on their balance sheets. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in total net position.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal value. Non-operating revenues, such as subsidies, taxes, and investment earnings result from nonexchange transactions or ancillary activities. Amounts paid to acquire capital assets are capitalized as assets in the internal service funds financial statements.

The City's internal service funds are proprietary funds. Internal service funds account for charges to City departments for services provided, on a cost reimbursement basis. The City has the following internal service funds:

Worker's Compensation Fund
This fund accounts for workers compensation insurance provided to departments on a cost reimbursement basis.

OPEB Reserve Fund
This fund accounts for other postemployment benefits provided to departments on a cost reimbursement basis.

Vehicle & Equipment Replacement Fund
This fund is to set aside financial resources for future purchases of replacement equipment essential to the operations of the City.

Fiduciary Funds

Agency Funds
Agency Funds account for assets held by the City in a purely custodial capacity. Since agency funds are custodial in nature, they do not involve the measurement of results of operations and are not presented in the government-wide financial statements.

C. Cash, Cash Equivalents and Investments

The City pools its available cash for investment purposes. The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturity of three months or less from the date of acquisition. Cash and cash equivalents are combined with investments and displayed as Cash and Investments.

Deposit and Investment Risk Disclosures – In accordance with GASB Statement No. 40, Deposit and Investment Disclosures (Amendment of GASB Statement No. 3), certain disclosure requirements, if applicable, for Deposits and Investment Risks in the following areas: Interest Rate Risk, Overall Credit Risk, Custodial Credit Risk, Concentrations of Credit Risk, and Foreign Currency Risk. Other disclosures are specified including use of certain methods to present deposits and investments, highly sensitive investments, credit quality at year-end and other disclosures.

The City participates in an investment pool managed by the State of California titled Local Agency Investment Fund (LAIF), which has invested a portion of the pool funds in Structured Notes and Asset Backed Securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of Califomia collateralizing these investments. In addition, these Structured Notes and Asset-Backed Securities are subject to market risk as to change in interest rates.

Investments are recorded at fair value in accordance with GASB Statement No. 72, Fair Value Measurement and Application. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction. In determining this amount, three valuation techniques are available:

- Market approach – This approach uses prices generated for identical or similar assets or liabilities. The most common example is an investment in a public security traded in an active exchange such as the NYSE.
- Cost approach – This technique determines the amount required to replace the current asset. This approach may be ideal for valuing donations of capital assets or historical treasures.
- Income approach – This approach converts future amounts (such as cash flows) into a current discounted amount.

Each of these valuation techniques requires inputs to calculate a fair value. Observable inputs have been maximized in fair value measures, and unobservable inputs have been minimized.

D. Interfund Receivables and Payables

Items classified as interfund receivables/payables are referred to as "advances to/advances from other funds" or as "due to/from other funds". Due to/from other funds include short-term lending/borrowing transactions between funds. This classification also includes the current portion of an advance to or from another fund. Advances to/advances from other funds represents non-current portions of any long-term lending/borrowing transactions between funds. This amount will be equally offset by a reserve of fund balance which indicates that it does not represent available financial resources and therefore, is not available for appropriation.

E. Receivables

In the fund financial statements, material receivables in governmental funds include revenue accruals such as property tax, sales tax, and intergovernmental subventions since they are usually both measurable and available. Non-exchange transactions collectible but not available, such as property tax, are deferred in the fund financial statements in accordance with the modified accrual basis, but not deferred in the government-wide financial statements in accordance with the accrual basis.

Interest and investment earnings are recorded when earned only if paid within 60 days since they would be considered both measurable and available. The City's experience is that all accounts receivable are collectible; therefore an allowance for doubtful accounts is unnecessary.

The County of Monterey is responsible for the collection and allocation of property taxes. Under California law, property taxes are assessed and collected by the County up to 1% of the full cash value of taxable property, plus other increases approved by the voters and distributed in accordance with statutory formulas. The City recognizes property taxes when the individual installments are due, provided they are collected within 60 days after year-end.

F. Capital Assets

The City's assets are capitalized at historical cost or estimated historical cost, if actual is unavailable, except for donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement that are reported at acquisition value rather than fair value. Policy has set the capitalization threshold for reporting at $5,000 for non-infrastructure capital assets and $25,000 for infrastructure capital assets.

Public domain (infrastructure) capital assets include roads, bridges, curbs and gutters, streets, sidewalks, drainage systems, and lighting systems.

The accounting treatment of property, plant and equipment (capital assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Prior to July 1, 2003, governmental funds' infrastructure assets were not capitalized, since then these assets have been valued at estimated historical cost.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. No depreciation is recorded in the year of acquisition or in the year of disposition. In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same way as in the government-wide statements.

Depreciation is recorded on a straight-line basis over the useful lives of the assets as follows:

Buildings and improvements	20-50 Years
Improvements other than buildings	35 Years
Vehicles, machinery and equipment	5-20 Years
Infrastructure	20-50 Years
Technology/Hardware and Software	5-20 Years

G. Deferred Outflows/Deferred Inflows

Deferred outflows of resources are a consumption of net assets by the City that is applicable to a future reporting period; for example, prepaid items and deferred charges.

Deferred inflows of resources are an acquisition of net assets by the City that is applicable to a future reporting period; for example, unavailable revenue and advance collections.

H. Interest Payable

In the government-wide financial statements, interest payable of long-term debt is recognized as an incurred liability for governmental fund types. The City has not allocated the interest on long-term debt to departments.

In the fund financial statements, governmental fund types do not recognize the interest payable when the liability is incurred. Interest on long-term debt is recorded in the fund statements when payment is made.

I. Claims Payable

The City records a liability for claims, judgments, and litigation when it is probable that an asset has been impaired or a liability has been incurred prior to fiscal year-end and the probable amount of loss (net of any insurance coverage) can be reasonably estimated.

J. Compensated Absences

Employees accrue vacation, sick, holiday, and compensatory time off benefits. City employees have vested interests in the amount of accrued time off, with the exception of sick time, and are paid on termination. Also, annually an employee may elect to be compensated for up to 40 hours of unused annual leave. However, this is contingent upon the employee using at least 40 hours during the previous year and, the employee having a minimum balance of 80 annual leave hours after the payment. All vacation pay is accrued when incurred in the government-wide and proprietary financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations or retirements and is currently payable. The City had no employee resignations or retirements for which compensated absences should be accrued in governmental funds at year-end. The general fund is typically used to liquidate compensated absences.

K. Long-Term Liabilities

In the government-wide financial statements and proprietary fund statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business-type 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. Debt issuance costs are expensed in year incurred.

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 financial sources. Premiums received on debt issuance are reported as other financing sources while discounts on debt issuance reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

L. Benefit Plans

Pension Expense
For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City's California Public Employees' Retirement System (CalPERS) plans (the Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Other Postemployment Benefit (OPEB) Expense
For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense information about the fiduciary net position of the City's Retiree Benefits Plan (the OPEB Plan) and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis as they are reported by the OPEB Plan. For this purpose, the OPEB Plan recognizes benefit payments when due and payable in accordance with the benefit terms.

M. Fund Balances

In accordance with Government Accounting Standards Board 54, Fund Balance Reporting and Governmental Fund Type Definitions, the City classifies governmental fund balances as follows:

Nonspendable
Nonspensable fund balance includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

Restricted
Restricted fund balance includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

Commited
Committed fund balance includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision-making authority and does not lapse at year-end. Committed fund balances are imposed by the City Council, the City's highest level of decision-making authority, for specific purposes pursuant to constraints imposed by formal action taken such as resolution. These committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use through the same type of formal action taken to establish the commitment. City Council action to commit fund balance needs to occur within the fiscal reporting periods; however the amount can be determined subsequently.

Assigned
Assigned fund balance includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balances may be assigned by the City Council and the City Manager.

Unassigned
The Unassigned Fund Balance category represents fund balance which may be held for specific types of uses or stabilization purposes, but is not yet directed to be used for a specific purpose. The detail of amounts reported for each of the above defined fund balance categories is reported in the governmental funds balance sheet and in the combining nonmajor fund balance sheets.

Flow Assumption /Spending Order Policy
When expenditures are incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to be spent first. When expenditures are incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to be spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the City Council has directed otherwise.

N. Net Position

In the government-wide financial statements, net position is classified in the following categories:

Net Investment in Capital Assets
This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that are attributed to the acquisition, construction, or improvement of the assets. In addition, deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition,

construction, or improvement of those assets or related debt also are included in the net investment in capital assets component of net position

Restricted Net Position
This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted Net Position
This amount is all net position that does not meet the definition of "net investment in capital assets" or "restricted net position."

The detail of amounts reported for each of the above defined net position categories is reported in the government-wide Statement of Net Position.

Use of Restricted/Unrestricted Net Position
When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the City's policy is to apply restricted net position first.

Interfund Transactions

Interfund services provided and used are accounted for as revenue, expenditures or expenses, as appropriate. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursed fund. All other interfund transactions, except for interfund services provided and used and reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as transfers.

O. Property Taxes

County tax assessments include secured and unsecured property taxes and special assessments. "Unsecured" refers to taxes on personal property. These tax assessments are secured by liens on the property being taxed.

Secured property taxes are levied on or before the first day of July of each year. They become a lien on real property on January 1 proceeding the fiscal year for which taxes are levied. These taxes are paid in two equal installments; the first is due November 1 and is delinquent with penalties after December 10; the second is due February 1 and delinquent with penalties after April 10. Secured property taxes, which are delinquent and unpaid as of June 30, are declared to be tax defaulted and are subject to redemption penalties, cost, and interest when paid. If the delinquent taxes are not paid at the end of five years, the property is sold at public auction and the proceeds are used to pay the delinquent amounts due. Any excess is remitted, if claimed, to the taxpayer. Additional tax liens are created when there is a change in ownership of property or upon completion of new construction. Tax bills for these new tax liens are issued throughout the fiscal year and contain various payments and delinquent dates, but are generally due within one year. If the new tax liens are lower, the taxpayer receives a tax refund rather than a tax bill. Unsecured personal property taxes are not a lien against real property. These taxes are due on January 1 each year and are delinquent, if unpaid, on August 31.

The County apportions secured property tax revenue in accordance with the alternate methods of distribution, the "Teeter Plan", as described by Section 4717 of the California Revenue and Taxation code. Therefore, the City receives 100 percent of the secured property tax levies to which it is entitled, whether or not collected. Unsecured delinquent taxes are considered fully collectible.

P. Budgetary Information

In accordance with applicable sections of the California Government Code and the Carmel-by-the-Sea Municipal Code, the City prepares and legally adopts an annual balanced budget on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General Fund, Special Revenue Funds, Capital Projects Funds and the Debt Service Fund.

Budgetary control is legally maintained at the fund level for these funds. Department heads submit budget requests to the City Administrator. The City Administrator prepares an estimate of revenues and prepares recommendations for the next year's budget. The preliminary budget may or may not be amended by the City Council and is adopted by resolution by the City Council on or before June 30 in accordance with the municipal code.

The City Council may amend the budget by motion during the fiscal year. Only the Council can authorize transfers between funds and approve inter-fund loans. The City Administrator is authorized to transfer budgeted amounts within a fund without formal council action or approval. The City Administrator is authorized to increase expenditures in relation to revenues in funds receiving assigned revenues without approval by the City Council.

Expenditures may not legally exceed appropriations at the fund level, which is the legal level of control. Supplemental appropriations, which increase appropriations, may be made during the fiscal year.

Appropriations, except open project appropriations, and unexpended grant appropriations, lapse at the end of each fiscal year.

Under Article XIIIB of the California Constitution (the Gann Spending Limitation Initiative), the City is restricted as to the amount of annual appropriations from proceeds of taxes, and if proceeds of taxes exceed allowed appropriations, the excess must either be refunded to the State Controller or returned to the taxpayers through revised tax rates or revised fee schedules, or an excess in one year may be offset against a deficit in the following year. For the fiscal year ended June 30, 2019, based on calculations by City management, proceeds of taxes did not exceed appropriations.

Q. Encumbrances

Under encumbrance accounting, purchase orders, contract and other commitments for expenditures are recorded in order to reserve that portion of the applicable appropriation. Encumbrance accounting is employed as an extension of formal budgetary integration in all funds. All appropriations, except open project appropriations, and unexpended grant appropriations and encumbrances, lapse at year end. Valid outstanding encumbrances (those for which performance under the executory contract is expected in the next year) are re-appropriated and become part of the subsequent year's budget pursuant to state regulations.

R. Unearned Revenue

Unearned revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred inflows from unearned revenue. In the governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have been recorded as deferred inflows from unavailable revenue.

S. Use of Estimates

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

T. Implemented New GASB Pronouncements

GASB Statement No. 83, Certain Asset Retirement Obligations

This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. As of June 30, 2019, this Statement did not have an impact on the City's financial statements.

GASB Statement No. 88, Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements

This Statement addresses additional information to be disclosed in the notes to the financial statements regarding debt, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. As of June 30, 2019, this Statement did not have a significant impact on the City's financial statements.

U. Upcoming New Accounting Pronouncements

GASB Statement No. 84, Fiduciary Activities

The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2018. Earlier application is encouraged. The City is in the process of determining the impact this Statement will have on the financial statements.

GASB issued Statement No. 87, Leases

The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2019. Earlier application is encouraged. The City is in the process of determining the impact this Statement will have on the financial statements.

GASB Statement No. 89, Accounting for Interest Cost Incurred Before the End of the Construction Period

This Statement addresses interest costs incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2019. Earlier application is encouraged. The City doesn't believe this statement will have a significant impact on the City's financial statements.

GASB Statement No. 90, Majority Equity Interests – an Amendment of GASB Statements No. 14 and No. 61

The objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. This Statement also requires that a component unit in which a government has 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2018. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis. The City doesn't believe this statement will have a significant impact on the City's financial statements.

GASB Statement No. 91, Conduit Debt Obligations

The objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement also clarifies the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitment and voluntary commitments extended by issuers and arrangements associated with the debt obligations; and improving required note disclosures. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2020. Earlier application is encouraged. The City is in the process of determining the impact this Statement will have on the financial statements.

NOTE 2 - CASH AND INVESTMENTS

As of June 30, 2019, cash and investments were reported in the financial statements as follows:

Pooled cash and investments	$	14,655,165
Cash with fiscal agent		402,335
Total cash and investments - fund statements		15,057,500
Cash and investments - agency funds		286,807
Total cash and investments	$	15,344,307

The following summarized cash and investments by type:

Cash on hand	$	1,545
Demand Deposits		7,991,028
Investments		7,351,734
Total cash and investments	$	15,344,307

The City follows the practice of pooling cash and investments of all funds except for funds required to be held by fiscal agents under provisions of bond indentures. Interest income earned on pooled cash and investments is allocated monthly to the various funds based on monthly cash and investment balances. Interest income from cash and investments with fiscal agents is credited directly to the related fund.

A. Cash Deposits

The California Government Code requires California banks and savings and loan associations to secure the City's cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest, and places the City ahead of general creditors of the institution.

The market value of pledged securities must equal at least 110 percent of the City's cash deposits. California law also allows institutions to secure City deposits by pledging first trust deed mortgage notes that have a value of 150 percent of the City's total cash deposits. The City has waived the collateral requirements for cash deposits which are fully insured to $250,000 by the Federal Deposit Insurance Corporation (FDIC).

The bank balances before reconciling items totaled $8,147,203 at June 30, 2019 and were different from carrying amounts due to deposits in transit and outstanding checks. The amount uninsured was $7,897,203 which was collateralized by securities held by pledging financial institutions.

B. Fair Value Measurements

GASB 72 established a hierarchy of inputs to the valuation techniques above. This hierarchy has three levels:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities.
- Level 2 inputs are quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable
- Level 3 inputs are unobservable inputs, such as a property valuation or an appraisal.

C. Investment Policies

City Investment Policy

The table below identifies the investment types that are authorized for the City by the California Government Code (or the City's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the City's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of bond indentures of the City, rather than the general provisions of the California Government Code or the City's investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
United States (U.S.) Treasury Issues	5 years	None	None
U.S. Government Agency Securities	5 years	50%	50%
California State and Local Bonds, Notes, & Warrants	None	None	None
Bankers Acceptance	180 days	40%	30%
Commercial Paper	270 days	15%	10%
Medium Term Corporate Notes	5 years	30%	30%
Negotiable Certificates of Deposit	5 years	30%	30%
Repurchase Agreements	92 days	None	None
Passbook Savings/Money Market	None	20%	10%
Local Agency Investment Fund (LAIF)	N/A	None	None
Federal Instrumentalities	None	None	None

Authorized Investments – Debt Agreements

Investments held by bond fiscal agents (trustees) are governed by the provisions of the underlying indenture agreements rather than the general provisions of the City's investment policy or California Government Code. The indenture agreements identify the following permitted investments:

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
United States (U.S.) Treasury Issues	None	None	None
U.S. Government Agency Securities	None	None	None
Banker's Acceptance	360 days	None	None
Commercial Paper	270 days	None	None
Money Market Funds	None	None	None
Investment Agreements	None	None	None
Local Agency Bonds	None	None	None
Medium Term Notes	None	None	None
Negotiable Certificate of Deposits	None	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None

D. External Investment Pool

The City's investments with LAIF at June 30, 2019, include a portion of the pool funds invested in Structured Notes and Asset-Backed Securities. These investments include the following:

Structured Notes

These are debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options.

Asset-Backed Securities

The bulk of asset-backed securities are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as CMO's) or credit card receivables.

LAIF is overseen by the Local Agency Investment Advisory Board, which consists of five members, in accordance with State statute. The approved investments policy is listed on the LAIF website, located at http://www.treasurer.ca.gov/pmia-laif/.

D. Risk Disclosures

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 term of an investment's maturity, the greater the sensitivity to changes in market interest rates. It is the City's practice to manage its exposure to interest rate risk is by purchasing a combination of shorter 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 City's operations.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of an investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization, Standards and Poor. As of June 30, 2019, the City's investments were in compliance with the ratings required by the City's investment policy, indenture agreements and Government Code.

Concentrations 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. As of June 30, 2019, the City had no investments in any one issuer (other than external investment pools which are exempt) that represented 5% or more of the total City investments.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

As of June 30, 2019, the City's investments had the following maturities and ratings:

Investment Type	12 Months or Less	13 to 24 Months	25 to 36 Months	More than 60 Months	Total	Rating	Fair Value Input Levels
LAIF (state pool)	$ -	$ 4,755,275	$ -	$ -	$ 4,755,275	not rated	n/a
Money market funds	1,171,956	-	-	-	1,171,956	AAA	2
Bonds	-	-	-	249,551	249,551	AAA	2
Certificate of deposits	-	-	749,698	-	749,698	not rated	2
Total Investments	$ 1,171,956	$ 4,755,275	$ 749,698	$ 249,551	$ 6,926,480		

NOTE 3 - ACCOUNTS RECEIVABLE

The following summarizes accounts receivable as of June 30, 2019:

Ambulance	$ 354,615
Holstery Tax	1,412,274
Measure D	526,415
Sales and Use Tax	436,864
Accruals	192,846
Total Accounts Receivable	$ 2,923,014

NOTE 4 – INTERFUND TRANSACTIONS

A. Inter-fund Receivables and Payables

Amounts due to or due from other funds reflect inter-fund balances for services rendered or short-term loans expected to be repaid in the next fiscal year. Advances to or from other funds are long-term loans between funds that are to be repaid in their entirety over several years. As of June 30, 2019, inter-fund receivables and payables consisted of the following:

Fund		Due from Other Funds		Due to Other Funds
General Fund	$	434,711	$	–
Measure D Sales Tax Fund		–		345,628
Nonmajor Funds		–		89,083
Total Due from/to	$	434,711	$	434,711

Transfers In/Out

With Council approval, resources may be transferred from one fund to another. Transfers may be made to pay for capital projects or capital outlays, lease or debt service payments, operating expenses, and to finance various programs accounted for in other funds in accordance with budgetary authorizations. The following summarizes transfers between funds during the fiscal year ended June 30, 2019:

Fund		Transfer in		Transfer out
General Fund	$	855,660	$	1,111,477
Measure D Sales Tax Fund		–		3,104,753
Capital Projects Fund		2,487,954		–
Internal Service Funds		100,000		–
Nonmajor Funds		1,237,98[illegible]		465,364
Total Transfers	$	4,681,594	$	4,681,594

During the year, the City opened and closed various funds. In the process, residual equity transfers were made which is a transfer of fund balance. Governmental accounting standards require that residual equity transfers be treated as operating transfers. The following residual equity transfers were included in the transfers-in and transfers-out noted above.

NOTE 5 - CAPITAL ASSETS

Capital assets for governmental activities consisted of the following as of June 30, 2019:

Governmental Activities	Balance July 01, 2018	Additions	Adjustments/ Deletions	Balance June 30, 2019
Non-depreciable:				
Land	$ 5,101,641	$ -	$ -	$ 5,101,641
Construction in Progress	1,799,679	3,357,471	(4,536,065)	621,085
Total Non-Depreciable	6,901,320	3,357,471	(4,536,065)	5,722,726
Depreciable:				
Buildings and improvements	25,508,680	162,692	115,138	25,786,510
Infrastructure	21,595,601	4,371,671	(31,251)	25,936,021
Vehicles	2,743,943	80,884	612	2,825,439
Technology/Hardware and Software	559,838	42,787	-	602,625
Machinery and equipment	2,710,894	168,960	(141,482)	2,738,372
Total Depreciable	53,118,956	4,826,994	(56,983)	57,888,967
Less Accumulated Depreciation for:				
Buildings and improvements	(9,262,308)	(601,921)	(211,099)	(10,075,328)
Infrastructure	(4,493,362)	(1,058,511)	(196,867)	(5,748,740)
Vehicles	(2,579,852)	(150,347)	97,940	(2,632,259)
Technology/Hardware and Software	(140,163)	(116,246)	1,643	(254,766)
Machinery and equipment	(2,590,760)	(121,601)	345,375	(2,366,986)
Total Accumulated Depreciation	(19,066,445)	(2,048,626)	36,992	(21,078,079)
Total Depreciable Capital Assets - Net	34,052,511	2,778,368	(19,991)	36,810,888
Total Governmental Capital Assets	$ 40,953,831	$ 6,135,839	$ (4,556,056)	$ 42,533,614
Internal Service Funds (Inlcuded with Governmental Activities)				
Buildings and improvements	$ -	$ 12,750	$ -	$ 12,750
Technology/Hardware and Software	559,838	28,335	-	588,173
Vehicle, Machinery and Equipment	566,809	237,851	(56,894)	747,766
Accumulated Depreciation	(375,091)	(244,575)	51,126	(568,540)
Total Internal Service Funds - Net	$ 751,556	$ 34,361	$ (5,768)	$ 780,149

Depreciation expense was allocated to the following governmental activities:

General Government	$ 136,015
Community Planning and Building	1,445
Public Safety	170,468
Public Works	1,090,570
Library	557,712
Community Activities	92,416
Total depreciation expense	$ 2,048,626

NOTE 6 – NONCURRENT LIABILITIES

The City's noncurrent liabilities consisted of the following as of June 30, 2019:

Noncurrent Liabilities	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Sunset Center COP	$ 5,530,000	$ –	$ 315,000	$ 5,215,000	$ 325,000
Countywide Radio Project (Direct)	207,281	–	20,770	186,511	21,460
Pension Obligation Bonds	3,220,000	–	615,000	2,605,000	625,000
Compensated Absences	580,146	868,861	617,428	831,579	551,190
Net Pension Liability	19,908,483	10,226,628	10,214,543	19,920,568	–
Claims Liability	575,000	65,021	65,021	575,000	57,500
Net OPEB Liability	3,650,439	534,281	162,782	4,021,938	–
Total Noncurrent Liabilities	$ 33,671,349	$ 11,694,791	$ 12,010,544	$ 33,355,596	$ 1,580,150

Certificates of Participation – Sunset Center COP

In 2010, the Carmel Public Improvement Authority, a component unit of the City, refunded previously issued Certificates of Participation in the amount of $7,485,000, bearing an average interest rate of 4.73%, secured by general revenues of the City, and matures in October 2031. The original proceeds were used to remodel the Sunset Cultural Center property. Interest is payable semi-annually on October 1st and April 1st with principal payments due each October 1st.

