

In the opinion of Nixon Peabody LLP, Bond Counsel to the Authority, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, including the satisfaction of certain terms and conditions provided in the Forward Delivery Bond Purchase Agreement as described under the heading “FORWARD DELIVERY OF THE SERIES 2020A BONDS,” interest on the Series 2020A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Bond Counsel, interest on the Series 2020A Bonds, is not a specific preference item for purposes of the federal alternative minimum tax. Bond Counsel is also of the opinion that interest on the Series 2020A Bonds is exempt from personal income taxes of the State of California (the “State”) under present State law. See “TAX MATTERS” herein regarding certain other tax considerations.

\$14,635,000*

**GILROY PUBLIC FACILITIES FINANCING AUTHORITY
LEASE REVENUE REFUNDING BONDS, SERIES 2020A
(FORWARD DELIVERY)**

Dated: Date of Forward Delivery**Due: November 1, as shown on the inside cover**

Gilroy Public Facilities Financing Authority Lease Revenue Refunding Bonds, Series 2020A (the “Series 2020A Bonds”) are being issued pursuant to the provisions of Article 4 (commencing with Section 6584) of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California. The Series 2020A Bonds are payable from certain revenues and other moneys pledged under the Indenture, consisting primarily of lease payments (the “Lease Payments”) corresponding to the Series 2020A Bonds to be made by the City of Gilroy (the “City”) for the right to use certain real property and improvements thereon (the “Leased Property”) pursuant to a certain First Amended and Restated Lease Agreement, dated as of August 1, 2009, as amended, by and between the Gilroy Public Facilities Financing Authority (the “Authority”), as lessor and the City, as lessee (the “Lease Agreement”). See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2020A BONDS.” Capitalized terms used but not defined on the cover page of this Official Statement have the meanings ascribed herein.

The Series 2020A Bonds are being issued on a forward delivery basis to provide funds to (i) refund the Authority’s outstanding Refunding Lease Revenue Bonds, Series 2010 (the “2010 Bonds”), and (ii) to pay the costs incurred in connection with the issuance of the Series 2020A Bonds. See “THE REFUNDING PLAN” and “FORWARD DELIVERY OF THE SERIES 2020A BONDS.”

The City will covenant under the Lease Agreement to take such action as may be necessary to include all Lease Payments and Additional Payments due under the Lease Agreement in its operating budget for each fiscal year and to make all necessary appropriations for such Lease Payments and Additional Payments. The City’s obligation to make Lease Payments and Additional Payments under the Lease Agreement is subject to abatement during any period in which, by reason of material damage, destruction, title defect, condemnation of, the Leased Property, there is substantial interference with the City’s right to use and occupy any portion of the Leased Property. See “RISK FACTORS—Abatement.” Neither the Authority nor the City is funding a debt service reserve fund for the Series 2020A Bonds.

The pledge of, lien on and security interest in the Lease Payments that are established by the Indenture for the benefit of the Series 2020A Bonds is on a parity with the pledge, lien and security in the Lease Payments that secures the Authority’s \$23,120,000 Gilroy Public Facilities Financing Authority Refunding Lease Revenue Bonds, Series 2013 (the “2013 Bonds”).

The Series 2020A Bonds are being issued in fully registered book-entry only form, initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). Interest on the Series 2020A Bonds is payable semiannually on May 1 and November 1 of each year, commencing on November 1, 2020. Purchasers will not receive certificates representing their interest in the Series 2020A Bonds. Individual purchases will be in principal amounts of \$5,000 or integral multiples thereof. Principal of and interest and premium, if any, on the Series 2020A Bonds will be paid by MUFG Union Bank, N.A., as trustee (the “Trustee”) to DTC for subsequent disbursement to DTC Participants who are obligated to remit such payments to the Beneficial Owners of the Series 2020A Bonds. See “THE SERIES 2020A BONDS—Book-Entry Only System” herein.

The Series 2020A Bonds will be issued pursuant to a certain Indenture dated as of August 1, 2020, (the “Indenture”), by and among the City, the Authority and the Trustee. The Series 2020A Bonds and any additional bonds issued pursuant to the Indenture (“Additional Bonds”) are collectively referred to as the “Bonds.”

The Series 2020A Bonds are subject to optional and extraordinary redemption prior to maturity as set forth herein. See “THE SERIES 2020A BONDS—Redemption.”

The Series 2020A Bonds are special obligations of the Authority, payable solely from Revenues and the other assets pledged therefor under the Indenture. Neither the faith and credit nor the taxing power of the Authority, the City or the State of California, or any political subdivision thereof, is pledged to the payment of the Series 2020A Bonds.

The obligation of the City to pay Lease Payments does not constitute an 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, and does not constitute an obligation for which the City or the State of California is obligated to levy or pledge any form of taxation or for which the City or the State of California has levied or pledged any form of taxation. The Authority has no power to tax.

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, YIELDS AND CUSIPS

(See the Pages Immediately Following This Cover Page)

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

The Series 2020A Bonds will be offered respectively when, as and if issued and received by the Underwriter, subject to the approval as to their validity by Nixon Peabody LLP, Bond Counsel. Nixon Peabody LLP is acting as Disclosure Counsel to the Authority. Certain legal matters will be passed upon for the City and the Authority by the City Attorney and for the Underwriter by Kutak Rock LLP, Irvine, California and for the Trustee by its counsel. It is anticipated that the Series 2020A Bonds in definitive form will be available for delivery to DTC in New York, New York on or about August 6, 2020, subject to the satisfaction of certain conditions. Potential investors should carefully review the information under the caption “FORWARD DELIVERY OF THE SERIES 2020A BONDS” herein.