The annual debt service requirements were as follows:

Fiscal Year Ending June 30:	Principal	Interest	Total
2020	$ 325,000	$ 181,563	$ 506,563
2021	335,000	171,663	506,663
2022	345,000	161,463	506,463
2023	355,000	150,963	505,963
2024	370,000	139,857	509,857
2025-2029	2,060,000	463,800	2,523,800
2030-2033	1,425,000	115,000	1,540,000
Total	$ 5,215,000	$ 1,384,309	$ 6,599,309

Countywide Radio Project

In 2009, the City entered into a participation agreement with Monterey County to provide funding related to the "Next Generation Radio Project," a Federal Communications Commission mandated alteration of public safety and local government radio systems. Estimated payments will change should individual local jurisdictions elect out of the project.

The annual debt service requirements were as follows:

Fiscal Year Ending June 30:	Principal	Interest	Total
2020	$ 21,460	$ 8,204	$ 29,664
2021	22,308	7,356	29,664
2022	23,189	6,475	29,664
2023	24,105	5,559	29,664
2024	25,057	4,607	29,664
2025-2029	70,392	7,724	78,116
Total	$ 186,511	$ 39,925	$ 226,436

Pension Obligation Bond

On November 29, 2012, the City issued $6,280,000 in 2012 Taxable Pension Obligation Bonds, the purpose of which was to fund certain PERS side fund obligations. The bonds bear an interest rate of 0.55% to 3.1% and mature on June 1, 2023.

The annual debt service requirements were as follows:

Fiscal Year Ending June 30:	Principal	Interest	Total
2020	$ 625,000	$ 73,010	$ 698,010
2021	640,000	57,698	697,698
2022	660,000	40,428	700,428
2023	680,000	21,080	701,080
Total	$ 2,605,000	$ 192,216	$ 2,797,216

Compensated Absences

The City records employee absences, such as vacation, illness, and holidays, for which it is expected that employees will be paid as compensated absences.

Net Pension Liability

In accordance with GASB Statement No. 68, the City has recorded its net pension liability of CalPERS benefits for retirees. See Note 8 for further discussion on the net pension liability.

Claims Liability

The City has recorded a liability for potential claims in excess of amounts covered by the insurance pool. See Note 7 for further discussion on the City's risk management activities.

Net OPEB Liability
A net OPEB obligation is the cumulative differences between annual OPEB cost and an employer's contributions to a plan. See Note 9 for further discussion on OPEB.

NOTE 7 – RISK MANAGEMENT

The City of Carmel-by-the-Sea (City) is a member of CSAC-EIA (California State Association of Counties Excess Insurance Authority) which is a shared risk pool. CSAC-EIA covers claims for City for both Workers Compensation and General Liability. The City's Liability SIR is pre-funded through CSAC-EIA for 8 quarters of payments made on behalf of City. Currently, the SIR fund for the City with CSAC-EIA is maintained at $8,183. If the pre-funded SIR balance drops below this amount, the City is billed by CSAC-EIA to replenish the fund to the $8,183 level. The City does not make claim payments, they are all issued by the city's third-party administrator from a CSA-EIA account.

The City has two layers of Liability coverage through CSAC-EIA and under the first layer, the Primary General Liability layer, there is an SIR (Self Insured Retention) of $10,000 per claim. Thereafter, the next layer of coverage kicks in (General Liability 1 program) which carries an SIR of $100,000 which is satisfied by exhausting the coverage limit of $100,000 under the Primary Liability program. The maximum limit of coverage under the primary General Liability 1 program is $25 million. The City retains the risk of loss above $25 million.

For Workers Compensation, the City is a member of both the CSAC-EI Primary Workers Compensation program and then, the CSAC-EIA Excess Workers Compensation program. The Primary Workers compensation program provides dollar 1 coverage to the City for Workers Compensation claims. In other words, City has no deductible or SIR. This layer of Workers Compensation coverage carries a maximum limit o $125,000 per occurrence. Thereafter, CSAC EIA's excess coverage steps in and the SIR (Self Insured Retention) is $125,000 which again, is satisfied by exhausting the limits of coverage under the Primary Workers Compensation program. The upper limit of coverage under the Excess Workers Compensation program is "statutory". What this means is that regardless of the total cost of the claim, it is covered under the CSAC-EIA Excess Workers Compensation program. There is absolutely no monetary exposure to the City under these two Workers Compensation programs except for the premium costs to purchase this coverage. The City has had no settlements which exceeded insurance coverage in the last three fiscal years and no significant changes or reductions in insurance coverage during the current year.

The following summarizes the change in the estimated liability over the last two fiscal years:

	Year Ended June 30, 2019	Year Ended June 30, 2018
Beginning of year	$ 575,000	$ 460,000
Increase (decrease) in current year claims	65,021	147,052
Changes in estimates	(42,789)	-
Claims paid	(22,232)	(32,052)
Ending balance	575,000	575,000
Current portion	(57,500)	(57,500)
Non-current portion	$ 517,500	$ 517,500

NOTE 8 – RETIREMENT PLANS

General Information about the Pension Plans

Plan Description

All qualified permanent and probationary employees are eligible to participate in the City's Miscellaneous and Safety Employee Pension Plans (the Plans); cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and City resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full-time employment. The cost of living adjustments for the Plans are applied as specified by the Public Employees' Retirement Law. The Plans' provisions and benefits in effect at June 30, 2019, are summarized as follows:

	Miscellaneous		
	Tier 1	Tier 2	PEPRA
Hire date	<4/15/2012	>=4/15/2012	>=1/1/2013
Benefit formula	2% @ 55	2% @ 60	2% @ 62
Benefit vesting schedule	5 Years	5 Years	5 Years
Benefit payments	Monthly for Life	Monthly for Life	Monthly for Life
Retirement age	55	60	62
Monthly benefits as a % of eligible compensation	2.0% to 2.5%	2.00%	2.00%
Required employee contribution rates	6.902%	6.912%	6.250%
Required employer contribution rates	9.409%	7.634%	6.842%
Contractual employee contribution rates	9.902%	9.912%	9.250%
Contractual employer contribution rates	6.409%	4.634%	3.842%

	Safety		
	Tier 1	Tier 2	PEPRA
Hire date	<4/15/2012	>=4/15/2012	>=1/1/2013
Benefit formula	3% @ 50	2% @ 50	2.7% @ 57
Benefit vesting schedule	5 Years	5 Years	5 Years
Benefit payments	Monthly for Life	Monthly for Life	Monthly for Life
Retirement age	50	50	57
Monthly benefits as a % of eligible compensation	2.00%	2.00%	2.00%
Required employee contribution rates	8.989%	8.936%	12.000%
Required employer contribution rates	20.556%	15.719%	12.141%
Contractual employee contribution rates	11.989%	11.936%	15.000%
Contractual employer contribution rates	17.556%	12.719%	9.141%

Employees Covered

At June 30, 2019, the following employees were covered by the benefit terms for the Plans:

	Miscellaneous	Safety
Active	53	19
Transferred	17	19
Separated	33	11
Retired	104	51
Total	207	100

Contributions

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

For the year ended June 30, 2019, the following contributions were made:

Miscellaneous	$	741,167
Safety		825,152
Total	$	1,566,319

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2019, the City reported net pension liabilities for its proportionate shares of the net pension liability as follows:

	Proportionate Share of Net Pension Liability/(Asset)	
Miscellaneous	$	10,060,596
Safety		9,859,972
Total	$	19,920,568

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

The City's proportionate share of the net pension liability for the Plans as of June 30, 2018 and 2018 was as follows:

	Combined Plans	Safety	Miscellaneous
Proportion - June 30, 2018	0.20075%	0.16263%	0.25853%
Proportion - June 30, 2019	0.20672%	0.16804%	0.26695%
Change - Increase/(Decrease)	0.00598%	0.00542%	0.00842%

For the year ended June 30, 2019, the City recognized pension expense of $2,089,536. At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Miscellaneous Plan	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of Assumptions	$ 1,146,938	$ 281,092
Differences between Expected and Actual Experience	386,007	131,356
Differences between Projected and Actual Investment Earnings	49,737	-
Differences between Employer's Contributions and Proportionate Share of Contributions	-	798,738
Change in Employer's Proportion	194,356	76,053
Pension Contributions Made Subsequent to Measurement Date	741,167	-
Total	$ 2,518,205	$ 1,287,239

Safety Plan	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of Assumptions	$ 967,435	$ 130,524
Differences between Expected and Actual Experience	211,858	804
Differences between Projected and Actual Investment Earnings	66,757	-
Differences between Employer's Contributions and Proportionate Share of Contributions	-	389,039
Change in Employer's Proportion	214,084	105,638
Pension Contributions Made Subsequent to Measurement Date	825,152	-
Total	$ 2,285,285	$ 626,005

Miscellaneous and Safety Plan	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of Assumptions	$ 2,114,373	$ 411,617
Differences between Expected and Actual Experience	597,865	132,160
Differences between Projected and Actual Investment Earnings	116,494	-
Differences between Employer's Contributions and Proportionate Share of Contributions	-	1,187,777
Change in Employer's Proportion	408,440	181,691
Pension Contributions Made Subsequent to Measurement Date	1,566,319	-
Total	$ 4,803,491	$ 1,913,245

The City reported $1,566,319 as deferred outflows of resources related to contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ended June 30, 2020.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ending June 30:	Deferred Outflows/(Inflows) of Resources Miscellaneous	Safety	Total
2020	$ 671,263	$ 773,312	$ 1,444,575
2021	302,386	417,323	719,710
2022	(393,361)	(288,212)	(681,573)
2023	(90,489)	(68,295)	(158,784)
2024	-	-	-
Thereafter	-	-	-
Total	$ 489,799	$ 834,128	$ 1,323,928

Actuarial Assumptions

The total pension liabilities in the June 30, 2017 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2017
Measurement Date	June 30, 2018
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
Payroll Growth	2.75%
Projected Salary Increase	(1)
Investment Rate of Return	7.15% (2)
Mortality	(3)

(1) Varies by age and service
(2) Net of pension plan investment expenses, including inflation
(3) Derived using CalPERS' membership data for all funds

Discount Rate

The discount rate used to measure the total pension liability was 7.15%. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, CalPERS stress tested employer rate plans within the Plan that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested employer rate plans run out of assets. Therefore, the current 7.15% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The stress test results are presented in a detailed report, GASB Statements 67 and 68 Crossover Testing Report for Measurement Date June 30, 2018 based on June 30, 2017 Valuations, that can be obtained from the CalPERS website.

According to Paragraph 30 of GASB 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. For the CalPERS Plan, the 7.00% investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.15%. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

In the December 2016 and April 2017 meetings, the Board voted to lower the funding discount rates used for the PERF. In making its decision, the Board reviewed recommendations from CalPERS team members, external pension and investment consultants, and input from employer and employee stakeholder groups. A lowered funding discount rate for the PERF will be phased in over a three-year period beginning July 1, 2018 for public agencies. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the Plan's asset classes, expected compound (geometric) returns were calculated over the short-term (first 11 years) and the long-term (60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for the Plan. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class (a)	Assumed Asset Allocation	Real Return Years 1 - 10 (b)	Real Return Years 11+ (c)
Global Equity	50.00%	4.80%	5.98%
Fixed Income	28.00%	1.00%	2.62%
Inflation Sensitive	0.00%	0.77%	1.81%
Private Equity	8.00%	6.30%	7.23%
Real Estate	13.00%	3.75%	4.93%
Liquidity	1.00%	0.00%	-0.92%
Total	100.00%		

(a) In the System's CAFR, Fixed Income is included in Global Debt Securities; Liquidity Liquidity is included in Short-term Investments; Inflation Assets are included in both Global Equity Securities and Global Debt Securities.
(b) An expected inflation of 2.0% used for this period.
(c) An expected inflation of 2.92% used for this period.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the City's proportionate share of the net pension liability for the Plans, calculated using the discount rate for the Plans, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

		Miscellaneous	Safety
1% Decrease		6.15%	6.15%
Net Pension Liability	$	15,699,467	14,750,813
Current		7.15%	7.15%
Net Pension Liability	$	10,060,596	9,859,972
1% Increase		8.15%	8.15%
Net Pension Liability	$	5,405,801	5,852,804

Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS PLAN

Plan Description and Benefits

The City of Carmel-by-the-Sea Retiree Healthcare Plan (Plan) is a single-employer defined benefit healthcare plan administered by the City. The Plan provides access to lifetime healthcare benefits to eligible retirees and their dependents. The City provides retiree medical benefits through the California Public Employees' Retirement System healthcare program (PEMHCA). For eligible retirees, the City contributes not less than 5% of the active contribution times years in PEMHCA (max $100/month increase). For purposes of its contract with PEMHCA, the City uses a statutory schedule to determine its monthly contribution on behalf of each active employee. The statutory amount is $133.00 for 2018 and will be indexed by the Medical CPI each year thereafter.

The City offers the same medical plans to its retirees and surviving spouses as to its active employees, with the exception that once a retiree becomes eligible for Medicare, he or she must join a Medicare HMO or a Medicare Supplement plan, with Medicare becoming the primary payer. Employees become eligible to retire and receive City-paid healthcare benefits upon attainment of age 50 and 5 years of service (age 52 for Miscellaneous PEPRA employees). The City contribution towards retiree health benefits is determined under the "equal contribution method" under PEMHCA, whereby the contribution is 100% of the City's statutory minimum contribution for active employees ($133/month for 2018 and scheduled to be indexed by medical inflation for years after 2018). No stand-alone financial are issued for this plan as it is not a trusted plan.

Employees Covered by Benefit Terms

At June 30, 2019, the benefit terms covered the following employees:

Active employees	68
Inactive employees	38
Total employees	106

Contributions

The City makes contributions based on a pay-as-you go basis as approved by the authority of the City's Board. Total benefit payments included in the measurement period were $159,107. The actuarially determined contribution for the measurement period was $476,574. The City's contributions and benefit payments were 2.49% of payroll during the measurement period June 30, 2019 (reporting period June 30, 2019). Employees are not required to contribute to the plan. There have been no assets accumulated in a trust to provide for the benefits of this plan.

Actuarial Assumptions

The following summarized the actuarial assumptions for the OPEB plan included in this fiscal year:

Valuation Date:	July 1, 2017
Measurement Date:	June 30, 2019
Actuarial Cost Method:	Entry-Age Normal Cost Method
Amortization Period:	20 years
Actuarial Assumptions:	
Discount Rate	3.50%
Inflation	2.25%
Payroll Increases	3.00%
Trend Rate	8% to 5%
Municipal Bond Rate	3.50%
Mortality	RP-2014 Employee and Healthy Annuitant Mortality Tables

Discount Rate

The discount rate was based on the Bond Buyer 20-bond General Obligation index.

Total OPEB Liability

The City's total OPEB liability was measured as of June 30, 2019 (measurement date) and was determined by an actuarial valuation as of July 1, 2017 (valuation date) for the fiscal year ended June 30, 2019 (reporting date).

Changes in the Total OPEB Liability

The following summarizes the changes in the Total OPEB liability during the year:

Fiscal Year Ended June 30, 2019	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability (Asset)
Balance at June 30, 2018	$ 3,650,439	$ -	$ 3,650,439
Service cost	193,586	-	193,586
Interest in Total OPEB Liability	146,765	-	146,765
Actual and exp experience	(2,524)	-	(2,524)
Changes in assumptions	192,779	-	192,779
Benefit payments	(159,107)	-	(159,107)
Net changes	371,499	-	371,499
Balance at June 30, 2019	$ 4,021,938	$ -	$ 4,021,938

Covered Employee Payroll	$ 6,394,187
Total OPEB Liability as a % of Covered Employee Payroll	62.90%
Service Cost as a% of Covered Employee Payroll	3.03%
Net OPEB Liability as a % of Covered Employee Payroll	62.90%

The City's plan is nonfunded, meaning there have not been assets placed into an irrevocable trust, therefore the plan fiduciary net position is zero.

Deferred Inflows and Outflows of Resources

At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between actual and expected experience	$ -	$ 3,675
Change in assumptions	156,220	85,472
Totals	$ 156,220	$ 89,147

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30,	
2020	$ 9,469
2021	9,469
2022	9,469
2023	28,812
2024	9,854
Thereafter	-
Total	$ 67,073

OPEB Expense

The following summarizes the OPEB expense by source during the year ended June 30, 2019:

Service cost	$ 193,586
Interest in TOL	146,765
Difference between actual and expected experience	(975)
Change in assumptions	10,444
OPEB Expense	$ 349,820

The following summarizes changes in the net OPEB liability as reconciled to OPEB expense during the year ended June 30, 2019:

Total OPEB liability ending	$ 4,021,938
Total OPEB liability begining	(3,650,439)
Change in total OPEB liability	371,499
Changes in deferred outflows	(156,220)
Changes in deferred inflows	(24,566)
Employer contributions and implicit subsidy	159,107
OPEB Expense	$ 349,820

Sensitivity to Changes in the Discount Rate
The net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher, is as follows:

	Municipal Bond Rate		
	1% Decrease	3.50%	1% Increase
Total OPEB Liability	$ 4,576,301	$ 4,021,938	$ 3,566,230

Sensitivity to Changes in the Healthcare Cost Trend Rates
The net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than current healthcare cost trend rates, is as follows:

	Trend Rate		
	1% Decrease	8% to 5%	1% Increase
Total OPEB Liability	$ 3,830,996	$ 4,021,938	$ 4,246,035

NOTE 10 - COMMITMENTS AND CONTINGENCIES

A. Lawsuits

The City may be involved in certain matters of litigation that have arisen in the normal course of conducting City business. City management believes, based upon consultation with the City Attorney, that any cases, in the aggregate, are not expected to result in a material adverse financial impact on the City. Additionally, City management believes that the City's insurance programs are sufficient to cover any potential losses should an unfavorable outcome materialize.

B. Federal and State Grant Programs

The City participates in Federal, State and County grant programs. These programs are audited by the City's independent accountants, if required, in accordance with the provisions of the Federal Single Audit Act Amendments of 1996 and applicable State requirements. For Federal programs, the City did not reach the level of qualifying expenditures during the current fiscal year that would require a single audit. Expenditures which may be disallowed, if any, by the granting agencies, cannot be determined at this time. The City expects such amounts, if any, to be immaterial.

REQUIRED SUPPLEMENTARY INFORMATION

City of Carmel-By-The-Sea
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual (GAAP Basis)
General Fund
For the Year Ended June 30, 2019

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual Amounts	Positive (Negative)
REVENUES				
Taxes:				
Property taxes	$ 6,382,985	$ 6,382,985	$ 6,524,331	$ 141,346
Sales and use taxes	2,559,835	2,559,835	2,652,971	93,136
Transient occupancy taxes	6,350,000	6,350,000	6,882,015	532,015
Franchise fees	667,175	667,175	636,397	(30,778)
Business license tax	548,000	588,000	594,941	6,941
Intergovernmental revenues	559,345	559,345	583,573	24,228
License and permits	1,092,625	1,134,785	1,192,242	57,457
Fines and forfeitures	97,000	97,000	121,470	24,470
Charges for services	881,495	970,860	1,251,072	280,212
Interest	50,000	50,000	124,262	74,262
Rents and concessions	115,240	124,905	185,156	60,251
Other revenues	38,200	88,200	132,776	44,576
Total Revenues	19,341,900	19,573,090	20,881,206	1,308,116
EXPENDITURES				
Current:				
General government	5,083,905	5,183,270	5,517,516	(334,246)
Community Planning and Building	1,200,350	1,200,350	1,116,689	83,661
Public Safety	7,936,540	8,072,365	7,617,310	455,055
Public Works	3,367,667	3,371,895	2,902,461	469,434
Library	1,146,145	1,146,145	965,725	180,420
Community Activities	265,260	265,260	179,426	85,834
Economic Reviltalization	1,103,995	1,103,995	1,103,993	2
Total Expenditures	20,103,862	20,343,280	19,403,120	940,160
Excess (Deficiency) of Revenues over Expenditures	(761,962)	(770,190)	1,478,086	2,248,276
OTHER FINANCING SOURCES (USES)				
Transfers in	855,660	855,660	855,660	-
Transfers out	(2,011,478)	(2,011,478)	(1,111,477)	900,001
Total Other Financing Sources (Uses)	(1,155,818)	(1,155,818)	(255,817)	900,001
Net Change in Fund Balance	(1,917,780)	(1,926,008)	1,222,269	3,148,277
Prior Period Adjustment	-	-	21,466	21,466
Fund Balance Beginning	8,006,394	8,006,394	8,006,394	-
Fund Balance Ending	$ 6,088,614	$ 6,080,386	$ 9,250,129	$ 3,169,743

City of Carmel-By-The-Sea
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual (GAAP Basis)
Measure D Sales Tax Fund
For the Year Ended June 30, 2019

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes:				
Sales and use taxes	$ 2,964,870	$ 2,964,870	$ 3,079,914	$ 115,044
EXPENDITURES				
Total Expenditures	-	-	-	-
Excess (Deficiency) of Revenues over Expenditures	2,964,870	2,964,870	3,079,914	115,044
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	(2,964,870)	(3,165,659)	(3,104,753)	60,906
Total Other Financing Sources (Uses)	(2,964,870)	(3,165,659)	(3,104,753)	60,906
Net Change in Fund Balance	-	(200,789)	(24,839)	175,950
Fund Balance Beginning	205,626	205,626	205,626	-
Fund Balance Ending	$ 205,626	$ 4,837	$ 180,787	$ 175,950

City of Carmel-by-the-Sea
Schedule of Pension Contributions
June 30, 2019

Miscellaneous and Safety Plan Fiscal Year Ended	2015	2016	2017	2018	2019
Contractually Required Contributions	$ 725,205	$ 1,124,776	$ 1,279,565	$ 1,317,381	$ 1,566,319
Contributions in Relation to Contractually Required Contributions	725,205	1,124,776	1,279,565	1,317,381	1,566,319
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 4,894,966	$ 5,193,071	$ 5,725,559	$ 5,897,326	$ 6,074,246
Contributions as a % of Covered Payroll	14.82%	21.66%	22.35%	22.34%	25.79%

Notes to Schedule:

Valuation Date: June 30, 2017

Assumptions Used: Entry Age Method used for Actuarial Cost Method
Level Percentage of Payroll and Direct Rate Smoothing
3.8 Years Remaining Amortization Period
Inflation Assumed at 2.5%
Investment Rate of Returns set at 7.15%
CalPERS mortality table based on CalPERS' experience and include 15 years of projected ongoing mortality improvement using 90 percent of Scale MP 2016 published by the Society of Actuaries.

Fiscal year 2015 was the first year of implementation, therefore only five years are shown.
The CalPERS discount rate was increased from 7.5% to 7.65% in fiscal year 2016 and then decreased from 7.65% to 7.15% in fiscal year 2018.
The CalPERS mortality assumptions was adjusted in fiscal year 2019.

City of Carmel-by-the-Sea
Schedule of Proportionate Share of Net Pension Liability
June 30, 2019

Miscellaneous and Safety Plan Fiscal Year Ended	2015	2016	2017	2018	2019
Proportion of Net Pension Liability	0.18745%	0.19035%	0.19840%	0.20075%	0.20672%
Proportionate Share of Net Pension Liability	$11,664,146	$13,065,617	$17,167,636	$19,908,483	$19,920,568
Covered Payroll	$ 4,748,117	$ 4,894,966	$ 5,193,071	$ 5,725,559	$ 5,897,326
Proportionate Share of NPL as a % of Covered Payroll	245.66%	266.92%	330.59%	347.71%	337.79%
Plan's Fiduciary Net Position as a % of the TPL	80.11%	77.73%	74.70%	73.44%	74.18%

Fiscal year 2015 was the first year of implementation, therefore only five years are shown.
The CalPERS discount rate was increased from 7.5% to 7.65% in fiscal year 2016 and then decreased from 7.65% to 7.15% in fiscal year 2018.
The CalPERS mortality assumptions was adjusted in fiscal year 2019.

City of Carmel-by-the-Sea
Retiree Health Care Plan
Schedule of Total OPEB Liability
June 30, 2019

Fiscal Year Ended	2018	2019
Total OPEB liability		
Service cost	$ 199,013	$ 193,586
Interest	134,202	146,765
Differences between expected and actual experience	(2,625)	(2,524)
Changes of assumptions	(137,699)	192,779
Benefit payments	(145,196)	(159,107)
Net change in Total OPEB Liability	47,695	371,499
Total OPEB Liability – beginning	3,602,744	3,650,439
Total OPEB Liability --ending	$ 3,650,439	$ 4,021,938
Plan fiduciary net position		
Net change in plan fiduciary net position	$ –	$ –
Plan fiduciary net position – beginning	–	–
Plan fiduciary net position – ending	$ –	$ –
Net OPEB liability (asset)	$ 3,650,439	4,021,938
Plan fiduciary net position as a percentage of the total OPEB liability	0.00%	0.00%
Covered Employee Payroll	$ 6,021,711	$ 6,207,949
Net OPEB liability as a percentage of covered employee payroll	60.62%	64.79%
Total OPEB liability as a percentage of covered employee payroll	60.62%	64.79%

Other Notes

GASB 75 requires a schedule of contributions for the last ten fiscal years, or for as many years as are available if less than ten years are available. GASB 75 was adopted as of June 30, 2018.

No change in benefit terms; discount rates increased from 3.9% to 3.5%.

Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported.

SUPPLEMENTARY INFORMATION

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COMBINING NONMAJOR GOVERNMENTAL FUNDS

Fund Title	Fund Description
Gast Tax	This fund is used to account for revenues collected in accordance with the Streets and Highway Code.
Transportation Safety	This fund accounts for the expenditures related to resources provided for transportation safety as required by Measure X.
COPS Grant	This fund accounts for the expenditures related to the COP's grant for public safety.
Parking in Lieu	This fund is used to account for activities associate with parking in-lieu fees.
Asset Seizure	This fund accounts for the expenditures related to asset seizures.
Harrison Memorial Library	This fund is used to account for activities associated with the Harrison Memorial Library.
Debt Service	This fund is used to account for activities related to the repayment of the Certificate of Participation, Pension Obligation Bond, and capital lease obligations.

City of Carmel-By-The-Sea

Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2019

	Special Revenue Funds			
	Gas Tax Fund	Transportation Safety Fund	COPS Grant Fund	Parking In-Lieu Fund
ASSETS				
Cash and investments	$ -	$ 30,073	$ 127,720	$ 725,828
Receivables:				
Due from other governments	12,273	-	16,667	-
Total assets	12,273	30,073	144,387	725,828
LIABILITIES AND FUND BALANCES				
Liabilities:				
Due to other funds	$ 11,347	$ -	$ -	$ -
Total liabilities	11,347	-	-	-
Fund Balances:				
Restricted:				
Transportation	926	30,073	-	-
Public safety	-	-	144,387	-
Debt service	-	-	-	-
Library	-	-	-	-
Asset seizure	-	-	-	-
Public parking	-	-	-	725,828
Total fund balances	926	30,073	144,387	725,828
Total liabilities and fund balances	$ 12,273	$ 30,073	$ 144,387	$ 725,828

Cont'd

City of Carmel-By-The-Sea

Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2019

	Special Revenue Funds		Debt Service	
	Asset Seizure Fund	Harrison Memorial Library Fund	Debt Service Fund	Total Nonmajor Governmental Funds
ASSETS				
Cash and investments	$ 921	$ 1,410,220	$ 402,335	$ 2,697,097
Receivables:				
Due from other governments	–	–	–	28,940
Total assets	921	1,410,220	402,335	2,726,037
LIABILITIES AND FUND BALANCES				
Liabilities:				
Due to other funds	$ –	$ –	$ 77,736	$ 89,083
Total liabilities	–	–	77,736	89,083
Fund Balances:				
Restricted:				
Transportation	–	–	–	30,999
Public safety	–	–	–	144,387
Debt service	–	–	324,599	324,599
Library	–	1,410,220	–	1,410,220
Asset seizure	921	–	–	921
Public parking	–	–	–	725,828
Total fund balances	921	1,410,220	324,599	2,636,954
Total liabilities and fund balances	$ 921	$ 1,410,220	$ 402,335	$ 2,726,037

Concluded

City of Carmel-By-The-Sea

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2019

	Special Revenue Funds			
	Gas Tax Fund	Transportation Safety Fund	COPS Grant Fund	Parking In-Lieu Fund
REVENUES				
Intergovernmental revenues	$ 150,679	$ 205,045	$ 148,747	$ -
Contributions	-	-	-	-
Charges for services	-	-	-	-
Interest	-	508	1,877	11,432
Total Revenues	150,679	205,553	150,624	11,432
EXPENDITURES				
Current:				
Library	-	-	-	-
Debt service				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total Expenditures	-	-	-	-
Excess (Deficiency) of Revenues over Expenditures	150,679	205,553	150,624	11,432
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	(149,270)	(216,094)	(100,000)	-
Total Other Financing Sources (Uses)	(149,270)	(216,094)	(100,000)	-
Net Change in Fund Balances	1,409	(10,541)	50,624	11,432
Prior Period Adjustment	-	-	-	-
Fund Balances Beginning	(483)	40,614	93,763	714,396
Fund Balances Ending	$ 926	$ 30,073	$ 144,387	$ 725,828

Cont'd

City of Carmel-By-The-Sea

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2019

	Special Revenue Funds		Debt Service	
	Asset Seizure Fund	Harrison Memorial Library Fund	Debt Service Fund	Total Nonmajor Governmental Funds
REVENUES				
Intergovernmental revenues	$ –	$ –	$ –	$ 504,471
Contributions	–	314,450	–	314,450
Charges for services	–	10,097	–	10,097
Interest	15	25,300	4,150	43,282
Total Revenues	15	349,847	4,150	872,300
EXPENDITURES				
Current:				
Library	–	292,665	–	292,665
Debt service				
Principal	–	–	950,770	950,770
Interest and fiscal charges	–	–	286,606	286,606
Total Expenditures	–	292,665	1,237,376	1,530,041
Excess (Deficiency) of Revenues over Expenditures	15	57,182	(1,233,226)	(657,741)
OTHER FINANCING SOURCES (USES)				
Transfers in	–	–	1,237,980	1,237,980
Transfers out	–	–	–	(465,364)
Total Other Financing Sources (Uses)	–	–	1,237,980	772,616
Net Change in Fund Balances	15	57,182	4,754	114,875
Prior Period Adjustment	–	99,950	–	99,950
Fund Balances Beginning	906	1,253,088	319,845	2,422,129
Fund Balances Ending	$ 921	$ 1,410,220	$ 324,599	$ 2,636,954

Concluded

City of Carmel-By-The-Sea
Schedule of Revenues, Expenditures, and
Changes in Fund Balances
Budget and Actual (GAAP Basis)
Nonmajor Governmental Funds
For the Year Ended June 30, 2019

Gas Tax Fund

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES				
Intergovernmental revenues	$ 162,252	$ 162,252	$ 150,679	$ (11,573)
Contributions	-	-	-	-
Charges for services	-	-	-	-
Interest	-	-	-	-
Total Revenues	162,252	162,252	150,679	(11,573)
EXPENDITURES				
Current:				
Library	-	-	-	-
Debt service				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total Expenditures	-	-	-	-
Excess (Deficiency) of Revenues over Expenditures	162,252	162,252	150,679	(11,573)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	(162,250)	(162,250)	(149,270)	12,980
Total Other Financing Sources (Uses)	(162,250)	(162,250)	(149,270)	12,980
Net Change in Fund Balances	2	2	1,409	1,407
Prior Period Adjustment	-	-	-	-
Fund Balances Beginning	(483)	(483)	(483)	-
Fund Balances Ending	$ (481)	$ (481)	$ 926	$ 1,407

Cont'd

Expenditures in excess of appropriations were covered by budgets in other objects/functions or beginning fund balance.

City of Carmel-By-The-Sea
Schedule of Revenues, Expenditures, and
Changes in Fund Balances
Budget and Actual (GAAP Basis)
Nonmajor Governmental Funds
For the Year Ended June 30, 2019

	Transportation Safety Fund			
	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual Amounts	Positive (Negative)
REVENUES				
Intergovernmental revenues	$ 175,480	$ 175,480	$ 205,045	$ 29,565
Contributions	–	–	–	–
Charges for services	–	–	–	–
Interest	–	–	508	508
Total Revenues	175,480	175,480	205,553	30,073
EXPENDITURES				
Current:				
Library	–	–	–	–
Debt service				
Principal	–	–	–	–
Interest and fiscal charges	–	–	–	–
Total Expenditures	–	–	–	–
Excess (Deficiency) of Revenues over Expenditures	175,480	175,480	205,553	30,073
OTHER FINANCING SOURCES (USES)				
Transfers in	–	–	–	–
Transfers out	(175,480)	(216,094)	(216,094)	–
Total Other Financing Sources (Uses)	(175,480)	(216,094)	(216,094)	–
Net Change in Fund Balances	–	(40,614)	(10,541)	30,073
Prior Period Adjustment	–	–	–	–
Fund Balances Beginning	40,614	40,614	40,614	–
Fund Balances Ending	$ 40,614	$ –	$ 30,073	$ 30,073

Cont'd

Expenditures in excess of appropriations were covered by budgets in other objects/functions or beginning fund balance.

City of Carmel-By-The-Sea

Schedule of Revenues, Expenditures, and
Changes in Fund Balances
Budget and Actual (GAAP Basis)
Nonmajor Governmental Funds
For the Year Ended June 30, 2019

	COPS Grant Fund			
	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual Amounts	Positive (Negative)
REVENUES				
Intergovernmental revenues	$ 100,000	$ 100,000	$ 148,747	$ 48,747
Contributions	-	-	-	-
Charges for services	-	-	-	-
Interest	-	-	1,877	1,877
Total Revenues	100,000	100,000	150,624	50,624
EXPENDITURES				
Current:				
Library	-	-	-	-
Debt service				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total Expenditures	-	-	-	-
Excess (Deficiency) of Revenues over Expenditures	100,000	100,000	150,624	50,624
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	(100,000)	(100,000)	(100,000)	-
Total Other Financing Sources (Uses)	(100,000)	(100,000)	(100,000)	-
Net Change in Fund Balances	-	-	50,624	50,624
Prior Period Adjustment	-	-	-	-
Fund Balances Beginning	93,763	93,763	93,763	-
Fund Balances Ending	$ 93,763	$ 93,763	$ 144,387	$ 50,624

Cont'd

Expenditures in excess of appropriations were covered by budgets in other objects/functions or beginning fund balance.

City of Carmel-By-The-Sea
Schedule of Revenues, Expenditures, and
Changes in Fund Balances
Budget and Actual (GAAP Basis)
Nonmajor Governmental Funds
For the Year Ended June 30, 2019

Parking In-Lieu Fund

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES				
Intergovernmental revenues	$ –	$ –	$ –	$ –
Contributions	–	–	–	–
Charges for services	–	–	–	–
Interest	–	–	11,432	11,432
Total Revenues	–	–	11,432	11,432
EXPENDITURES				
Current:				
Library	–	–	–	–
Debt service				
Principal	–	–	–	–
Interest and fiscal charges	–	–	–	–
Total Expenditures	–	–	–	–
Excess (Deficiency) of Revenues over Expenditures	–	–	11,432	11,432
OTHER FINANCING SOURCES (USES)				
Transfers in	–	–	–	–
Transfers out	–	–	–	–
Total Other Financing Sources (Uses)	–	–	–	–
Net Change in Fund Balances	–	–	11,432	11,432
Prior Period Adjustment	–	–	–	–
Fund Balances Beginning	714,396	714,396	714,396	–
Fund Balances Ending	$ 714,396	$ 714,396	$ 725,828	$ 11,432

Cont'd

Expenditures in excess of appropriations were covered by budgets in other objects/functions or beginning fund balance.

City of Carmel-By-The-Sea
Schedule of Revenues, Expenditures, and
Changes in Fund Balances
Budget and Actual (GAAP Basis)
Nonmajor Governmental Funds
For the Year Ended June 30, 2019

	Asset Seizure Fund			
	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts	
REVENUES				
Intergovernmental revenues	$ -	$ -	$ -	$ -
Contributions	-	-	-	-
Charges for services	-	-	-	-
Interest	-	-	15	15
Total Revenues	-	-	15	15
EXPENDITURES				
Current:				
Library	-	-	-	-
Debt service				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total Expenditures	-	-	-	-
Excess (Deficiency) of Revenues over Expenditures	-	-	15	15
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Net Change in Fund Balances	-	-	15	15
Prior Period Adjustment	-	-	-	-
Fund Balances Beginning	906	906	906	-
Fund Balances Ending	$ 906	$ 906	$ 921	$ 15

Cont'd

Expenditures in excess of appropriations were covered by budgets in other objects/functions or beginning fund balance.

City of Carmel-By-The-Sea
Schedule of Revenues, Expenditures, and
Changes in Fund Balances
Budget and Actual (GAAP Basis)
Nonmajor Governmental Funds
For the Year Ended June 30, 2019

	Harrison Memorial Library Fund			
	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual Amounts	Positive (Negative)
REVENUES				
Intergovernmental revenues	$ -	$ -	$ -	$ -
Contributions	313,000	313,000	314,450	1,450
Charges for services	13,000	13,000	10,097	(2,903)
Interest	3,000	3,000	25,300	22,300
Total Revenues	329,000	329,000	349,847	20,847
EXPENDITURES				
Current:				
Library	329,495	329,495	292,665	36,830
Debt service				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total Expenditures	329,495	329,495	292,665	36,830
Excess (Deficiency) of Revenues over Expenditures	(495)	(495)	57,182	57,677
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Net Change in Fund Balances	(495)	(495)	57,182	57,677
Prior Period Adjustment	-	-	99,950	99,950
Fund Balances Beginning	1,253,088	1,253,088	1,253,088	-
Fund Balances Ending	$ 1,252,593	$ 1,252,593	$ 1,410,220	$ 157,627

Cont'd

Expenditures in excess of appropriations were covered by budgets in other objects/functions or beginning fund balance.

City of Carmel-By-The-Sea
Schedule of Revenues, Expenditures, and
Changes in Fund Balances
Budget and Actual (GAAP Basis)
Nonmajor Governmental Funds
For the Year Ended June 30, 2019

	Debt Service Fund			
	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual Amounts	Positive (Negative)
REVENUES				
Intergovernmental revenues	$ -	$ -	$ -	$ -
Contributions	-	-	-	-
Charges for services	-	-	-	-
Interest	-	-	4,150	4,150
Total Revenues	-	-	4,150	4,150
EXPENDITURES				
Current:				
Library	-	-	-	-
Debt service				
Principal	950,770	950,770	950,770	-
Interest and fiscal charges	287,210	287,210	286,606	604
Total Expenditures	1,237,980	1,237,980	1,237,376	604
Excess (Deficiency) of Revenues over Expenditures	(1,237,980)	(1,237,980)	(1,233,226)	4,754
OTHER FINANCING SOURCES (USES)				
Transfers in	1,237,980	1,237,980	1,237,980	-
Transfers out	-	-	-	-
Total Other Financing Sources (Uses)	1,237,980	1,237,980	1,237,980	-
Net Change in Fund Balances	-	-	4,754	4,754
Prior Period Adjustment	-	-	-	-
Fund Balances Beginning	319,845	319,845	319,845	-
Fund Balances Ending	$ 319,845	$ 319,845	$ 324,599	$ 4,754

Concluded

Expenditures in excess of appropriations were covered by budgets in other objects/functions or beginning fund balance.

INTERNAL SERVICE FUNDS

Fund Title	Fund Description
Worker's Compensation	This fund accounts for workers compensation insurance provided to departments on a cost reimbursement basis.
OPEB Reserve Fund	This fund accounts for other postemployment benefits provided to departments on a cost reimbursement basis.
Vehicle & Equipment Replacement	This fund is to set aside financial resources for future purchases of replacement equipment essential to the operations of the City.

City of Carmel-By-The-Sea
Combining Statement of Net Position
Internal Service Funds
June 30, 2019

	Workers Compensation Fund	OPEB Reserve Fund	Vehicle & Equipment Replacement Fund	Total Governmental Activities - Internal Service Funds
ASSETS				
Current assets:				
Cash and investments	$ 606,333	$ 1,817,051	$ 433,205	$ 2,856,589
Noncurrent assets:				
Capital assets - net	-	-	780,149	780,149
Total assets	$ 606,333	$ 1,817,051	$ 1,213,354	$ 3,636,738
LIABILITIES				
Current liabilities:				
Accounts payable	$ -	$ -	64,557	$ 64,557
Claims payable - current	57,500	-	-	57,500
Total current liabilities	57,500	-	64,557	122,057
Noncurrent liabilities:				
Claims payable	517,500	-	-	517,500
Total liabilities	$ 575,000	$ -	$ 64,557	$ 639,557
NET POSITION				
Net investment in capital assets	$ -	$ -	$ 780,149	$ 780,149
Unrestricted	31,333	1,817,051	368,648	2,217,032
Total net position	$ 31,333	$ 1,817,051	$ 1,148,797	$ 2,997,181

City of Carmel-By-The-Sea
Combining Statement of Revenues, Expenses and Changes in Fund Net Position
Internal Service Funds
For the Year Ended June 30, 2019

	Workers Compensation Fund	OPEB Reserve Fund	Vehicle & Equipment Replacement Fund	Total Governmental Activities - Internal Service Funds
OPERATING REVENUES				
Other	$ -	$ -	$ -	$ -
Total operating revenues	-	-	-	-
OPERATING EXPENSES				
Claims	27,570	-	-	27,570
Depreciation	-	-	244,575	244,575
Total operating expenses	27,570	-	244,575	272,145
Operating income (loss)	(27,570)	-	(244,575)	(272,145)
NONOPERATING REVENUES(EXPENSES)				
Gain (loss) on disposal of capital assets	-	-	17,823	17,823
Investment income	9,628	28,619	-	38,247
Total nonoperating revenues(expenses)	9,628	28,619	17,823	56,070
Income (loss)	(17,942)	28,619	(226,752)	(216,075)
Transfers in	-	-	100,000	100,000
Transfers out	-	-	-	-
Total Other Financing Sources (Uses)	-	-	100,000	100,000
Change in net position	(17,942)	28,619	(126,752)	(116,075)
Total net position - beginning	49,275	1,788,432	1,275,549	3,113,256
Total net position - ending	$ 31,333	$ 1,817,051	$ 1,148,797	$ 2,997,181

City of Carmel-By-The-Sea
Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2019

	Workers Compensation Fund	OPEB Reserve Fund	Vehicle & Equipment Replacement Fund	Total Governmental Activities - Internal Service Funds
Cash flows from operating activities:				
Payments for claims	$ (487,570)	$ -	$ -	$ (487,570)
Payments for supplies and materials	-	-	48,592	48,592
Net cash provided (used) by operating activities	(487,570)	-	48,592	(438,978)
Cash flows from noncapital financing activities:				
Interfund transactions	460,000	-	100,000	560,000
Net cash provided (used) by noncapital financing activities	460,000	-	100,000	560,000
Cash flows from capital financing activities:				
Purchases of property and equipment	-	-	(255,345)	(255,345)
Net cash provided (used) by noncapital financing activities	-	-	(255,345)	(255,345)
Cash flows from investing activities:				
Investment income received	9,628	28,619	-	38,247
Net cash provided (used) by investing activities	9,628	28,619	-	38,247
Net increase (decrease) in cash and cash equivalents	(17,942)	28,619	(106,753)	(96,076)
Cash and cash equivalents - beginning	624,275	1,788,432	539,958	2,952,665
Cash and cash equivalents - ending	$ 606,333	$ 1,817,051	$ 433,205	$ 2,856,589
Reconciliation of operating income to net cash provided (used) by operating activities:				
Operating income (loss)	$ (27,570)	$ -	$ (244,575)	$ (272,145)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	-	-	244,575	244,575
Change in operating assets and liabilities:				
Accounts payable	-	-	48,592	48,592
Claims payable	(460,000)	-	-	(460,000)
Net cash provided (used) by operating activities	$ (487,570)	$ -	$ 48,592	$ (438,978)

AGENCY FUNDS

Fund Title	Fund Description
Refundable Deposits	This fund accounts for monies received that are unearned and required to be returned by the City.

City of Carmel-By-The-Sea

Combining Schedule of Changes in Assets and Liabilities
Agency Funds
For the Year Ended June 30, 2019

REFUNDABLE DEPOSITS	Balance July 01, 2018	Additions	Deductions	Balance June 30, 2019
ASSETS				
Cash and investments	$ 357,801	$ 93,512	$ 164,506	$ 286,807
Receivables	495	3,086	495	3,086
Total assets	$ 358,296	$ 96,598	$ 165,001	$ 289,893
LIABILITIES				
Accounts payable	$ 3,557	$ 71,013	$ 74,570	$ -
Interest payable	6,551	4,950	-	11,501
Deposits	348,188	93,584	163,380	278,392
Total liabilities	$ 358,296	$ 169,547	$ 237,950	$ 289,893

STATISTICAL SECTION

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STATISTICAL SECTION
(Unaudited)

This part of the City of Carmel-by-the-Sea'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 city's overall financial health.

Financial Trends

These tables contain trend information to help the reader understand how the city's financial performance and well-being have changed over time.

Revenue Capacity

These tables contain information to help the reader assess the city's most significant local revenue source, the property tax.

Debt Capacity

These tables present information to help the reader assess the affordability of the city's current levels of outstanding debt and the city's ability to issue additional debt in the future.

Demographic and Economic Information

These tables offer demographic and economic indicators to help the reader understand the environment within which the city's financial activities take place.

Operating Information

These tables contain service and infrastructure data to help the reader understand how the information in the city's financial report relates to the services the city provides and the activities it performs.

Sources: Unless otherwise noted, the information in these tables is derived from the comprehensive annual financial reports for the relevant year.

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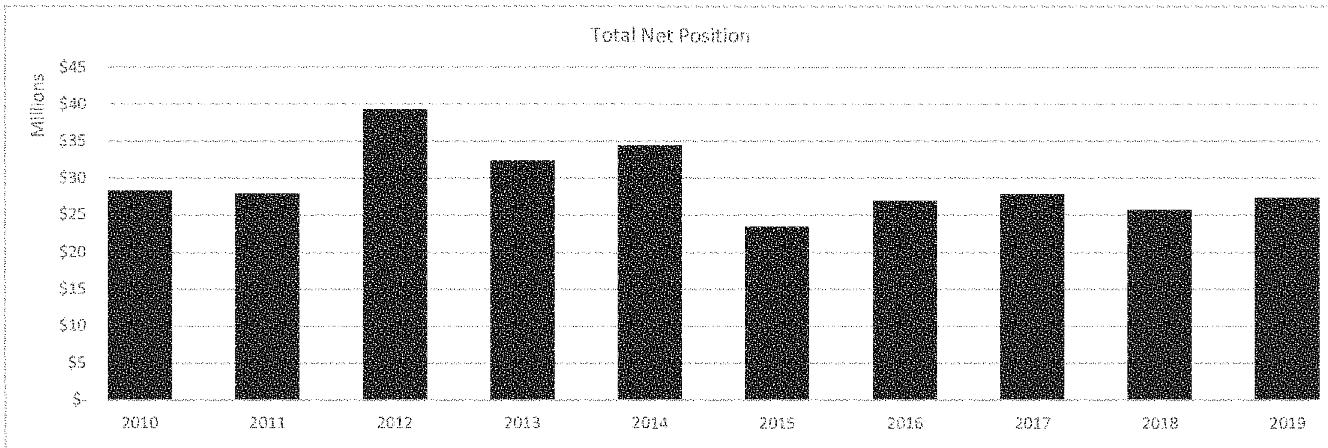
City of Carmel-by-the-Sea

TABLE 1

Net Position By Component

Last Ten Fiscal Years

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Governmental activities:										
Net investment in capital assets	$ 18,483,000	$ 18,594,000	$ 31,374,354	$ 29,605,438	$ 25,522,348	$ 32,547,268	$ 36,006,046	$ 36,931,575	$ 35,216,550	$ 37,132,103
Restricted	593,000	441,000	555,524	566,992	2,616,731	3,862,473	3,584,687	5,027,082	2,628,238	2,817,741
Unrestricted	9,183,000	8,884,000	7,408,523	2,205,463	6,266,725	(12,992,711)	(12,666,545)	(14,167,354)	(12,141,385)	(12,645,571)
Total governmental activities net position	$ 28,259,000	$ 27,919,000	$ 39,338,401	$ 32,377,893	$ 34,405,804	$ 23,417,030	$ 26,924,188	$ 27,791,303	$ 25,703,403	$ 27,304,273



Source: City of Carmel-by-theSea Finance Department

City of Carmel-by-the-Sea

TABLE 2

Changes in Net Position

Last Ten Fiscal Years

	Fiscal Year Ended June 30				
	2010	2011	2012	2013	2014
Expenses					
Governmental activities:					
General government	$ 3,838,650	$ 3,448,824	$ 2,904,382	$ 9,481,135	$ 4,067,934
Community planning and building	-	-	-	-	-
Public safety	5,185,540	5,142,244	4,694,672	4,193,157	4,299,954
Public works	1,239,275	1,271,318	1,790,684	1,896,305	2,227,067
Library	-	-	-	-	-
Community activities	-	-	-	-	-
Economic revitalization	-	-	361,458	304,587	363,342
Building maintenance	-	-	2,718,581	3,763,094	2,924,447
Forest, parks and beach	-	-	1,578,381	472,123	484,119
Culture and recreation	2,617,067	2,619,273	1,314,073	2,405,481	2,453,842
Interest and fiscal charges on long-term debt	271,808	50,576	194,153	376,787	346,674
Depreciation (Unallocated)	-	638,255	-	-	-
Total governmental activities expenses	13,152,340	13,170,490	15,556,384	22,892,669	17,167,379
Program Revenues					
Governmental activities:					
Charges for services:					
General government	376,591	329,666	4,735	19,821	15,644
Community planning and building	-	-	-	-	-
Public safety	50,417	49,725	39,878	167,723	184,338
Public works	-	-	412,605	433,928	467,392
Library	-	-	-	-	-
Community activities	-	-	-	-	-
Economic revitalization	-	-	-	-	-
Building maintenance	-	-	-	-	-
Forest, parks and beach	-	-	-	-	165,406
Culture and recreation	19,845	30,286	36,030	80,909	91,804
Operating grants and contributions	117,841	435,046	871,230	1,474,331	1,282,214
Capital grants and contributions	-	-	-	-	-
Total governmental activities program revenues	564,694	844,723	1,364,478	2,176,712	2,206,798
Net (expense)/revenue:					
Governmental activities	(12,587,646)	(12,325,767)	(14,191,906)	(20,715,957)	(14,960,581)
General Revenues and Other Changes in Net Assets					
Governmental activities:					
Taxes					
Property taxes	4,189,288	4,157,789	4,571,481	4,652,176	4,881,534
Sales and use taxes	1,619,968	1,805,510	1,743,748	2,760,414	5,115,880
Transient occupancy taxes	3,830,432	4,002,509	4,179,900	4,615,598	5,185,880
Franchise taxes	452,935	476,597	491,674	981,831	994,468
Business license tax	625,600	591,248	532,019	577,364	549,190
Inte Other taxes	264,150	233,716	-	-	-
Unrestricted grants and contributions	383,827	465,881	-	-	-
Unrestricted investment earnings	269,276	109,602	55,995	69,735	76,880
Gain (loss) on sale of assets	-	-	-	-	-
Special item - infrastructure capitalization	-	-	13,760,000	-	-
Miscellaneous or other revenues	211,612	142,923	276,751	98,331	184,660
Total governmental activities	11,847,088	11,985,775	25,611,568	13,755,449	16,988,492
Change in Net Position	$ (740,558)	$ (339,992)	$ 11,419,662	$ (6,960,508)	$ 2,027,911

Note: In 2012 and 2018, the City changed the classification of its program expenses and revenues based on operations at the time.

Cont'd

Source: City of Carmel-by-the-Sea Finance Department

City of Carmel-by-the-Sea

TABLE 2

Changes in Net Position
Last Ten Fiscal Years

	Fiscal Year Ended June 30				
	2015	2016	2017	2018	2019
Expenses					
Governmental activities:					
General government	$ 3,724,546	$ 5,162,323	$ 4,981,304	$ 4,896,809	$ 5,906,304
Community planning and building	-	-	1,146,860	1,206,295	1,191,826
Public safety	6,685,310	6,445,695	7,281,137	7,771,104	8,390,616
Public works	2,003,332	1,454,895	2,605,036	2,950,423	4,162,376
Library	-	-	1,144,883	1,303,989	1,894,410
Community activities	-	-	446,445	153,224	283,512
Economic revitalization	326,956	306,505	1,110,857	1,125,261	1,144,022
Building maintenance	1,832,618	1,542,170	-	-	-
Forest, parks and beach	581,319	558,592	-	-	-
Culture and recreation	2,605,877	2,082,591	-	-	-
Interest and fiscal charges on long-term debt	365,043	336,551	322,181	319,974	283,606
Depreciation (Unallocated)	-	1,528,260	1,747,960	1,786,021	-
Total governmental activities expenses	18,125,001	19,417,582	20,786,663	21,513,100	23,256,672
Program Revenues					
Governmental activities:					
Charges for services:					
General government	66,190	34,040	38,795	318,414	256,645
Community planning and building	-	-	-	1,167,308	1,454,523
Public safety	918,644	684,612	373,716	692,187	790,428
Public works	525,310	534,224	751,844	58,931	44,636
Library	-	-	-	14,794	-
Community activities	-	-	-	79,067	146,443
Economic revitalization	-	-	-	97,142	102,366
Building maintenance	-	-	-	-	-
Forest, parks and beach	-	-	-	-	-
Culture and recreation	18,953	20,326	31,817	-	-
Operating grants and contributions	1,444,296	668,239	675,765	681,240	450,920
Capital grants and contributions	331,719	327,029	166,726	-	-
Total governmental activities program revenues	3,305,112	2,268,470	2,038,663	3,109,083	3,245,961
Net (expense)/ revenue:					
Governmental activities	(14,819,889)	(17,149,112)	(18,748,000)	(18,404,017)	(20,010,711)
General Revenues and Other Changes in Net Assets					
Governmental activities:					
Taxes					
Property taxes	5,127,974	5,598,743	5,825,889	6,192,126	6,524,331
Sales and use taxes	5,280,418	4,897,325	5,373,800	5,486,449	5,732,885
Transient occupancy taxes	5,593,689	5,890,538	6,112,347	6,329,074	6,882,015
Franchise taxes	430,430	587,514	672,554	637,136	636,397
Business license tax	606,128	626,625	649,525	544,392	594,941
Inte Other taxes	382,145	413,334	436,073	462,989	-
Unrestricted grants and contributions	-	-	-	92,155	637,124
Unrestricted investment earnings	163,648	160,172	182,366	101,743	205,791
Gain (loss) on sale of assets	-	-	-	(2,439,255)	(160,794)
Special item - infrastructure capitalization	-	-	-	-	-
Miscellaneous or other revenues	249,537	1,963,750	362,561	212,820	437,475
Total governmental activities	17,833,969	20,138,001	19,615,115	17,619,629	21,490,165
Change in Net Position	$ 3,014,080	$ 2,988,889	$ 867,115	$ (784,388)	$ 1,479,454

Note: In 2012 and 2018, the City changed the classification of its program expenses and revenues based on operations at the time.

Concluded

Source: City of Carmel-by-the-Sea Finance Department

City of Carmel-by-the-Sea

Fund Balances of Governmental Funds

Last Ten Fiscal Years

TABLE 3

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
General Fund										
Nonspendable	$ -	$ -	$ -	$ -	$ 73,038	$ -	$ -	$ -	$ -	$ -
Restricted	-	400,000	-	-	-	-	-	-	-	-
Committed	-	7,358,390	4,258,441	2,898,615	2,888,306	4,561,070	2,166,165	2,173,138	2,806,045	2,808,138
Assigned	-	-	-	-	-	1,747,589	3,308,636	2,448,461	1,922,008	1,926,008
Unassigned	-	1,573,080	3,001,120	5,253,298	4,172,077	1,541,150	1,738,067	4,693,897	3,278,341	4,515,984
Reserved	593,207	-	-	-	-	-	-	-	-	-
Designated	8,097,783	-	-	-	-	-	-	-	-	-
Unreserved	1,243,449	-	-	-	-	-	-	-	-	-
Total Fund Balance	9,934,439	9,331,470	7,259,561	8,151,913	7,133,421	7,849,809	7,212,868	9,315,496	8,006,394	9,250,130
Other Governmental Funds										
Nonspendable	$ -	$ -	$ 46,747	$ 46,747	$ 46,747	$ -	$ -	$ -	$ -	$ -
Restricted	-	40,523	555,524	566,992	2,543,658	3,903,533	3,624,383	5,065,310	2,628,238	2,817,741
Committed	-	1,045,909	-	-	-	1,783,310	-	-	-	-
Assigned	-	68,199	1,506,992	1,793,249	1,477,680	90,158	1,146,832		1,627,098	362,034
Unassigned	-	-	-	-	(479,166)	(684,400)	(706,427)	(1,264,197)	(483)	-
Reserved	20,203	-	-	-	-	-	-	-	-	-
Designated	1,031,025	-	-	-	-	-	-	-	-	-
Unreserved	45,767	-	-	-	-	-	-	-	-	-
Total Fund Balance	1,096,995	1,154,631	2,109,263	2,406,988	3,588,919	5,092,601	4,064,788	3,801,113	4,254,853	3,179,775
Total Fund Balance	$ 11,031,434	$ 10,486,101	$ 9,368,824	$ 10,558,901	$ 10,722,340	$ 12,942,410	$ 11,277,656	$ 13,116,609	$ 12,261,247	$ 12,429,905

Note: The City implemented GASB 54 in 2011 and prior fund balances were not restated or reclassified.

Source: City of Carmel-by-the-Sea Finance Department

City of Carmel-by-the-Sea

TABLE 4

Changes in Fund Balances of Governmental Fur
Last Ten Fiscal Years

	Fiscal Year Ended June 30				
	2010	2011	2012	2013	2014
Revenues					
Taxes	$ 10,159,244	$ 10,442,405	$ 11,497,256	$ 12,505,034	$ 12,727,944
Intergovernmental revenues	430,867	456,821	635,386	609,304	3,864,416
License and permits	1,061,757	916,989	612,356	1,195,092	1,114,927
Contributions	10,900	326,185	329,160	354,785	313,895
Fines and forfeitures	197,528	19,314	127,354	133,168	138,713
Charges for services	47,584	49,725	597,302	738,366	508,563
Interest	-	-	-	-	-
Use of money and property	284,754	247,683	231,975	284,674	314,248
Other revenues	219,232	149,634	93,944	109,392	193,336
Total revenues	12,411,866	12,608,756	14,124,733	15,929,815	19,176,042
Expenditures					
General government	3,422,352	3,109,461	3,122,302	3,029,816	4,305,440
Community Planning and Building	-	-	-	-	-
Public Safety	4,993,039	4,955,512	3,363,428	4,026,884	4,245,184
Public Works	1,162,274	1,122,225	1,166,299	1,341,604	1,609,402
Library	-	-	-	-	-
Community Activities	-	-	-	-	-
Economic Revitalization	300,796	317,983	361,458	304,587	363,342
Building maintenance	-	-	2,633,987	2,263,763	2,798,314
Forest, parks and beach	-	-	1,122,795	466,021	468,247
Culture and recreation	2,220,171	2,240,365	1,298,938	1,918,196	1,963,003
Capital Outlay	266,413	1,085,637	1,599,462	651,785	1,993,305
Debt Service					
Principal	220,000	318,070	315,570	410,434	927,774
Interest and fiscal charges	359,349	201,964	257,771	328,994	357,840
Total expenditures	12,944,394	13,351,217	15,242,010	14,742,084	19,031,851
Excess of revenues					
over (under) expenditures	(532,528)	(742,461)	(1,117,277)	1,187,731	144,191
Other financing sources (uses)					
Proceeds from asset dispositions	-	-	-	2,346	19,248
Proceeds from long-term debt issued	-	7,657,787	-	6,280,000	-
Retirement of PERS side fund	-	-	-	(6,280,000)	-
Payment to refunded bond escrow agent	-	(7,850,977)	-	-	-
Interagency transfers in (out)	-	-	-	-	-
Transfers in	336,778	4,973,143	7,749,165	6,301,989	9,724,198
Transfers out	(336,778)	(4,640,460)	(7,749,165)	(6,301,989)	(9,724,198)
Total other financing sources (uses)	-	139,493	-	2,346	19,248
Net change in fund balances	$ (532,528)	$ (602,968)	$ (1,117,277)	$ 1,190,077	$ 163,439
Total Expenditures	$ 12,944,394	$ 13,351,217	$ 15,242,010	$ 14,742,084	$ 19,031,851
Capitalized Portion of Capital Outlay	305,503	748,979	1,066,867	651,397	1,993,170
Total Non-Capitalized Expenditures	$ 12,638,891	$ 12,602,238	$ 14,175,143	$ 14,090,687	$ 17,038,681
Debt Service: Principal & Interest	$ 579,349	$ 520,034	$ 573,341	$ 739,428	$ 1,285,614
Debt service as a percentage of noncapital expenditures	4.6%	4.1%	4.0%	5.2%	7.5%

Note: In 2012 and 2018, the City changed the classification of its program expenditures and revenues based on operations at the time.

Source: City of Carmel-by-the-Sea Finance Department

Cont'd

City of Carmel-by-the-Sea

TABLE 4

Changes in Fund Balances of Governmental Fur
Last Ten Fiscal Years

	Fiscal Year Ended June 30 2015	2016	2017	2018	2019
Revenues					
Taxes	$ 17,420,784	$ 18,014,079	$ 19,041,911	$ 19,652,166	$ 20,370,569
Intergovernmental revenues	874,152	294,952	365,304	454,997	1,088,044
License and permits	720,257	788,578	850,547	1,087,953	1,192,242
Contributions	686,025	314,600	323,495	318,398	314,450
Fines and forfeitures	119,152	111,930	87,154	91,813	121,470
Charges for services	905,526	712,321	410,439	1,070,999	1,261,169
Interest	-	-	-	58,055	167,544
Use of money and property	163,648	163,875	182,367	100,899	185,156
Other revenues	249,537	389,136	1,979,561	211,153	158,029
Total revenues	21,139,081	20,789,471	23,270,778	23,046,433	24,858,673
Expenditures					
General government	3,593,094	5,045,332	5,681,103	4,696,923	5,517,516
Community Planning and Building	-	-	-	1,128,977	1,116,689
Public Safety	6,398,876	6,264,950	7,033,862	7,024,092	7,637,310
Public Works	1,284,030	1,301,160	2,554,752	2,769,129	2,902,461
Library	-	-	-	1,217,687	1,258,390
Community Activities	-	-	-	141,378	179,426
Economic Revitalization	315,780	306,505	351,425	1,095,636	1,103,993
Building maintenance	1,637,602	1,525,038	1,138,983	-	-
Forest, parks and beach	544,902	547,211	108,764	-	-
Culture and recreation	1,999,728	2,054,872	1,448,129	-	-
Capital Outlay	2,396,667	4,439,279	1,877,053	1,833,014	3,778,271
Debt Service					
Principal	1,046,128	898,379	914,105	934,860	950,770
Interest and fiscal charges	360,610	337,915	323,649	302,202	286,606
Total expenditures	19,577,417	22,720,641	21,431,825	21,143,898	24,711,432
Excess of revenues over (under) expenditures	1,561,664	(1,931,170)	1,838,953	1,902,535	147,241
Other financing sources (uses)					
Proceeds from asset dispositions	-	-	-	-	-
Proceeds from long-term debt issued	-	-	-	-	-
Retirement of PERS side fund	-	-	-	-	-
Payment to refunded bond escrow agent	-	-	-	-	-
Interagency transfers in (out)	-	-	-	31,000	-
Transfers in	4,927,935	6,483,069	3,405,710	13,924,490	4,581,594
Transfers out	(4,927,935)	(6,483,069)	(3,405,710)	(16,713,387)	(4,681,594)
Total other financing sources (uses)	-	-	-	(2,757,897)	(100,000)
Net change in fund balances	$ 1,561,664	$ (1,931,170)	$ 1,838,953	$ (855,362)	$ 47,241
Total Expenditures	$ 19,577,417	$ 22,720,641	$ 21,431,825	$ 21,143,898	$ 24,711,432
Capitalized Portion of Capital Outlay	2,396,667	4,311,179	1,870,844	1,900,132	3,778,271
Total Non-Capitalized Expenditures	$ 17,180,750	$ 18,409,462	$ 19,560,981	$ 19,243,766	$ 20,933,161
Debt Service: Principal & Interest	$ 1,406,738	$ 1,236,294	$ 1,237,754	$ 1,237,062	$ 1,237,376
Debt service as a percentage of noncapital expenditures	8.2%	6.7%	6.3%	6.4%	5.9%

Note: In 2012 and 2018, the City changed the classification of its program expenditures and revenues based on operations at the time.

Source: City of Carmel-by-the-Sea Finance Department

Concluded

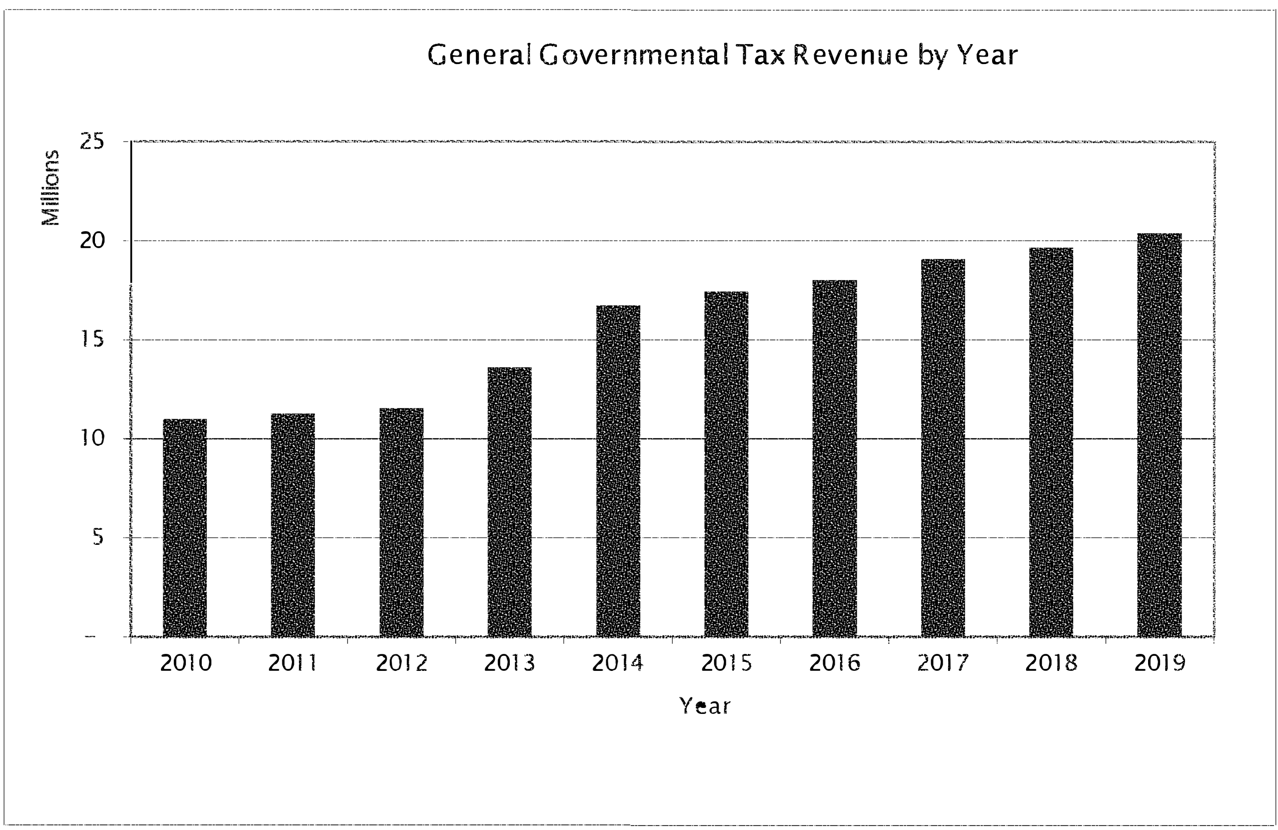
City of Carmel-by-the-Sea

TABLE 5

General Governmental Tax Revenues by Source

Last Ten Fiscal Years

Fiscal Year Ended June 30	Property	Sales and Use	Franchise	Transient Occupancy	Business License	Other Tax	Total
2010	4,189,288	1,619,968	452,935	3,830,432	625,600	264,150	10,982,373
2011	4,157,789	1,805,510	476,597	4,002,509	591,248	233,716	11,267,369
2012	4,571,481	1,743,748	491,674	4,179,900	532,019	-	11,518,822
2013	4,652,176	2,760,414	981,831	4,615,598	577,364	-	13,587,383
2014	4,881,534	5,115,880	994,468	5,185,880	549,190	-	16,726,952
2015	5,127,974	5,280,418	430,430	5,593,689	606,128	382,145	17,420,784
2016	5,598,743	4,897,325	587,514	5,890,538	626,625	413,334	18,014,079
2017	5,825,889	5,373,800	672,554	6,112,347	649,525	436,073	19,070,188
2018	6,192,126	5,486,449	637,136	6,329,074	544,392	462,989	19,652,166
2019	6,524,331	5,732,885	636,397	6,882,015	594,941	-	20,370,569



Source: City of Carmel-by-the-Sea Finance Department

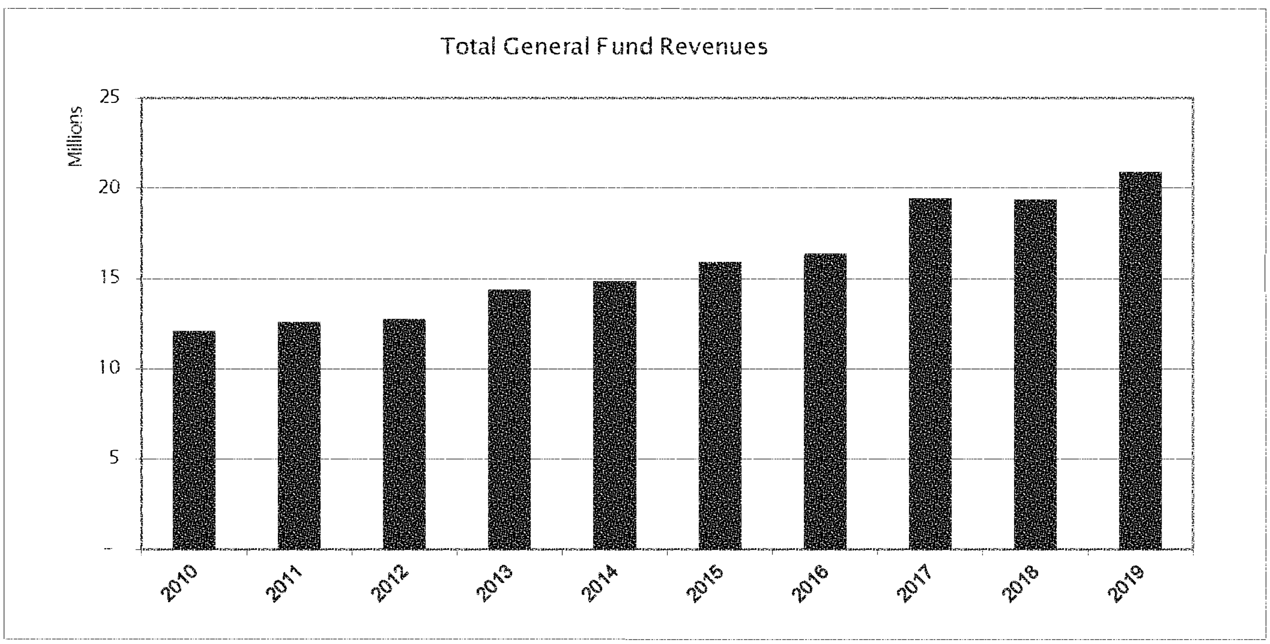
City of Carmel-by-the-Sea

TABLE 6

General Fund Revenues by Source

Last Ten Fiscal Years

Fiscal Year Ended June 30	Taxes	Inter-Governmental	Licenses and Permits	Contributions	Fines and Forfeitures	Charges for Services	Interest, Rents and Concessions	Other Revenues	Total
2010	10,092,623	430,867	999,023	10,900	17,006	47,584	265,618	218,490	12,082,111
2011	10,442,405	456,821	916,989	326,185	19,314	49,725	247,683	149,634	12,608,756
2012	11,497,256	419,326	430,250	26,830	27,385	60,228	226,616	93,944	12,781,835
2013	12,505,034	378,410	1,011,292	3,884	16,647	88,200	283,233	109,392	14,396,092
2014	12,727,944	481,310	997,334	-	30,489	106,065	313,076	193,336	14,849,554
2015	14,702,528	-	504,419	-	9,246	256,097	161,620	249,537	15,883,447
2016	15,124,699	74,014	553,602	-	7,245	57,818	159,632	389,136	16,366,146
2017	16,296,757	136,367	762,257	-	8,422	66,957	170,631	1,979,561	19,420,952
2018	16,753,721	42,846	1,087,953	-	91,813	1,056,205	123,382	211,133	19,367,053
2019	17,290,655	583,573	1,192,242	-	121,470	1,251,072	309,418	132,776	20,881,206



Source: City of Carmel-by-the-Sea Finance Department

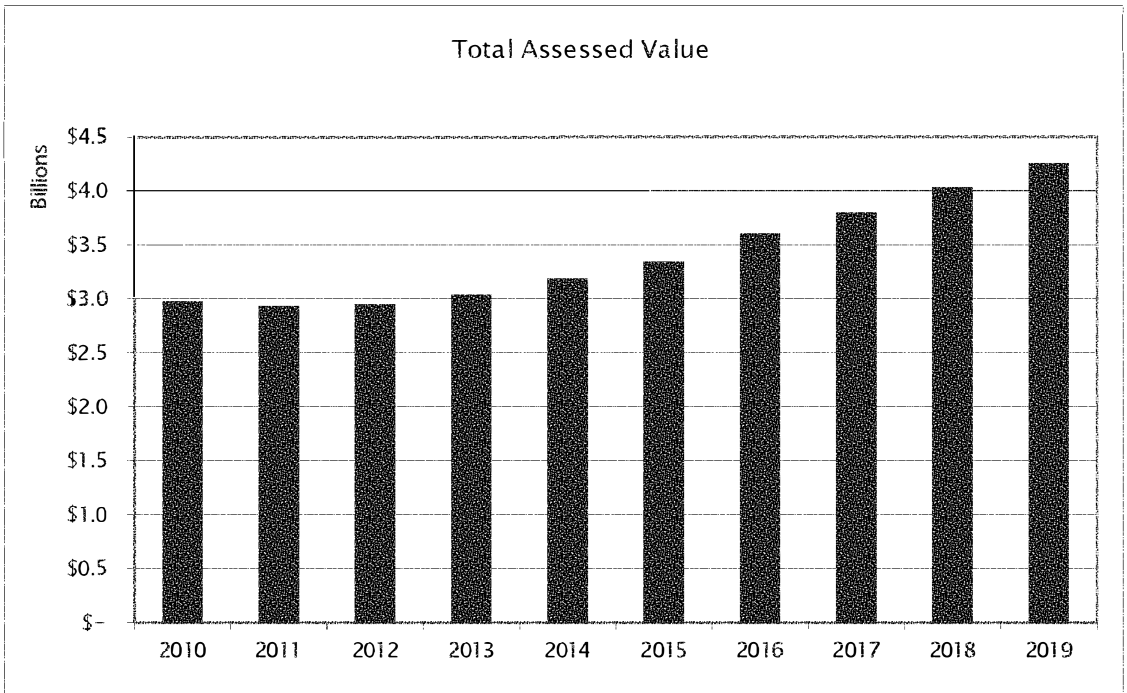
City of Carmel-by-the-Sea

TABLE 7

Net Assessed Value of Taxable Property

Last Ten Fiscal Years

Fiscal Year Ended June 30	Secured	Unsecured	Total Assessed Value	Total Direct Tax Rate
2010	2,931,738,234	37,881,331	2,969,619,565	1.000%
2011	2,885,547,810	34,821,845	2,920,369,656	1.000%
2012	2,908,891,597	30,254,516	2,939,146,113	1.000%
2013	3,001,630,584	28,759,821	3,030,390,405	1.000%
2014	3,153,416,179	27,307,767	3,180,723,946	1.000%
2015	3,309,856,089	26,813,656	3,336,669,745	1.000%
2016	3,569,065,524	26,719,717	3,595,785,241	1.000%
2017	3,766,258,441	26,280,598	3,792,539,039	1.000%
2018	3,999,182,757	25,708,168	4,024,890,925	1.000%
2019	4,220,683,852	26,668,954	4,247,352,806	1.000%



Notes:

Total Direct Tax Rate is from Table 8. Rates are based on a $100 of taxable value.

Exempt values are not included in Total.

With the passage of a constitutional amendment (Proposition 13) and subsequently enacted State legislation, property is assessed according to a base year rather than on a percentage of market value. Accordingly, a reliable estimate of actual value of taxable property within the City is not possible.

Source: County of Monterey Assessors Office

City of Carmel-by-the-Sea

TABLE 8

Direct and Overlapping Property Tax Rates

Last Ten Fiscal Years

(Rate per $100 of Taxable Value)

		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Direct Rates:	(1)	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Overlapping Rates:	(2)										
Carmel Unified		0.014	0.014	0.014	0.014	0.014	0.014	0.014	0.014	0.014	0.016
Monterey Peninsula Community College		0.022	0.022	0.022	0.022	0.022	0.022	0.022	0.022	0.022	0.021
Total Direct and Overlapping Rate		1.036	1.036	1.036	1.036	1.036	1.036	1.036	1.036	1.036	1.037
City Share of 1% Levy per Prop. 13	(3)	0.802	0.823	0.827	0.903	0.913	0.904	0.918	0.925	0.929	0.919

Notes:

1 The passage of a constitutional amendment (Proposition 13) in June 1978 limits the property tax rate to a base of $1.00 per $100.00. The $1.00 rate is levied by the County and apportioned to local agencies according to a formula prescribed by the California legislature.

2 Overlapping rates are those of entities that apply to property owners within the City of Pacific Grove. Not all overlapping rates apply to all property owners (e.g., the rates for school districts apply only to the proportion of the city's property owners whose property is located within the geographic boundaries of the school district).

3 This is the percentage of $1 countywide tax levy

Source: County of Monterey Assessors Office

Source: County of Monterey CAFR

City of Carmel-by-the-Sea

TABLE 9

Principal Property Tax Owners
Current Year and Nine Years Ago

	2019				2010		
Tax Owner	Assessed Valuation	Rank	Percentage of Total Assessed Valuation		Assessed Valuation	Rank	Percentage of Total Assessed Valuation
OWRF CARMEL LLC	$ 58,438,612	1	1.38%		na		na
PAUL ANDREW M	27,429,105	2	0.65%		na		na
LA PLAYA CARMEL HOTEL LLC	17,821,718	3	0.42%		na		na
HINES JEFFREY C	14,866,846	4	0.35%		na		na
HINES JEFFREY C	14,102,144	5	0.33%		na		na
DEBRUCE PAUL TR	13,736,738	6	0.32%		na		na
CVI INVESTORS LLC	13,076,279	7	0.31%		na		na
MOORE FAMILY TR	12,583,122	8	0.30%		na		na
GUNNER RICHARD V & MARGARET S GUNNER TRS	12,385,220	9	0.29%		na		na
CATS MEOW LLC	11,354,925	10	0.27%		na		na
Totals	$ 195,794,709		4.61%		$ -		0.00%
Total assessed value	$ 4,247,352,806				$ -		

Source: County of Monterey Assessors Office
na= not available

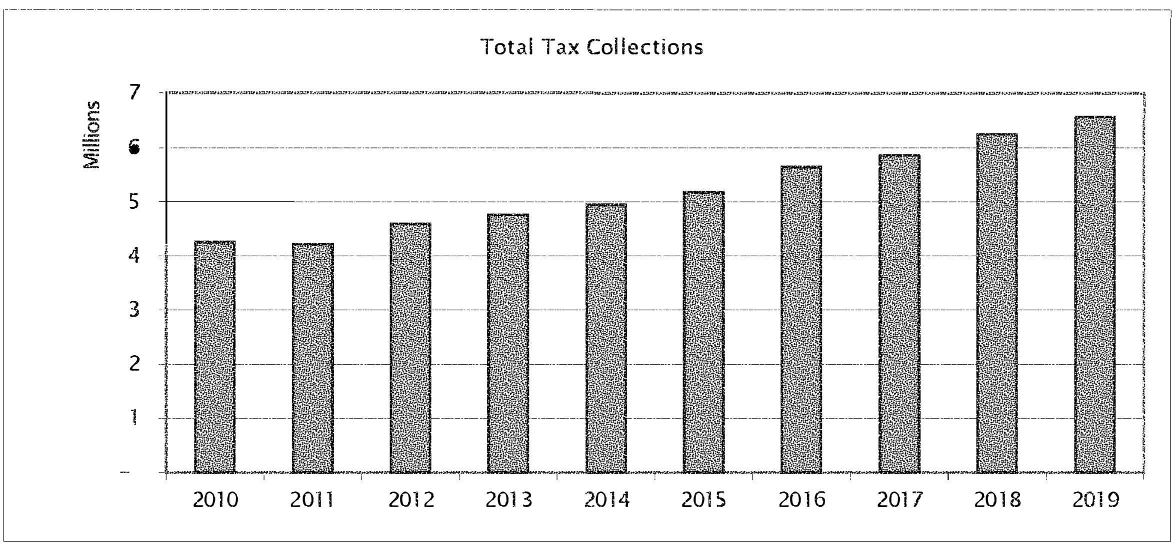
City of Carmel-by-the-Sea

Table 8

Property Tax Levies and Collections

Last Ten Fiscal Years

Fiscal Year Ended June 30	Total Tax Levy	Current Tax Collections [1]	Percent of Levy Collected	Supplemental Tax Collections	Delinquent Tax Collections	Total Collections
2010	4,189,288	4,004,959	95.6%	45,834	209,176	4,259,969
2011	4,157,789	3,970,688	95.5%	57,222	192,080	4,219,991
2012	4,571,481	4,402,336	96.3%	58,518	138,384	4,599,238
2013	4,652,176	4,601,002	98.9%	68,734	93,605	4,763,341
2014	4,881,534	4,764,377	97.6%	93,380	90,301	4,948,057
2015	5,127,974	5,010,031	97.7%	95,355	73,000	5,178,385
2016	5,598,743	5,453,176	97.4%	117,309	74,547	5,645,032
2017	5,825,889	5,674,416	97.4%	106,567	80,397	5,861,380
2018	6,192,126	6,049,707	97.7%	124,505	76,128	6,250,341
2019	6,524,331	6,374,271	97.7%	124,505	76,128	6,574,905



Source: County of Monterey Auditor-Controller's Office
City of Carmel-by-the-Sea Finance Department

City of Carmel-by-the-Sea

Table 11

Ratios of Outstanding Debt By Type

Last Ten Fiscal Years

Fiscal Year Ending June 30	Pension Obligation Bonds	Lease Revenue Bonds	NGEN Public Safety Joint Agree	Fire Capital Lease	Total Outstanding Debt	Median Household Income	Percentage of Household Income	Population	Debt per Capita
	Governmental Activities								
2010	$ -	$ 7,680,000	$ 370,747	$ 436,329	$ 8,487,076	$ 74,489	0.88%	3,731	$ 2,275
2011	-	7,575,000	360,054	465,566	8,400,620	76,463	0.91%	3,766	2,231
2012	6,280,000	7,295,000	336,050	344,131	14,255,181	72,582	0.51%	3,807	3,744
2013	6,165,000	7,010,000	320,375	349,372	13,844,747	71,719	0.52%	3,840	3,605
2014	3,585,000	6,725,000	303,366	137,387	10,750,753	62,460	0.58%	3,867	2,780
2015	5,005,000	6,435,000	264,625	-	11,704,625	74,758	0.64%	3,886	3,012
2016	4,420,000	6,140,000	246,246	-	10,806,246	81,607	0.76%	3,903	2,769
2017	3,825,000	5,840,000	227,141	-	9,892,141	87,532	0.88%	3,897	2,538
2018	3,220,000	5,530,000	207,281	-	8,957,281	87,532	0.98%	3,897	2,299
2019	2,605,000	5,215,000	186,511	-	8,006,511	87,532	1.09%	3,987	2,008

Source: City of Carmel-by-the-Sea Finance Department

Demographics from Table 16

City of Carmel-by-the-Sea

TABLE 13

Computation of Direct and Overlapping Debt

June 30, 2019

2018-2019 Assessed Value $ 4,247,352,806

	Total Debt Outstanding	Percentage Applicable to City [1]	Amount Applicable to City
DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:			
Monterey Peninsula Community College District	$ 124,803,522	11.648%	$ 14,537,114
Carmel Unified School District	23,738,445	23.890%	5,671,115
Total Direct and Overlapping Tax and Assessment Debt	$ 148,541,967		$ 20,208,229
DIRECT AND OVERLAPPING GENERAL FUND DEBT:			
Monterey County General Fund Obligations	161,193,744	6.365%	10,259,982
Monterey County Judgment Obligations	1,415,000	6.365%	90,065
City of Carmel-by-the-Sea General Fund Obligations	**5,215,000**	**100.000%**	**5,215,000**
City of Carmel-by-the-Sea Pension Obligation Bonds	**2,605,000**	**100.000%**	**2,605,000**
Total Gross Direct and Overlapping General Fund Debt			18,170,047
Less: Monterey County supported obligations			2,552,353
TOTAL NET DIRECT AND OVERALAPPING GENERAL FUND DEBT			$ 15,617,694
TOTAL DIRECT DEBT			**$ 72,820,000**
TOTAL GROSS OVERLAPPING DEBT			$ 30,558,276
TOTAL NET OVERLAPPING DEBT			$ 28,005,923
GROSS COMBINED TOTAL DEBT [2]			$ 38,378,276
NET COMBINED TOTAL DEBT			$ 35,825,923

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 tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2018-19 Assessed Valuation:

Direct Debt	
Total Direct and Overlapping Tax and Assessment Debt	0.48%
Total Direct Debt ($8,750,000)	**0.18%**
Gross Combined Total Debt	0.90%
Net Combined Total Debt	0.84%

Source: MuniServices, LLC

City of Carmel-by-the-Sea

TABLE 14

Legal Debt Margin Information
Last Ten Fiscal Years

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Debt limit	$ 111,360,734	$ 109,513,862	$ 110,217,979	$ 113,639,640	$ 119,277,148	$ 125,125,115	$ 134,841,947	$ 142,220,214	$ 150,933,410	$ 159,275,730
Total net debt applicable to limit	-	-	-	-	-	-	-	-	-	-
Legal debt margin	$ 111,360,734	$ 109,513,862	$ 110,217,979	$ 113,639,640	$ 119,277,148	$ 125,125,115	$ 134,841,947	$ 142,220,214	$ 150,933,410	$ 159,275,730
Total net debt applicable to the limit as a percentage of debt limit	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Notes:

California Government Code, Section 43605, sets the debt limit at 15% of the total assessed valuation of all real personal property within the city, when assessed values were at 25% of full market value. This has changed to 100% of full market value, with the rate adjusting to 1/4 of 15%.

Source: City of Carmel by the Sea Finance Department

Legal Debt Margin Calculation For Fiscal Year 2018-19:

Total assessed value	$ 4,247,352,806
Debt limit (3.75% of total assessed value)	159,275,730
Debt applicable to limit:	
General obligation bonds	-
Less: Amount available in debt service fund for repayment of bonds	-
Total net debt applicable to limit	-
Legal debt margin	$ 159,275,730

City of Carmel-by-the-Sea

TABLE 15

Pledged-Revenue Coverage

Last Ten Fiscal Years

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Sunset Center Certificates of Participation										
General City Revenues	$ 12,411,782	$ 12,830,497	$ 13,216,046	$ 15,932,161	$ 19,195,290	$ 21,139,081	$ 22,406,471	$ 21,653,778	$ 23,167,967	$ 24,061,114
Less: operating expenses	(12,170,116)	(12,481,658)	(14.648,160)	(21,259,578)	(15,512,429)	(16,332,293)	(17,552,771)	(18,716,522)	(19,407,105)	(20,069,662)
Net available revenue	241,666	348.839	(1,432,114)	(5,327,417)	3,682,861	4,806,788	4,853,700	2,937,256	3,760,862	3,991,452
Debt service:										
Principal	205,000	210,000	280.000	285,000	285,000	290,000	295,000	300,000	310,000	315,000
Interest	362,515	354,837	231,163	225,463	219.763	213.963	208,063	202,063	198.188	190,375
Total	567,515	564,837	511,163	510,463	504.763	503,963	503,063	502,063	508,188	505,375
Coverage	0.43	0.62	(2.80)	(10.44)	7.30	9.54	9.65	5.85	7.40	7.90
Pension Obligation Bonds										
General City Revenues	NA	NA	NA	$ 15,932,161	$ 19,195.290	$ 21,139,081	$ 22,406,471	$ 21,653,778	$ 23,167,967	$ 24,061,114
Less: operating expenses				(21,259,578)	(15,512,429)	(16,332,293)	-17.552,771	(18,716,522)	(19,407,105)	(20.069,662)
Net available revenue				(5,327,417)	3,682.861	4,806,788	4,853,700	2,937,256	3,760,862	3,991.452
Debt service:										
Principal	NA	NA	NA	115,000	580,000	580,000	585,000	595,000	605,000	615,000
Interest				57,848	122,593	118.243	112,443	105,131	96,206	85,120
Total				172,848	702,593	698,243	697,443	700,131	701,206	700,120
Coverage				(30.82)	5 24	6.88	6.96	4.20	4.91	5.70
Combined coverage	NA	0.62	(4.20)	(7.80)	3.05	4.00	4.04	2.44	2.85	3.31

Details regarding the city's outstanding debt can be found in the notes to the financial statements. Operating expenses do not include interest or depreciation.

Source: City of Carmel-by-the-Sea Finance Department

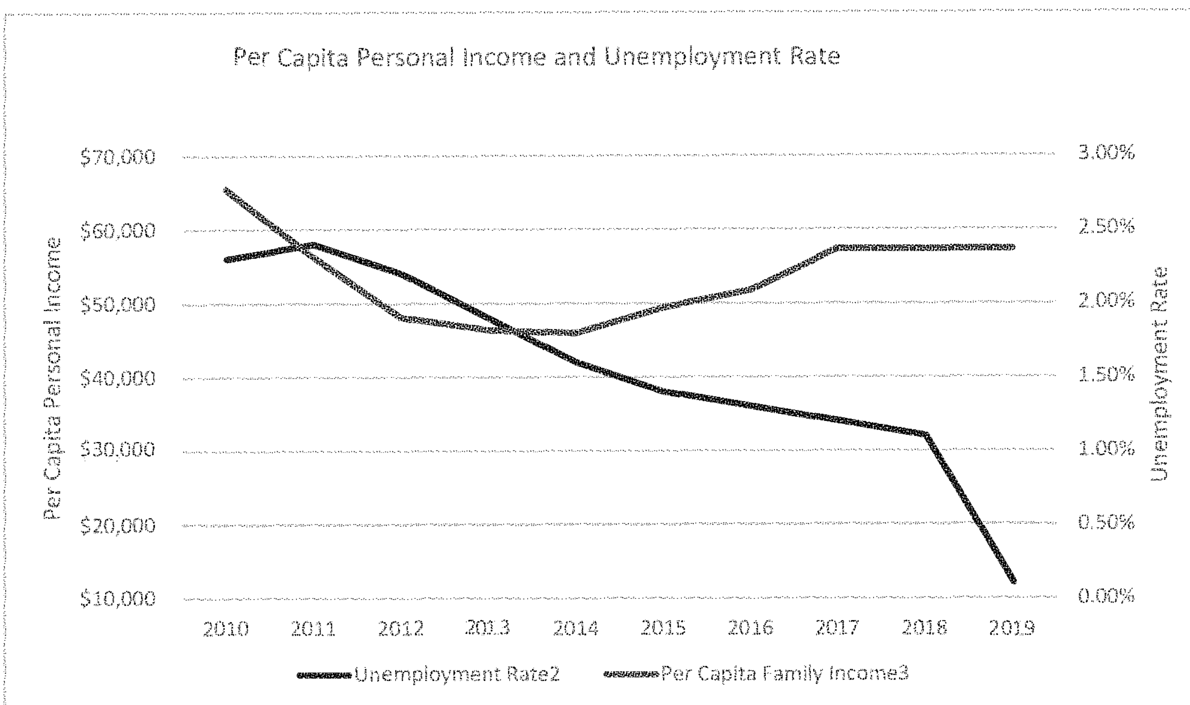
City of Carmel-by-the-Sea

TABLE 16

Demographic and Economic Statistics

Last Ten Fiscal Years

Fiscal Year Ended June 30	Population[1]	Unemployment Rate[2]	Median Household Income	Per Capita Family Income[3]	Median Age	% of Population 25+ with High School Diploma	% of Population 25+ with Bachelor's Degree
2010	3,731	2.30%	$ 74,489	$ 65,461	56.5	97.70%	66.40%
2011	3,766	2.40%	$ 76,463	$ 56,172	57.4	97.40%	63.30%
2012	3,807	2.20%	$ 72,582	$ 48,062	56.3	96.90%	58.50%
2013	3,840	1.90%	$ 71,719	$ 46,391	53.9	96.60%	60.80%
2014	3,867	1.60%	$ 62,460	$ 45,928	55.1	95.70%	57.60%
2015	3,886	1.40%	$ 74,758	$ 49,425	54.3	97.30%	58.60%
2016	3,903	1.30%	$ 81,607	$ 51,778	53.1	97.30%	63.70%
2017	3,897	1.20%	$ 87,532	$ 57,307	55.8	96.90%	64.70%
2018	3,897	1.10%	$ 87,532	$ 57,307	55.8	96.90%	64.70%
2019	3,987	0.10%	$ 87,532	$ 57,307	55.8	96.90%	64.80%



Notes:

A For calendar year ending during the fiscal year.

B Total Personal Income is presented in thousands.

Source: [1] California Department of Finance

[2] California Employment Development Department

[3] U.S. Department of Commerce, Bureau of Economic Analysis

City of Carmel-by-the-Sea

TABLE 17

Principal Employers

Current Year and Nine Years Ago (1)

	Fiscal Year Ended June 30					
	2019			2010		
	Number of Employees	Rank	Percentage of Total Employment	Number of Employees	Rank	Percentage of Total Employment
Employer:						
Carmel Realty	100	1	5.88%	na	na	na
City of Carmel-by-the-Sea	87	2	5.12%	na	na	na
Cypress Inn/Terry's Lounge	80	3	4.71%	na	na	na
La Playa Hotel	73	4	4.29%	na	na	na
Casanova	60	5	3.53%	na	na	na
Dametra	50	6	2.94%	na	na	na
Catinetta Luca	41	7	2.41%	na	na	na
Auberge	40	8	2.35%	na	na	na
Forge in the Forest	36	9	2.12%	na	na	na
Bruno's Market	33	10	1.94%	na	na	na
Totals	500		35.29%			
Total employment	1,700					

Notes: This is the second year that the City is including a statistical section. Due to the small size of the City, employee counts for prior years were not available through a database or third party. Prior year information will be included as the City reports this information in forthcoming years.

Source: City of Carmel-by-the-Sea Finance Department

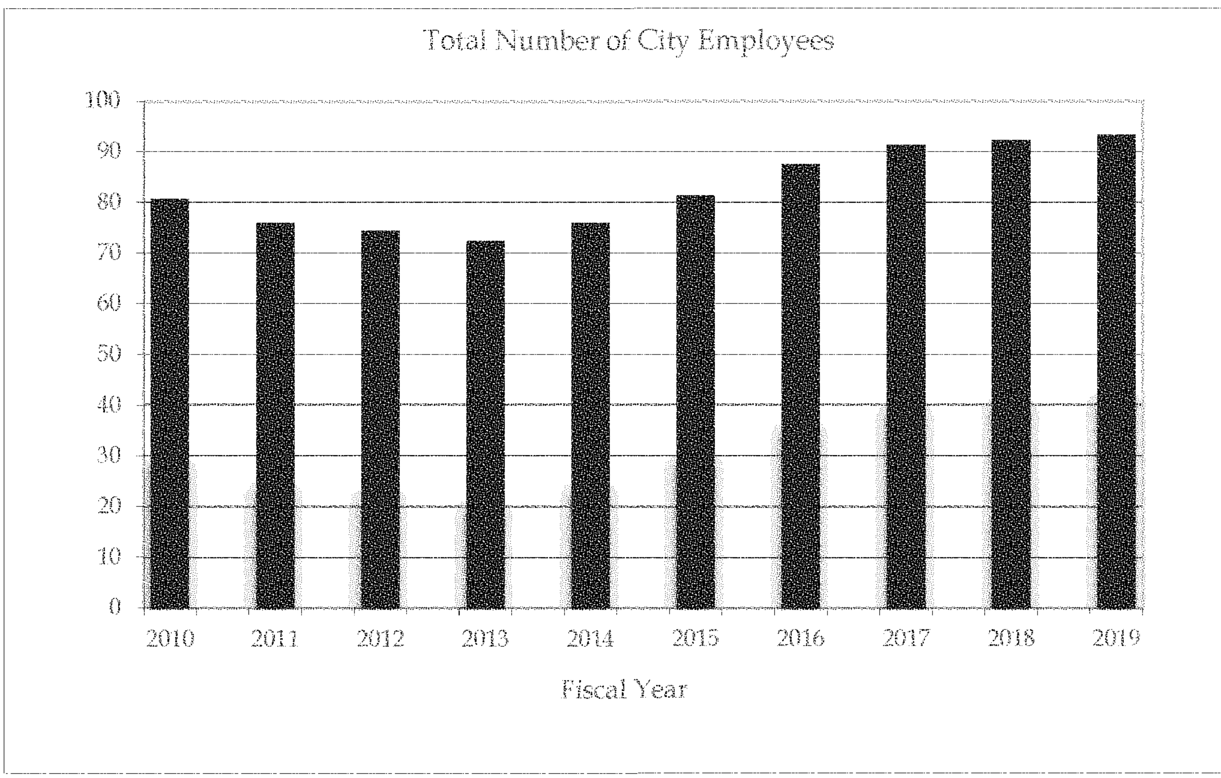
City of Carmel-by-the-Sea

TABLE 18

Number of City Employees by Department

Last Ten Fiscal Years

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Departments:										
General Government	12.5	8.0	9.8	10.8	10.7	18.2	17.6	18.6	16.2	15.7
Public Safety	34.8	33.1	31.7	27.0	28.0	28.8	30.7	30.7	31.7	32.0
Public Works	15.4	15.4	14.4	13.2	13.9	14.0	18.0	21.0	21.0	21.0
Community Activities	1.1	1.1	1.1	1.2	1.4	1.7	1.7	1.5	1.4	1.5
Library	10.7	10.7	11.3	10.4	11.7	11.6	12.4	12.4	12.8	14.0
Community Plng. and Bldg.	6.0	7.5	6.0	9.7	10.0	7.0	7.0	7.0	9.0	9.0
Totals	80.5	75.7	74.2	72.2	75.7	81.3	87.4	91.2	92.1	93.1



Source: City of Carmel-by-the-Sea Finance Department

City of Carmel-by-the-Sea

TABLE 19

Operating Indicators By Function

Last Ten Fiscal Years

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Function:										
Police										
Calls for service	16,437	14,867	13,232	10,889	10,023	14,813	14,360	13,701	12,674	13,252
Fire										
Calls for service	na	na	742	648	759	851	925	856	843	1,006
Inspections	na	na	321	645	725	822	636	346	504	112
Public Works										
Potholes patched								18	52	25
Tree permits Issued									166	90
Calls for service								300	250	500
Road asphalt used									48	34
Trees planted					60			32	82	82
Library										
Circulation of library materials	110,707	109,350	150,280	155,630	153,227	140,848	114,137	106,976	99,802	104,456
Reference questions	38,426	28,539	32,512	33,176	37,010	24,318	20,233	19,252	16,276	15,789
Community Activities										
Special Event permits	na	na	na	na	39	45	30	81	75	42
Community Development										
Building Permits	301	333	306	286	340	500	422	416	580	590
Architectural Approvals	247	211	234	305	273	466	524	468	440	452
Administration										
Business Licenses (All businesses)	1001	1058	1132	1208	1280	1350	1472	1615	1836	2187
Public Records Requests (Calendar Yr)	na	na	na	83	143	147	127	160	184	187

Source: City of Carmel-by-the-Sea Departments

City of Carmel-by-the-Sea

TABLE 20

Capital Asset Statistics By Function

Last Ten Fiscal Years

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Function:										
General Government										
Number of buildings	1	1	1	1	1	1	1	1	1	1
Public Safety										
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Parking meters	3	3	3	3	11	1	1	1	1	1
Fire stations	1	1	1	1	1	1	1	1	1	1
Public Works										
Miles of paved streets	27	27	27	27	27	27	27	27	27	27
Parking lots	3	3	3	3	3	3	3	3	3	3
Fleet Vehicles (City-wide)	43	43	43	43	43	43	43	43	43	45
Recreation										
Parks	10	10	10	10	10	10	10	10	10	10
Playgrounds	1	1	1	1	1	1	1	1	1	1
Tennis courts	2	2	2	2	2	2	2	2	2	2
Library										
Library facilities	2	2	2	2	2	2	2	2	2	2

Source: City of Carmel-by-the-Sea Departments

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OTHER INDEPENDENT AUDITOR'S REPORTS

CHAVAN & ASSOCIATES, LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and Members of the
City Council of the City of Carmel-By-The-Sea
Carmel-by-the-Sea, California

We have audited, 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, the financial statements of the City of Carmel-By-The-Sea (the "City") as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 20, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not

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express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

C & A LLP

December 20, 2019
San Jose, California

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APPENDIX B

GENERAL INFORMATION ABOUT THE CITY OF CARMEL-BY-THE-SEA AND THE COUNTY OF MONTEREY

*The following information concerning the County of Monterey (the "**County**") and the City of Carmel-by-the-Sea (the "**City**") is included only for the purpose of supplying general information regarding the region in which the City is located. The Bonds are not a debt of the County, the City, the State of California (the "**State**") or any of its political subdivisions, and neither the County, the City, the State nor any of its political subdivisions is liable therefor. Certain information relating to employment, income and taxable transactions to be released for 2020 can be expected to be materially different from the historical figures set forth in this APPENDIX B. See "BOND OWNERS' RISKS – Dependence on Tourism; COVID-19 Pandemic."*

General

The City. The City is located about 120 miles south of San Francisco and had a 2020 population of approximately 3,949. The City operates under a council-administrator form of government, with a five-member city council elected at large for overlapping four-year terms. The main sources of general governmental fund type revenues are transient occupancy taxes, property taxes, and sales taxes.

The County. The County borders the Pacific Ocean almost at the midpoint of the California coastline, approximately 130 miles south of San Francisco and 240 miles north of Los Angeles and was incorporated in 1850 as one of the State's original 27 counties. The County covers an area of approximately 3,300 square miles, with a population in excess of 440,000. Agriculture, tourism and government are major contributors to the County's economy. The Salinas Valley, located in the eastern portion of the County, is a rich agricultural center and one of the nation's major vegetable-producing areas. The Monterey Peninsula, famed for its scenic beauty, is a year-round tourist attraction. Pebble Beach, Cypress Point, Spyglass Hill, Poppy Hills and The Links at Spanish Bay are well known Monterey Peninsula golf courses. The Monterey Bay Aquarium and the amenities within the City are other attractions that draw tourists to the Monterey Peninsula.

Population

The following table lists population estimates for the City, the County and the State for the last five years, as of January 1 each year.

CITY OF CARMEL-BY-THE-SEA, COUNTY OF MONTEREY, STATE OF CALIFORNIA
Population Estimates
As of January 1, 2016 through 2020

Year	City of Carmel-by-the-Sea	Monterey County	State of California
2016	3,896	435,400	39,131,307
2017	3,915	438,723	39,398,702
2018	3,920	439,193	39,586,646
2019	3,939	441,304	39,659,376
2020	3,949	441,143	39,782,870

Source: California Department of Finance, Demographic Research Unit.

Industry and Employment

The City is part of the Salinas Metropolitan Statistical Area ("**MSA**"), which is comprised of Monterey County. The unemployment rate in the Monterey County was 9.4 percent in August 2020, down from a revised 12.0 percent in July 2020, and above the year-ago estimate of 4.2 percent. This compares with an unadjusted unemployment rate of 11.6 percent for California and 8.5 percent for the nation during the same period.

The unemployment rate in the City was 0.2% in August 2020 (and has averaged less than 0.4% historically back to at least 2010), which is significantly lower than for the County or the MSA area as a whole.

SALINAS MSA
Civilian Labor Force, Employment and Unemployment
Calendar Years 2015 through 2019
March 2019 benchmark

	2015	**2016**	**2017**	**2018**	**2019**
Civilian Labor Force (1)	218,800	220,400	219,900	224,100	222,500
Employment	201,100	203,800	204,200	210,000	208,700
Unemployment	17,600	16,700	15,700	14,000	13,800
Unemployment Rate	8.1%	7.6%	7.2%	6.3%	6.2%
Wage and Salary Employment: (2)					
Agriculture	53,000	53,700	53,200	55,700	54,700
Mining and Logging	300	200	200	300	300
Construction	5,200	5,900	6,000	6,500	6,500
Manufacturing	5,500	5,400	5,600	5,400	5,300
Wholesale Trade	5,300	5,400	5,600	5,900	5,800
Retail Trade	16,400	16,600	16,400	16,800	16,800
Transportation, Warehousing, Utilities	4,300	4,300	4,100	4,000	4,200
Information	1,300	1,100	1,100	1,000	1,000
Financial Activities	4,100	4,200	4,300	4,500	4,400
Professional and Business Services	12,800	13,400	13,200	13,900	14,800
Educational and Health Services	18,400	18,600	19,700	20,100	20,400
Leisure and Hospitality	23,400	24,300	24,500	25,400	26,200
Other Services	5,000	5,200	5,200	5,100	5,100
Federal Government	5,100	5,100	5,100	5,000	5,200
State Government	5,700	5,800	5,700	5,700	5,600
Local Government	20,300	21,000	22,500	23,800	23,800
Total, All Industries (3)	186,100	190,200	192,400	198,800	200,000

(1) Labor force data is by place of residence; includes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.
(2) Industry employment is by place of work; excludes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.
(3) Totals may not add due to rounding.
Source: State of California Employment Development Department.

Principal Employers

The following table lists the principal employers within the City for Fiscal Year 2018-19. The top employer accounts for approximately 5.88% of employment, and the top 10 employers cumulatively account for approximately 35% of employment. The City is also close to employment centers in the cities of Monterey, Seaside, Marina and Salinas.

CITY OF CARMEL-BY-THE-SEA
Principal Employers
Fiscal Year 2018-19

Employer Name	No. of Employees
Carmel Realty	100
City of Carmel-by-the-Sea	87
Cypress Inn/Terry's Lounge	80
La Playa Hotel	73
Casanova	60
Dametra	50
Catinetta Luca	41
Auberge	40
Forge in the Forest	36
Bruno's Market	33

Source: City of Carmel-by-the-Sea.

The following table lists, in alphabetical order, the largest manufacturing and non-manufacturing employers within the County as of September 2020.

COUNTY OF MONTEREY
Major Employers
As of September 2020
(In Alphabetical Order)

Employer Name	Location	Industry
Al Pak Labor	Soledad	Fruits & Vegetables-Wholesale
Azcona Harvesting	Greenfield	Harvesting-Contract
Bud of California	Soledad	Fruits & Vegetables-Growers & Shippers
Carol Hatton Breast Care Ctr	Monterey	Clinics
Casa Palmero At Pebble Beach	Pebble Beach	Hotels & Motels
County-Monterey Behavioral	King City	Health Services
Fort Hunter Liggett Military	Jolon	Military Bases
Growers Co	Salinas	Fruits & Vegetables & Produce-Retail
Hilltown Packing Co	Salinas	Harvesting-Contract
Mann Packing Co	Salinas	Fruits & Vegetables-Growers & Shippers
Middlebury Institute-Intl	Monterey	University-College Dept/Facility/Office
Misionero Vegetables	Gonzales	Fruits & Vegetables-Growers & Shippers
Monterey County Social Svc Dpt	Salinas	Government Offices-County
Monterey Peninsula College	Monterey	Junior-Community College-Tech Institutes
Natividad Medical Ctr	Salinas	Hospitals
Natividad Medical Ctr	Salinas	Medical Centers
Ord Community Commissary	Seaside	Military Bases
Pebble Beach Co	Pebble Beach	Resorts
Pebble Beach Co	Pebble Beach	Resorts
Premier Raspberry LLC	Royal Oaks	Grocers-Wholesale
Quality Farm Labor	Gonzales	Labor Contractors
R C Packing	Gonzales	Packing & Crating Service
Salinas Valley Meml Healthcare	Salinas	Health Care Management
US Defense Manpower Data Ctr	Seaside	Government Offices-Us
Valley Harvesting	Greenfield	Crop Harvesting-Primarily By Machine

Source: State of California Employment Development Department, extracted from The America's Labor Market Information System (ALMIS) Employer Database, 2020 1st edition.

Effective Buying Income

"Effective Buying Income" is defined as personal income less personal tax and nontax payments, a number often referred to as "disposable" or "after-tax" income. Personal income is the aggregate of wages and salaries, other labor-related income (such as employer contributions to private pension funds), proprietor's income, rental income (which includes imputed rental income of owner-occupants of non-farm dwellings), dividends paid by corporations, interest income from all sources, and transfer payments (such as pensions and welfare assistance). Deducted from this total are personal taxes (federal, state and local), nontax payments (fines, fees, penalties, etc.) and personal contributions to social insurance. According to U.S. government definitions, the resultant figure is commonly known as "disposable personal income."

The following table summarizes the total effective buying income for the City, the County, the State, and the United States for the period 2016 through 2020.

CITY OF CARMEL-BY-THE-SEA, MONTEREY COUNTY, STATE OF CALIFORNIA AND UNITED STATES EFFECTIVE BUYING INCOME As of January 1, 2016 through 2020

Year	Area	Total Effective Buying Income (000's Omitted)	Median Household Effective Buying Income
2016	City of Carmel-by-the-Sea	$172,905	$58,219
	Monterey County	8,776,830	50,389
	California	981,231,666	53,589
	United States	7,757,960,399	46,738
2017	City of Carmel-by-the-Sea	$169,578	$58,333
	Monterey County	9,535,558	52,802
	California	1,036,142,723	55,681
	United States	8,132,748,136	48,043
2018	City of Carmel-by-the-Sea	$209,107	$72,147
	Monterey County	10,045,200	56,609
	California	1,113,648,181	59,646
	United States	8,640,770,229	50,735
2019	City of Carmel-by-the-Sea	$236,046	$75,412
	Monterey County	10,807,771	60,275
	California	1,183,264,399	62,637
	United States	9,017,967,563	52,841
2020	City of Carmel-by-the-Sea	$241,009	$79,069
	Monterey County	11,10,302	65,078
	California	1,243,564,816	65,870
	United States	9,487,165,436	55,303

Source: The Nielsen Company (US), Inc for years 2015 through 2018; Claritas, LLC for 2019 and 2020.

.**Commercial Activity**

A summary of historic taxable sales within the City and the County during the past five years in which data is available is shown in the following tables.

Total taxable sales during the first quarter of calendar year 2020 in the City were reported to be $28,842,359, a 35.62% decrease in total taxable sales of $44,799,383 reported during the first calendar year 2019.

CITY OF CARMEL-BY-THE-SEA
Taxable Retail Sales
Number of Permits and Valuation of Taxable Transactions
Calendar Years 2015 through 2019 (Dollars in Thousands)

	Retail Stores		**Total All Outlets**	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2015	450	$193,736	630	$209,278
2016	441	194,828	620	208,069
2017	431	208,480	595	222,268
2018	429	215,666	601	228,627
2019	419	204,624	595	217,740

Source: State Board of Equalization. Taxable Sales in California (Sales & Use Tax) for years 2015-2016. State Department of Tax and Fee Administration for year 2017-2019.

Total taxable sales during the first quarter of calendar year 2020 in the County were reported to be $1,365,125,700, a 13.10% decrease in the total taxable sales of $1,570,948,912 reported during the first quarter of calendar year 2019.

COUNTY OF MONTEREY
Taxable Retail Sales
Number of Permits and Valuation of Taxable Transactions
Calendar Years 2015 through 2019 (Dollars in Thousands)

	Retail Stores		**Total All Outlets**	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2015(1)	7,240	$4,548,935	11,437	$6,454,359
2016	7,352	4,714,130	11,657	6,716,141
2017	7,544	4,891,626	11,959	6,939,334
2018	7,666	5,112,856	12,490	7,339,237
2019	7,725	5,123,077	12,816	7,405,525

Source: State Board of Equalization. Taxable Sales in California (Sales & Use Tax) for years 2015-2016. State Department of Tax and Fee Administration for year 2017-2019.

Construction Activity

Construction activity in the City and the County for the past five years for which data is available is shown in the following tables.

CITY OF CARMEL-BY-THE-SEA
Building Permit Valuation
For Calendar Years 2015 through 2019
(Dollars in Thousands)[1]

	2015	2016	2017	2018	2019
Permit Valuation					
New Single-family	$4,602.4	$2,695.0	$4,087.0	$6,315.4	$4,260.5
New Multi-family	0.0	1,500.0	0.0	3,250.0	0.0
Res. Alterations/Additions	11,458.7	12,429.1	11,688.7	18,712.5	13,074.1
Total Residential	16,061.1	16,624.1	15,775.7	28,277.9	17,334.6
New Commercial	0.0	0.0	0.0	400.0	5,335.0
New Industrial	0.0	0.0	0.0	0.0	0.0
New Other	806.7	641.4	349.3	1,192.3	823.3
Com Alterations/Additions	3,231.8	3,811.2	1,802.5	1,973.3	2,841.0
Total Nonresidential	4,038.5	4,452.6	2,151.8	3,565.6	8,999.3
New Dwelling Units					
Single Family	7	6	9	10	8
Multiple Family	0	2	0	8	0
TOTAL	7	8	9	18	8

(1) Totals may not foot due to rounding.
Source: Construction Industry Research Board, Building Permit Summary.

MONTEREY COUNTY
Building Permit Valuation
For Calendar Years 2015 through 2019
(Dollars in Thousands)[1]

	2015	2016	2017	2018	2019
Permit Valuation					
New Single-family	$116,703.8	$152,257.5	$165,341.2	$199,194.7	$142,474.1
New Multi-family	38,947.6	22,331.7	33,318.9	51,460.6	23,670.0
Res. Alterations/Additions	63,610.6	67,799.9	73,317.4	88,972.6	65,196.1
Total Residential	219,262.0	242,389.1	271,977.5	339,627.9	231,340.1
New Commercial	62,031.5	66,171.2	62,156.5	52,935.5	54,317.0
New Industrial	4,418.3	5,469.5	8,871.2	4,774.8	2,007.1
New Other	23,916.7	8,442.4	8,938.4	19,555.8	8,897.4
Com Alterations/Additions	132,775.1	119,296.0	91,665.4	71,837.1	130,399.8
Total Nonresidential	223,141.6	199,379.1	171,631.5	149,103.2	195,621.3
New Dwelling Units					
Single Family	374	486	523	611	574
Multiple Family	258	118	178	212	116
TOTAL	632	604	701	823	690

(1) Totals may not foot due to rounding.
Source: Construction Industry Research Board, Building Permit Summary.

APPENDIX C

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following is a brief summary of the provisions of the Site Lease, the Lease Agreement and the Indenture of Trust relating to the Bonds. Such summary is not intended to be definitive, and reference is made to the complete documents for the complete terms thereof.

DEFINITIONS

Except as otherwise defined in this summary, the terms previously defined in this Official Statement have the respective meanings previously given. In addition, the following terms have the following meanings when used in this summary:

"Bond Counsel" means (a) Jones Hall, A Professional Law Corporation, or (b) any other attorney or firm of attorneys appointed by or acceptable to the Authority 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 Fund" means the fund by that name established and held by the Trustee under the Indenture.

"Bond Year" means each twelve-month period extending from November 2 in one calendar year to November 1 of the succeeding calendar year, both dates inclusive; except that the first Bond Year commences on the Closing Date and extends to and including November 1, 2021.

"Business Day" means a day (other than a Saturday or a Sunday) on which banks are not required or authorized to remain closed in the state in which the Office of the Trustee is located.

"Closing Date" means the date of original issuance of the Bonds.

"Escrow Agreement" means the Escrow Agreement dated as of October 1, 2020, among the Authority, the City and the U.S. Bank National Association, as escrow agent, relating to the refunding and defeasance of the 2010 Bonds in full.

"Federal Securities" means: (a) any direct general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America), for which the full faith and credit of the United States of America are pledged; (b) obligations of any agency, department or instrumentality of the United States of America, the timely payment of principal and interest on which are directly or indirectly secured or guaranteed by the full faith and credit of the United States of America.

"Fiscal Year" means any twelve-month period extending from July 1 in one calendar year to June 30 of the succeeding calendar year, both dates inclusive, or any other twelve-month period selected and designated by the Authority as its official fiscal year period.

"Lease Payment Date" means, with respect to any Interest Payment Date, the fifth Business Day immediately preceding such Interest Payment Date.

"Lease Payments" means the amounts payable by the City under the Lease Agreement as rental for the Leased Property, including any prepayment thereof and including any amounts payable upon a delinquency in the payment thereof, but excluding Additional Rental Payments.

"Leased Property" means the real property described in Appendix A to the Lease Agreement, together with all improvements and facilities at any time situated thereon, consisting generally of the land and improvements which constitute the Sunset Cultural Center.

"Net Proceeds" means amounts derived from any policy of casualty insurance or title insurance with respect to the Leased Property, or the proceeds of any taking of the Leased Property or any portion thereof in eminent domain proceedings (including sale under threat of such proceedings), to the extent remaining after payment therefrom of all expenses incurred in the collection and administration thereof.

"Office" means such office or offices of the Trustee as designated under the Indenture.

"Owner", when used with respect to any Bond, means the person in whose name the ownership of such Bond is registered on the Bond registration books of the Trustee.

"Permitted Encumbrances" means, as of any time: (a) liens for general ad valorem taxes and assessments, if any, not then delinquent, or which the City may permit to remain unpaid under Article V of the Lease Agreement; (b) the Site Lease, the Lease Agreement and the Assignment Agreement; (c) any right or claim of any mechanic, laborer, material man, supplier or vendor not filed or perfected in the manner prescribed by law; (d) the exceptions disclosed in the title insurance policy with respect to the Leased Property issued as of the Closing Date by Stewart Title Guaranty Company; and (e) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions which exist of record and which the City certifies in writing will not materially impair the use of the Leased Property for its intended purposes.

"Permitted Investments" means any of the following:

(a) any direct general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America), for which the full faith and credit of the United States of America are pledged.

(b) obligations of any agency, department or instrumentality of the United States of America, the timely payment of principal and interest on which are directly or indirectly secured or guaranteed by the full faith and credit of the United States of America.

(c) Any direct or indirect obligations of an agency or department of the United States of America whose obligations represent the full faith and credit of the United States of America, or which are rated A or better by S&P.

(d) Bank deposit products and interest-bearing deposit accounts (including certificates of deposit) in federal or State chartered savings and loan associations or in federal or State of California banks (including the Trustee) which may include the Trustee and its affiliates, provided that: (i) the unsecured obligations of such commercial bank or savings and loan association are rated A or better by S&P; or (ii) such deposits are fully insured by the Federal Deposit Insurance Corporation or are collateralized by Permitted Investments described in clauses (a), (b) or (c) above.

(e) Commercial paper rated, at the time of purchase, "A-1+" or better by S&P.

(f) Federal funds or bankers acceptances with a maximum term of one year of any bank which an unsecured, uninsured and unguaranteed obligation rating of "A-1+" or better by S&P.

(g) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of at least AAAm-G, AAAm or AAm, which funds may include funds for which the Trustee, its affiliates, parent or subsidiaries receives and retains a fee for services provided to the fund, whether as a custodian, transfer agent, investment advisor or otherwise, but excluding funds with a floating net asset value.

"Rental Period" means each period during the Term of the Lease Agreement commencing on and including November 2 in each year and extending to and including the next succeeding November 1, except that the first Rental Period begins on the Closing Date and ends on November 1, 2021.

"Revenues" means: (a) all amounts received by the Authority or the Trustee under or with respect to the Lease Agreement, including, without limiting the generality of the foregoing, all of the Lease Payments (including both timely and delinquent payments, any late charges, and whether paid from any source), but excluding any additional amounts of rental which the City may agree to pay to the Authority in connection with the issuance of additional obligations of the City at any future date; and (b) all interest, profits or other income derived from the investment of amounts in any fund or account established under this Indenture.

"S&P" means S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC, of New York, New York, its successors and assigns.

"Tax Code" means the Internal Revenue Code of 1986 as in effect on the Closing Date or (except as otherwise referenced herein) 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.

"2010 Bonds" means the City of Carmel-by-the-Sea Public Improvement Authority 2010 Refunding Lease Revenue Bonds issued by the Authority in the aggregate original principal amount of $7,575,000.

SITE LEASE

The Site Lease constitutes an amendment and restatement of prior site leases between the City, as lessor, and the Authority, as lessee, under which the City has previously leased the Leased Property to the Authority in connection with previous financings of the Sunset Cultural Center Project, including the 2010 Bonds. Under the Site Lease, the City continues to lease the Leased Property to the Authority in consideration of the agreement by the Authority to issue the Bonds and apply the proceeds thereof to refund the 2010 Bonds. No further rent payment is due by the Authority for the lease of the Leased Property under the Site Lease. The Site Lease is for a term commencing on the Closing Date and extending to the date on which no Bonds remain outstanding under the Indenture. In the event of any release or substitution of property under the Lease Agreement as described below, the description of the property leased under the Site Lease will be modified accordingly.

LEASE AGREEMENT

Lease of Leased Property; Term

The Lease Agreement constitutes an amendment and restatement of prior lease agreements between the Authority, as lessor, and the City, as lessee, under which the Authority has previously leased the Leased Property back to the Authority in connection with previous financings of the Sunset Cultural Center Project, including the 2010 Bonds. Under the Lease Agreement, the Authority continues to lease the Leased Property back to the City, in consideration of the agreement by the City to pay the Lease Payments. The Lease Agreement is for a term commencing on the Closing Date and extending to the date on which no Bonds remain outstanding under the Indenture.

Lease Payments

The City agrees to pay semiannual Lease Payments, subject to abatement as described below, as the rental for the use and occupancy of the Leased Property. On each Lease Payment Date, the City is obligated to deposit with the Trustee the full amount of the Lease Payments coming due and payable on the next Interest Payment Date, to the extent required to be paid by the City under the Lease Agreement. Any amount held in the Bond Fund, the Interest Account and the Principal Account on any Lease Payment Date (other than amounts required for payment of past due principal or interest on any Bonds not presented for payment) will be credited towards the Lease Payment then required to be paid.

Source of Payments; Budget and Appropriation

The Lease Payments are payable from any source of available funds of the City, subject to the provisions of the Lease Agreement relating to abatement.

The City covenants to take all actions required to include the Lease Payments in each of its budgets during the Term of the Lease Agreement and to make the necessary appropriations for all Lease Payments and Additional Rental Payments. Such covenant constitutes a duty imposed by law and each and every public official of the City is required to take all actions required by law in the performance of the official duty of such officials to enable the City to carry out and perform the covenants and agreements in the Lease Agreement agreed to be carried out and performed by the City.

Abatement of Lease Payments

Abatement Due to Eminent Domain. If the Leased Property is taken permanently under the power of eminent domain or sold to a government threatening to exercise the power of eminent domain, the Term of the Lease Agreement thereupon ceases as of the day possession is taken. If less than all of the Leased Property is taken permanently, or if the Leased Property is taken temporarily, under the power of eminent domain, then:

(a) the Lease Agreement shall continue in full force and effect with respect thereto and does not terminate by virtue of such taking, and the parties waive the benefit of any law to the contrary; and

(b) the Lease Payments are subject to abatement in an amount determined by the City such that the resulting Lease Payments represent fair consideration for the use and occupancy of the remaining usable portions of the Leased Property.

Abatement Due to Damage or Destruction. The Lease Payments are also subject to abatement during any period in which by reason of damage or destruction (other than by eminent domain which is described above) there is substantial interference with the use and occupancy by the City of the Leased Property or any portion thereof. The Lease Payments are subject to abatement in an amount determined by the City such that the resulting Lease Payments represent fair consideration for the use and occupancy of the remaining usable portions of the Leased Property not damaged or destroyed. Such abatement will continue for the period commencing with such damage or destruction and ending with the substantial completion of the work of repair or reconstruction. In the event of any such damage or destruction, the Lease Agreement continues in full force and effect and the City waives any right to terminate the Lease Agreement by virtue of any such damage and destruction.

Substitution of Property

The City has the option at any time and from time to time, to substitute other real property (the “Substitute Property”) for the Leased Property or any portion thereof (the “Former Property”), upon satisfaction of all of the following requirements which are declared to be conditions precedent to such substitution:

(a) No Event of Default has occurred and is continuing.

(b) The City has filed with the Authority and the Trustee, and caused to be recorded in the office of the Monterey County Recorder sufficient memorialization of, an amendment of the Lease Agreement which adds the legal description of the Substitute Property and deletes therefrom the legal description of the Former Property.

(c) The City has obtained a CLTA policy of title insurance insuring the City's leasehold estate under the Lease Agreement in the Substitute Property, subject only to Permitted Encumbrances, in an amount at least equal to the estimated value thereof.

(d) The City has certified in writing to the Authority and the Trustee that the Substitute Property serves the municipal purposes of the City and constitutes property which the City is permitted to lease under the laws of the State of California, and has been determined to serve a governmental function of the City.

(e) The Substitute Property does not cause the City to violate any of its covenants, representations and warranties made in the Lease Agreement.

(f) The City and the Authority have filed with the Trustee a written certificate stating that (a) based on the estimated value of the Substitute Property, the remaining Lease Payments constitute fair rental value for the use and occupancy of the Substitute Property, taking into consideration various factors set forth in the Lease Agreement, and (b) the useful life of the Substitute Property at least extends to November 1, 2042.

(g) The City has mailed written notice of such substitution to each rating agency which then maintains a rating on the Bonds.

Upon the satisfaction of all such conditions precedent, the Term of the Lease Agreement will thereupon end as to the Former Property and commence as to the Substitute Property, and all references to the Former Property will apply with full force and effect to the Substitute Property. The City is not entitled to any reduction, diminution, extension or other modification of the Lease Payments whatsoever as a result of any substitution of property. The Authority and the City will execute, deliver and cause to be recorded all documents required to discharge the Site Lease, the Lease Agreement and the Assignment Agreement of record against the Former Property and to cause the Substitute Property to become subject to all of the terms and conditions of the Site Lease, the Lease Agreement and the Assignment Agreement.

Release of Property

The City has the option at any time and from time to time to release any portion of the Leased Property from the Lease Agreement (the "Released Property") provided that the City has satisfied all of the following requirements which are declared to be conditions precedent to such release:

(a) No Event of Default has occurred and is continuing.

(b) The City has filed with the Authority and the Trustee, and caused to be recorded in the office of the Monterey County Recorder sufficient memorialization of, an amendment of the Lease Agreement which removes the Released Property from the Site Lease and the Lease Agreement.

(c) The City and the Authority have filed with the Trustee a written certificate stating that based on the estimated value of the property which remains subject to this Lease Agreement following such release, the remaining Lease Payments constitute fair rental value for the use and occupancy of such property, taking into consideration certain factors set forth in the Lease Agreement.

(d) The City has mailed written notice of such release to each rating agency which then maintains a rating on the Bonds.

Upon the satisfaction of all such conditions precedent, the Term of the Lease Agreement will thereupon end as to the Released Property. The City is not entitled to any reduction, diminution, extension or other modification of the Lease Payments whatsoever as a result of such release. The Authority and the City shall execute, deliver and cause to be recorded all documents required to discharge the Site Lease, the Lease Agreement and the Assignment Agreement of record against the Released Property.

Maintenance, Utilities, Taxes and Modifications

Throughout the Term of the Lease Agreement, as part of the consideration for the rental of the Leased Property, all improvement, repair and maintenance of the Leased Property are the responsibility of the City, and the City will pay for or otherwise arrange for the payment of all utility services supplied to the Leased Property, which may include, without limitation, janitor service, security, power, gas, telephone, light, heating, water and all other utility services, and will pay for or otherwise arrange for the payment of the cost of the repair and replacement of the Leased Property resulting from ordinary wear and tear or want of care on the part of the City or any assignee or sublessee thereof.

The City shall also pay or cause to be paid all taxes and assessments of any type or nature, if any, charged to the Authority or the City affecting the Leased Property or the respective interests or estates therein; provided that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the City shall pay only such installments as are required to be paid during the Term of the Lease Agreement as and when the same become due.

The City may, at its expense and in its name, in good faith contest any such taxes, assessments, utility and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during the period of such contest and any appeal therefrom unless the Authority notifies the City that, in its reasonable opinion, by nonpayment of any such items the interest of the Authority in the Leased Property will be materially endangered or the Leased Property or any part thereof will be subject to loss or forfeiture, in which event the City shall promptly pay such taxes, assessments or charges or provide the Authority with full security against any loss which may result from nonpayment, in form satisfactory to the Authority and the Trustee.

The City has the right, at its own expense, to make additions, modifications and improvements to the Leased Property or any portion thereof. All additions, modifications and improvements to the Leased Property will thereafter comprise part of the Leased Property and become subject to the provisions of the Lease Agreement. Such additions, modifications and improvements may not in any way damage the Leased Property, or cause the Leased Property to be used for purposes other than those authorized under the provisions of state and federal law; and the Leased Property, upon completion of any additions, modifications and improvements, shall be of a value which is not substantially less than the value thereof immediately prior to the making of such additions, modifications and improvements. The City will not permit any mechanic's or other lien to be established or remain against the Leased Property for labor or materials furnished in connection with any remodeling, additions, modifications, improvements, repairs, renewals or replacements; except that if any such lien is established and the City first notifies or causes to be notified the Authority of the City's intention to do so, the City may in good faith contest any lien filed or established against the Leased Property, and in such event may permit the items so contested to remain undischarged and unsatisfied during the period of such contest and any appeal therefrom and shall provide the Authority with full security against any loss or forfeiture which might arise from the nonpayment of any such item, in form satisfactory to the Authority. The Authority will cooperate fully in any such contest, upon the request and at the expense of the City.

Insurance

The Lease Agreement requires the City to maintain or cause to be maintained the following insurance against risk of physical damage to the Leased Property and other risks for the protection of the Bond Owners, the Authority and the Trustee:

Public Liability and Property Damage Insurance. The City shall maintain or cause to be maintained throughout the Term of the Lease Agreement, but only if and to the extent available from reputable insurers at reasonable cost in the reasonable opinion of the City, a standard commercial general liability insurance policy or policies in protection of the Authority, the City, and their respective members, officers, agents, employees and assigns. Said policy or policies shall provide for indemnification of said parties against direct or contingent loss or liability for damages for bodily and personal injury, death or property damage occasioned by reason of the operation of the Leased Property. Such policy or policies shall provide coverage in such liability limits and be subject to such deductibles as the City deems adequate and prudent. Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the City, and may be maintained in whole or in part in the form of self-insurance by the City, or in the form of the participation by the City in a joint powers agency or other program providing pooled insurance. The proceeds of such liability insurance must be applied toward extinguishment or satisfaction of the liability with respect to which it has been paid.

If any insurance required pursuant to this provision is provided in the form of self-insurance, the City must file with the Trustee annually, within 90 days following the close of each Fiscal Year, a statement of the risk manager of the City or an independent insurance adviser engaged by the City identifying the extent of such self-insurance and stating the determination that the City maintains sufficient reserves with respect thereto.

If any such insurance is provided in the form of self-insurance by the City, the City has no obligation to make any payment with respect to any insured event except from those reserves.

Casualty Insurance. The City shall procure and maintain, or cause to be procured and maintained, throughout the Term of the Lease Agreement, casualty insurance against loss or damage to all buildings situated on the Leased Property, in an amount at least equal to the lesser of (a) 100% of the replacement value of the insured buildings, or (b) 100% of the aggregate principal amount of the Outstanding Bonds. Such insurance shall, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance, and shall include earthquake insurance if available at reasonable cost from reputable insurers in the judgment of the City. Such insurance may be subject to such deductibles as the City deems adequate and prudent. Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the City, and may be maintained in whole or in part in the form of the participation by the City in a joint powers agency or other program providing pooled insurance; provided that such insurance may not be maintained by the City in the form of self-insurance. The Net Proceeds of such insurance shall be applied as provided in the Lease Agreement.

Rental Interruption Insurance. The City shall procure and maintain, or cause to be procured and maintained, throughout the Term of the Lease Agreement, rental interruption or use and occupancy insurance to cover loss, total or partial, of the use of any portion of the Leased Property constituting buildings or other improvements as a result of any of the hazards covered in the insurance required by the casualty insurance described above in an amount at least equal to the maximum such Lease Payments coming due and payable during any consecutive two Fiscal Years. Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the City, and may be maintained in whole or in part in the form of the participation by the City in a joint powers agency or other program providing pooled insurance; provided that such insurance may not be maintained by the City in the form of self-insurance. The Net Proceeds of such insurance, if any, must be paid to the Trustee and deposited in the Bond Fund, to be applied as a credit towards the payment of the Lease Payments allocable to the insured improvements as the same become due and payable.

Recordation and Title Insurance. On or before the Closing Date the City shall, at its expense, (a) cause the Site Lease, the Assignment Agreement and the Lease Agreement, or a memorandum thereof or thereof in form and substance approved by Bond Counsel, to be recorded in the office of the Monterey County Recorder, and (b) obtain a CLTA title insurance policy from Stewart Title Guaranty Company insuring the City's leasehold estate in the Leased Property, subject only to Permitted Encumbrances, in an amount at least equal to the aggregate principal amount of the Bonds. All Net Proceeds received under any such title insurance policy shall be applied towards the prepayment of the remaining Lease Payments under the Lease Agreement.

Assignment; Subleases

The Authority has assigned certain of its rights under the Lease Agreement to the Trustee under the Assignment Agreement. The City may not assign any of its rights in the Lease Agreement. The City may sublease all or a portion of the Property, but only under the conditions contained in the Lease Agreement, including the condition that such sublease not cause interest on the Bonds to become subject to federal or State of California personal income taxes.

Amendment of Lease Agreement

The Authority and the City may at any time amend or modify any of the provisions of the Lease Agreement, but only: (a) with the prior written consent of the Owners of a majority in aggregate principal amount of the outstanding Bonds; or (b) without the consent of any of the Bond Owners, but only if such amendment or modification is for any one or more of the following purposes:

(a) To add to the covenants and agreements of the City contained in the Lease Agreement, other covenants and agreements thereafter to be observed, or to limit or surrender any rights or power reserved to or conferred upon the City.

(b) To make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provision contained in the Lease Agreement, to conform to the original intention of the City and the Authority.

(c) To modify, amend or supplement the Lease Agreement in such manner as to assure that the interest on the Bonds remains excluded from gross income under the Tax Code.

(d) To amend the description of the Leased Property to reflect accurately the property originally intended to be included therein, or in connection with any substitution or release of property as described above.

(e) To obligate the City to pay additional amounts of rental for the use and occupancy of the Leased Property, but only if (A) such additional rent payments are pledged or assigned for the payment of any bonds, notes or other obligations the proceeds of which are applied to finance or refinance the acquisition or construction of any real or personal property for which the City is authorized to expend funds subject to its control, (B) the City has filed with the Trustee a written certificate stating that the estimated value of the Leased Property is, or following the completion of the acquisition and construction of any improvements to be financed from the proceeds of such bonds, notes or other obligations will be, at least equal to the aggregate original principal amount of the Bonds and all such other bonds, notes or other obligations, and (C) the City has filed with the Trustee written evidence that the amendments made under this clause (v) will not of themselves cause a reduction or withdrawal of any rating then assigned to the Bonds. Any amounts of such additional rental will <u>not</u> constitute Revenues which are pledged to the payment of the Bonds.

(f) In any other respect whatsoever as the Authority and the City may deem necessary or desirable, provided that, in the opinion of Bond

Counsel, such modifications or amendments do not materially adversely affect the interests of the Owners of the Bonds.

Events of Default

Each of the following constitutes an Event of Default under and as defined in the Lease Agreement:

(a) Failure by the City to pay any Lease Payment or other payment required to be paid under the Lease Agreement at the time specified therein.

(b) Failure by the City to observe and perform any covenant, condition or agreement on its part to be observed or performed, other than as referred to in the preceding subsection (a), for a period of 30 days after written notice specifying such failure and requesting that it be remedied has been given to the City by the Authority or the Trustee. If in the reasonable opinion of the City the failure stated in the notice can be corrected, but not within such 30-day period, the failure will not constitute an Event of Default if the City commences to cure the failure within such 30-day period and thereafter diligently and in good faith cures the failure in a reasonable period of time.

(c) Certain events relating to the insolvency or bankruptcy of the City.

Remedies on Default

Upon the occurrence and continuance of any Event of Default, the Authority has the right to terminate the Lease Agreement or, with or without such termination, re-enter, take possession of and re-let the Leased Property. When the Authority does not elect to terminate the Lease Agreement, the City remains liable to pay all Lease Payments as they come due and liable for damages resulting from such Event of Default. Any amounts collected by the Authority from the re-letting of the Leased Property will be credited towards the unpaid Lease Payments. Any net proceeds of re-leasing or other disposition of the Leased Property are required to be applied as set forth in the Indenture. Under the Assignment Agreement, the Authority assigns all of its rights with respect to remedies in an Event of Default to the Trustee, so that all such remedies will be exercised by the Trustee and the Bond Owner as provided in the Indenture.

The Trustee has no right to accelerate Lease Payments and, due to the governmental nature of the Leased Property, it is uncertain whether a court would permit the exercise of the remedies of re-entry, repossession or re-letting.

INDENTURE OF TRUST

Establishment of Funds and Accounts; Flow of Funds

Costs of Issuance Fund. A portion of the proceeds of the Bonds will be deposited by the Trustee in the Costs of Issuance Fund on the Closing Date. The moneys in the Costs of Issuance Fund will be disbursed to pay costs of issuing the Bonds and other related financing costs from time to time upon receipt of written requests of the Authority. On December 1, 2020, or upon the earlier written request of the Authority, the Trustee shall transfer all amounts remaining in the Costs of Issuance Fund to the Interest Account and shall thereupon close the Costs of Issuance Fund. Amounts so transferred to the Interest Account shall be applied by the Trustee to pay interest next coming due and payable on the Bonds.

Bond Fund; Deposit and Transfer of Amounts Therein. All Revenues will be deposited by the Trustee in the Bond Fund promptly upon receipt. On or before each Interest Payment Date, the Trustee shall transfer from the Bond Fund and deposit into the following respective accounts (each of which the Trustee will establish and maintain within the Bond Fund), the following amounts in the following order of priority:

(a) *Interest Account.* The Trustee will deposit in the Interest Account an amount required to cause the aggregate amount on deposit in the Interest Account to equal the amount of interest coming due and payable on such date on all outstanding Bonds. 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 comes due and payable, including accrued interest on any Bonds redeemed prior to maturity.

(b) *Principal Account.* The Trustee shall deposit in the Principal Account an amount required to cause the aggregate amount on deposit in the Principal Account to equal the principal amount of the Bonds coming due and payable on such Interest Payment Date, including the principal amount of any Term Bonds which are subject to mandatory sinking fund redemption on such Interest Payment Date. All moneys in the Principal Account will be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Bonds at the maturity thereof or upon the mandatory sinking fund redemption thereof.

Insurance and Condemnation Fund; Application of Net Proceeds. Any Net Proceeds of insurance or condemnation awards with respect to the Leased Property will be deposited in the Insurance and Condemnation Fund. In the event of an insurance or eminent domain award, the Net Proceeds on deposit in the Insurance and Condemnation Fund will be used, as directed by the City, either:

(a) to replace, repair, restore, modify or improve the Leased Property if the City determines that such is economically feasible or in the best interests of the City, or

(b) to the extent not so used, to prepay the Lease Payments and thereby redeem outstanding Bonds.

If the City fails to determine and notify the Trustee in writing of its determination, within 45 days following the date of such deposit, to replace, repair, restore, modify or improve the Leased Property which has been damaged or destroyed, then such Net Proceeds will be applied to the redemption of Bonds on the next available redemption date.

Notwithstanding the foregoing, however, in the event of damage or destruction of the Leased Property in full, the Net Proceeds of such insurance are required to be used by the City to rebuild or replace the Leased Property if such proceeds are not sufficient to redeem outstanding Bonds equal in aggregate principal amount to the unpaid Lease Payments.

Investment of Funds; Determination of Value of Investments

All moneys in any of the funds or accounts held by the Trustee under the Indenture will be invested by the Trustee solely in Permitted Investments as directed by the Authority at least three Business Days in advance of the making of such investments. In the absence of any such directions from the Authority, the Trustee shall hold such funds uninvested. Obligations purchased as an investment of moneys in any fund will be deemed to be part of such fund or account.

All interest or gain derived from the investment of amounts in any of the funds or accounts established under the Indenture will be deposited in the Bond Fund. For the purpose of determining the amount in any fund or account established under the Indenture, the value of investments credited to such fund will be calculated at the market value thereof, in accordance with the procedures specified in the Indenture.

Covenants of the Authority

Payment of Bonds. The Authority will punctually pay or cause to be paid the principal of and interest on the Bonds, in strict conformity with the terms of the Bonds and of the Indenture, but only out of the Revenues and other assets pledged for such payment as provided in the Indenture. The Authority will not create, or permit the creation of, any pledge, lien, charge or other encumbrance upon the Revenues and other assets pledged or assigned under the Indenture while any of the Bonds are outstanding, except the pledge and assignment created by the Indenture.

Accounting Records and Financial Statements. The Trustee will at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with industry standards, in which complete and accurate entries will be made of all transactions relating to the proceeds of the Bonds, the Revenues, the Lease Agreement and all funds and accounts established pursuant to the Indenture. Such books of record and account will be available for inspection by the Authority and the City, during regular business hours and upon reasonable prior notice.

No Additional Obligations. The Authority covenants that no additional bonds, notes or other indebtedness will be issued or incurred which are payable out of the Revenues in whole or in part.

Tax Covenants. The Authority will not take, nor permit nor suffer to be taken by the Trustee or otherwise, any action with respect to the proceeds of any of the Bonds which would cause any of the Bonds to be "arbitrage bonds" or "private activity bonds" within the meaning of the Tax Code. The Authority will cause to be calculated annually all excess investment earnings which are required to be rebated to the United States of America under the Tax Code, and will cause all required amounts to be rebated from payments made by the City for such purpose under the Lease Agreement.

Lease Agreement. The Trustee will promptly collect all amounts due from the City pursuant to the Lease Agreement. Subject to the provisions of the Indenture governing the enforcement of remedies upon the occurrence of an Event of Default, the Trustee is required to enforce, and take all steps, actions and proceedings which the Trustee determines to be reasonably necessary for the enforcement of all of its rights thereunder as assignee of the Authority and for the enforcement of all of the obligations of the City under the Lease Agreement.

Refunding of 2010 Bonds. The Authority covenants to cause the proceeds of the Bonds to be applied to the payment and redemption of the 2010 Bonds in full in accordance with the provisions of the Escrow Agreement. From and after the Closing Date, the 2010 Bonds shall be fully discharged and satisfied and shall no longer be secured by a pledge of or lien on the Revenues, or any portion thereof.

Amendment of Indenture

The Indenture may be modified or amended at any time by a supplemental indenture with the prior written consents of the Owners of a majority in aggregate principal amount of the Bonds then outstanding. No such modification or amendment may (a) extend the maturity of or reduce the interest rate on any Bond or otherwise alter or impair the obligation of the Authority to pay the principal or interest 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.

The Indenture may also be modified or amended at any time by a supplemental indenture, without the consent of any Bond Owners, to the extent permitted by law, but only for any one or more of the following purposes:

(a) To add to the covenants and agreements of the Authority contained in the Indenture, other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power therein reserved to or conferred upon the Authority.

(b) To cure any ambiguity, inconsistency or omission in the Indenture, or correct any defective provision in the Indenture, or in any other respect whatsoever as the Authority may deem necessary or desirable, so long as such modification or amendment does not materially adversely affect the interests of the Bond Owners in the opinion of Bond Counsel filed with the Trustee.

(c) To modify, amend or supplement the Indenture in such manner as to permit the qualification of the Indenture under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute.

(d) To modify, amend or supplement the Indenture so as to cause interest on the Bonds to remain excludable from gross income under the Tax Code.

(e) To facilitate the issuance of additional obligations of the City under the Lease Agreement which are payable from additional rental payments described above under "LEASE AGREEMENT - Amendment of Lease Agreement."

(f) To facilitate the substation or release of property under the Lease Agreement as described above under "LEASE AGREEMENT - Substitution of Property" and "LEASE AGREEMENT - Release of Property".

Events of Default

Events of Default Defined. The following events constitute events of default under the Indenture:

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

(b) Failure to pay any installment of interest on the Bonds when due.

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

(d) The commencement by the Authority of a voluntary case under Title 11 of the United States Code or any substitute or successor statute.

(e) The occurrence and continuation of any Event of Default under and as defined in the Lease Agreement. See "LEASE AGREEMENT - Events of Default" above.

Remedies. Upon the occurrence and during the continuance of any Event of Default, the Trustee may, and at the written direction of the Owners of a majority in aggregate principal amount of the Bonds at the time outstanding the Trustee shall, in each case, upon receipt of indemnification satisfactory to Trustee against the costs, expenses and liabilities to be incurred in connection with such action, upon notice in writing to the Authority, declare the principal of all of the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in the Indenture or in the Bonds contained to the contrary notwithstanding.

No delay or omission to exercise any right or power accruing upon any Event of Default will impair any such right or power or will be construed to be a waiver of any such Event of Default or acquiescence therein; such right or power may be exercised from time to time as often as may be deemed expedient.

Application of Revenues and Other Funds After Default. If an Event of Default has occurred and is continuing, all Revenues and any other funds then held or thereafter received by the Trustee under any of the provisions of the Indenture will be applied by the Trustee as follows and in the following order:

(a) To the payment of reasonable fees, charges and expenses of the Trustee (including reasonable fees and disbursements of its legal counsel including outside counsel and the allocated costs of internal attorneys) incurred in and about the performance of its powers and duties under the Indenture;

(b) To the payment of the principal of and interest then due on the Bonds (upon presentation of the Bonds to be paid, and stamping or otherwise noting thereon of the payment if only partially paid, or surrender thereof if fully paid) in accordance with the provisions of the Indenture, as follows:

First: To the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the persons entitled thereto of the unpaid principal of any Bonds which shall have become due, whether at maturity or by acceleration or redemption, with interest on the overdue principal at the rate borne by the respective Bonds (to the extent permitted by law), and, if the amount available shall not be sufficient to pay in full all the Bonds, together with such interest, then to the payment thereof ratably, according to the amounts of principal due on such date to the persons entitled thereto, without any discrimination or preference.

Limitation on Bond Owners' Right to Sue. No Owner of any Bond has the right to institute any suit, action or proceeding at law or in equity, for any remedy under the Indenture, unless:

(a) such Owner has previously given to the Trustee written notice of the occurrence of an Event of Default;

(b) the Owners of a majority in aggregate principal amount of all the Bonds then outstanding have requested the Trustee in writing to exercise its powers under the Indenture;

(c) said Owners have tendered to the Trustee indemnity reasonably acceptable to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request;

(d) the Trustee has refused or failed to comply with such request for a period of 60 days after such written request has been received by the Trustee and said tender of indemnity is made to the Trustee; and

(e) no direction inconsistent with such written request has been given to the Trustee during such 60-day period by the Owners of a majority in aggregate principal amount of the Bonds then outstanding.

Discharge of Indenture

The Authority may pay and discharge the indebtedness on any or all of the outstanding Bonds in any one or more of the following ways:

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

(b) by irrevocably depositing with the Trustee or a reputable escrow agent, at or before maturity, cash and/or non-callable Federal Securities which, together with the investment earnings to be received thereon, have been verified by an independent accountant to be sufficient to pay such Bonds when and as the same become due and payable; or

(c) by delivering to the Trustee, for cancellation by it, all of such Bonds.

Upon such payment, and notwithstanding that any Bonds have not been surrendered for payment, the pledge of the Revenues and other funds provided for in the Indenture with respect to such Bonds, and all other obligations of the Authority under the Indenture with respect to such Bonds, will cease and terminate, except only the obligation of the Authority to pay or cause to be paid to the Owners of such Bonds not so surrendered and paid all sums due thereon from amounts set aside for such purpose. Any funds thereafter held by the Trustee, which are not required for said purposes, will be paid over to the Authority.

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APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE

$3,895,000
CITY OF CARMEL-BY-THE-SEA PUBLIC IMPROVEMENT AUTHORITY
2020 Refunding Lease Revenue Bonds
(Sunset Cultural Center Project)

This Continuing Disclosure Certificate (this "Disclosure Certificate") is executed and delivered by the City of Carmel-by-the-Sea (the "City") in connection with the issuance by the Authority of the bonds captioned above (the "Bonds"). The Bonds are being issued under an Indenture of Trust dated as of October 1, 2020 (the "Indenture"), between the Authority and MUFG Union Bank, N.A., as trustee (the "Trustee"). The City hereby covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the holders and beneficial owners of the Bonds and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

Section 2. Definitions. In addition to the definitions set forth above and in the Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

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

"*Annual Report Date*" means April 1 of each year.

"*Dissemination Agent*" means NHA Advisors, LLC, or any successor dissemination agent designated in writing by the City and which has filed with the City a written acceptance of such designation.

"*Listed Events*" means any of the events listed in Section 5(a) of this Disclosure Certificate.

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

"O*fficial Statement*" means the final official statement dated September 23, 2020, executed by the City and the Authority in connection with the issuance of the Bonds.

"*Participating Underwriter*" means Raymond James & Associates, Inc., the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

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

Section 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than the Annual Report Date, commencing April 1, 2021, with the report for Fiscal Year 2019-20, provide to the MSRB, in an electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. Not later than 15 Business Days prior to the Annual Report Date, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). If by 15 Business Days prior to the Annual Report Date the Dissemination Agent (if other than the City) has not received a copy of the Annual Report, the Dissemination Agent shall contact the City to determine if the City is in compliance with the previous sentence. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report, and later than the Annual Report Date, if not available by that date. If the City's Fiscal Year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(b). The City shall provide a written certificate with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by the City hereunder.

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

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

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

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

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

(a) Audited Financial Statements of the City prepared in accordance with Generally Accepted Accounting Principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the City's audited financial statements are not available by the Annual Report Date, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) To the extent not contained in the audited financial statements filed pursuant to the preceding clause (a), the Annual Report shall contain information showing:

(i) information concerning the actual revenues, expenditures and beginning and ending fund balances relating to the General Fund of the City for the most recent completed Fiscal Year, substantially in the form of Table 3;

(ii) information showing the aggregate principal amount of long-term bonds, leases and other obligations of the City which are payable out of the General Fund of the City, as of the close of the most recent completed Fiscal Year;

(iii) information showing the total secured property tax levy and actual amounts collected for the most recent completed Fiscal Year, substantially in the form of Table 5; and

(iii) information concerning the assessed valuation of properties within the City for the then-current Fiscal Year, substantially in the form of Table 6.

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

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

Section 5. Reporting of Listed Events.

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

(1) Principal and interest payment delinquencies.

(2) Non-payment related defaults, if material.

(3) Unscheduled draws on debt service reserves reflecting financial difficulties.

(4) Unscheduled draws on credit enhancements reflecting financial difficulties.

(5) Substitution of credit or liquidity providers, or their failure to perform.

(6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security.

(7) Modifications to rights of security holders, if material.

(8) Bond calls, if material, and tender offers.

(9) Defeasances.

(10) Release, substitution, or sale of property securing repayment of the securities, if material.

(11) Rating changes.

(12) Bankruptcy, insolvency, receivership or similar event of the City or other obligated person.

(13) The consummation of a merger, consolidation, or acquisition involving the City or an obligated person, or the sale of all or substantially all of the assets of the City or an obligated person (other than in the ordinary course of business), the entry into a definitive agreement to undertake such an action, or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.

(14) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(15) Incurrence of a financial obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the City, any of which affect security holders, if material (for definition of “financial obligation,” see clause (e)).

(16) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the City, any of which reflect financial difficulties (for definition of “financial obligation,” see clause (e)).

(b) Whenever the City obtains knowledge of the occurrence of a Listed Event, the City shall, or shall cause the Dissemination Agent (if not the City) to, file a notice of such occurrence with the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of the Listed Event. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds under the Indenture.

(c) The City acknowledges that the events described in subparagraphs (a)(2), (a)(7), (a)(8) (if the event is a bond call), (a)(10), (a)(13), (a)(14), and (a)(15) of this Section 5 contain the qualifier “if material” and that subparagraph (a)(6) also contains the qualifier "material" with respect to certain notices, determinations or other events affecting the tax status of the Bonds. The City shall cause a notice to be filed as set forth in paragraph (b) above with respect to any such event only to the extent that it determines the event’s occurrence is material for purposes of U.S. federal securities law. Whenever the City obtains knowledge of the occurrence of any of these Listed Events, the City will as soon as possible determine if such event would be material under applicable federal securities law. If such event is determined to be material, the City will cause a notice to be filed as set forth in paragraph (b) above.

(d) For purposes of this Disclosure Certificate, any event described in paragraph (a)(12) above is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City.

(e) For purposes of Section 5(a)(15) and (16), "financial obligation" means a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term financial obligation shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

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

Section 7. Termination of Reporting Obligation. The City's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(b).

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

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

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

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

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

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first annual financial information filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

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

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

Section 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. Default. In the event of a failure of the City to comply with any provision of this Disclosure Certificate, the Participating Underwriter or any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

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

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

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

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

Section 14. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be regarded as an original, and all of which shall constitute one and the same instrument.

Date: October 1, 2020

CITY OF CARMEL-BY-THE-SEA

By_________________________________
City Administrator

ACCEPTED AND AGREED:

NHA Advisors, LLC,
as Dissemination Agent

By_____________________________
Authorized Representative

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: City of Carmel-by-the-Sea Public Improvement Authority

Name of Bond Issue: $3,895,000 2020 Refunding Lease Revenue Bonds (Sunset Cultural Center Project)

Date of Issuance: October 21, 2020

NOTICE IS HEREBY GIVEN that the City of Carmel-by-the-Sea (the "City") has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Certificate dated as of ________________, 2020, executed by the City. The City anticipates that the Annual Report will be filed by ____________.

Dated:__________________

CITY OF CARMEL-BY-THE-SEA:

By: ______________________________
Its: ______________________________

cc: Dissemination Agent

APPENDIX E

FORM OF OPINION OF BOND COUNSEL

October 21, 2020

City of Carmel-by-the-Sea Public Improvement Authority
Post Office Box CC
Carmel-by-the-Sea, California 93921

OPINION: $3,895,000
City of Carmel-by-the-Sea Public Improvement Authority
2020 Refunding Lease Revenue Bonds
(Sunset Cultural Center Project)

Members of the Authority:

We have acted as bond counsel to the City of Carmel-by-the-Sea Public Improvement Authority (the "Authority") in connection with the issuance by the Authority of its City of Carmel-by-the-Sea Public Improvement Authority 2020 Refunding Lease Revenue Bonds (Sunset Cultural Center Project) in the aggregate principal amount of $3,895,000 (the "Bonds"), under an Indenture of Trust dated as of October 1, 2020 (the "Indenture"), between the Authority and MUFG Union Bank, N.A., as trustee, and under the provisions of Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, commencing with Sections 53570 and 53580 of said Code (the "Bond Law"). The Bonds are secured by Revenues as defined in the Indenture, including certain lease payments made by the City of Carmel-by-the-Sea (the "City") under a Lease Agreement dated as of October 1, 2020 (the "Lease Agreement") between the Authority as lessor and the City as lessee. We have examined the Indenture, the Lease Agreement, the Bond Law and such certified proceedings and other papers as we deem necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the Authority and the City contained in the Indenture, the Lease Agreement and in the certified proceedings, and upon other certifications furnished to us, without undertaking to verify the same by independent investigation. Based upon our examination, we are of the opinion, under existing law, as follows:

1. The Authority is a joint exercise of powers agency duly organized and existing under the laws of the State of California, with power to enter into the Indenture and the Lease Agreement, to perform the agreements on its part contained therein and to issue the Bonds.

2. The Bonds constitute legal, valid and binding special obligations of the Authority enforceable against the Authority in accordance with their terms and payable solely from the sources provided therefor in the Indenture.

3. The Indenture and the Lease Agreement have been duly approved by the Authority and constitute the legal, valid and binding obligations of the Authority enforceable in accordance with their respective terms.

4. The Indenture establishes a valid first and exclusive lien on and pledge of the Revenues (as that 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. The City is a municipal corporation duly organized and existing under the laws of the State of California, with power to enter into the Lease Agreement and to perform the agreements on its part contained therein. The Lease Agreement has been duly approved by the City Council of the City and constitutes a legal, valid and binding obligation of the City enforceable in accordance with its terms.

6. The interest on the 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. The opinions set forth in the preceding sentence are subject to the condition that the Authority and the City comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that the interest thereon be, and continue to be, excludable from gross income for federal income tax purposes. The Authority and the City have made certain representations and covenants in order to comply with each such requirement. Inaccuracy of those representations, or failure to comply with certain of those covenants, may cause the inclusion of such interest in gross income for federal income tax purposes, which may be retroactive to the date of issuance of the Bonds.

7. The interest on the Bonds is exempt from personal income taxation imposed by the State of California.

We express no opinion regarding any other tax consequences arising with respect to the ownership, sale or disposition of, or the amount, accrual or receipt of interest on, the Bonds.

The rights of the owners of the Bonds and the enforceability of the Bonds are limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally, and by equitable principles, whether considered at law or in equity.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur.

Respectfully submitted,

A Professional Law Corporation

APPENDIX F

DTC AND THE BOOK-ENTRY ONLY SYSTEM

The following description of the Depository Trust Company ("DTC"), the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, interest and other payments on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the Bonds and other related transactions between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

Neither the issuer of the Bonds (the "Issuer") nor the trustee appointed with respect to the Bonds (the "Agent") take any responsibility for the information contained in this Appendix.

No assurances can be given that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the securities (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each issue of the Securities, each in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds $500 million, one certificate will be issued with respect to each $500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

2. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding

company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com. *The information contained on this Internet site is not incorporated herein by reference.*

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

4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

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

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

rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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

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

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

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