Dated: _____, 2020.

* Preliminary, subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation, or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, YIELDS AND CUSIPS

**GILROY PUBLIC FACILITIES FINANCING AUTHORITY
LEASE REVENUE REFUNDING BONDS, SERIES 2020A
(FORWARD DELIVERY)**

<u>Maturity Date</u> (November 1)	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>CUSIP</u> [†]
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No dealer, broker, salesperson or other person has been authorized by the City or the Authority to give any information or to make any representations in connection with the offer or sale of the Series 2020A Bonds other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by the City or the Authority. 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 Series 2020A Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers or Owners or Beneficial Owners of the Series 2020A Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact.

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

This Official Statement and the information contained herein are subject to completion or amendment without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or the Authority or any other parties described herein since the date hereof. These securities may not be sold nor may an offer to buy be accepted prior to the time the Official Statement is delivered in final form. This Official Statement is being submitted in connection with the sale of the Series 2020A Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose, unless authorized in writing by the City. All summaries of documents and laws are made subject to the provisions thereof and do not purport to be complete statements of any or all such provisions.

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as “plan,” “expect,” “estimate,” “project,” “budget,” “intend” or similar words. Such forward-looking statements include, but are not limited to, certain statements contained in the information under the caption “RISK FACTORS” and in “APPENDIX A – FINANCIAL, ECONOMIC AND DEMOGRAPHIC INFORMATION CONCERNING THE CITY AND THE COUNTY.”

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

IN CONNECTION WITH THE OFFERING OF THE SERIES 2020A BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2020A 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 SERIES 2020A BONDS TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENT AND OTHERS AT YIELDS HIGHER THAN THE PUBLIC OFFERING YIELDS STATED ON THE PAGES FOLLOWING THE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICE MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

THE SERIES 2020A BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT AND HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

The City maintains a website; however, information presented there is not a part of this Official Statement and should not be relied upon in making an investment decision with respect to the Series 2020A Bonds.

**CITY OF GILROY
COUNTY OF SANTA CLARA, CALIFORNIA
CITY COUNCIL**

Roland Velasco, Mayor
Marie Blankley, Mayor Pro Tempore
Dion Bracco, Council Member
Peter Leroe-Munoz, Council Member
Carol Marques, Council Member
Fred M. Tovar, Council Member
Cat Tucker, Council Member

CITY OFFICIALS

Gabriel Gonzalez, City Administrator
Jimmy Forbis, Finance Director
Shawna Freels, City Clerk
Andy Faber, City Attorney

BOND AND DISCLOSURE COUNSEL

Nixon Peabody LLP
Los Angeles, California

MUNICIPAL ADVISOR

NHA Advisors, LLC
San Rafael, California

TRUSTEE

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

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OFFICIAL STATEMENT

\$14,635,000*

GILROY PUBLIC FACILITIES FINANCING AUTHORITY LEASE REVENUE REFUNDING BONDS, SERIES 2020A (FORWARD DELIVERY)

INTRODUCTION

This Official Statement (which includes the cover page and the appendices hereto) (the “Official Statement”), provides certain information concerning the sale and delivery of \$14,635,000* aggregate principal amount of Gilroy Public Facilities Financing Authority Lease Revenue Refunding Bonds, Series 2020A (the “Series 2020A Bonds”).

The Series 2020A Bonds are being issued on a forward delivery basis (See “FORWARD DELIVERY OF THE SERIES 2020A BONDS”) to provide funds to (i) refund the Authority’s outstanding Lease Revenue Refunding Bonds, Series 2010 (the “2010 Bonds”), and (ii) to pay the costs incurred in connection with the issuance of the Series 2020A Bonds. See “THE REFUNDING PLAN” herein.

The Series 2020A Bonds are payable from certain revenues and other moneys pledged under the Indenture (as defined below), consisting primarily of lease payments (the “Lease Payments”) corresponding to the Series 2020A Bonds to be made by the City of Gilroy (the “City”) to the Gilroy Public Facilities Financing Authority (the “Authority”) for the right to use certain real property and improvements thereon (the “Leased Property”) pursuant to the First Amended and Restated Lease Agreement, dated as of August 1, 2009, as amended, between the City, as lessee, and the Authority, as lessor (the “Lease Agreement”). The Series 2020A Bonds will be issued pursuant to an Indenture, dated as of August 1, 2020 (the “Indenture”), by and among the Authority, the City and MUFG Union Bank, N.A., as trustee (the “Trustee”). Pursuant to the Indenture, the Authority may issue additional bonds (the “Additional Bonds”) payable from the Lease Payments on a parity with the Series 2020A Bonds (the Series 2020A Bonds and any such Additional Bonds being collectively referred to as the “Bonds”).

The pledge of, lien on and security interest in the Lease Payments that are established by the Indenture for the benefit of the Series 2020A Bonds is on a parity with the pledge, lien and security in the Lease Payments that secures the Authority’s \$23,120,000 Gilroy Public Facilities Financing Authority Refunding Lease Revenue Bonds, Series 2013 (the “2013 Bonds”).

The City will covenant under the Lease Agreement to take such action as may be necessary to include all Lease Payments and Additional Payments due under the Lease Agreement in its operating budget for each fiscal year and to make all necessary appropriations for such Lease Payments and Additional Payments, subject to abatement as provided in the Lease Agreement. Additional Payments consist of fees, costs and expenses and all administrative costs of the Authority relating to the Leased Property including, without limiting the generality of the foregoing, salaries and wages of employees, overhead, insurance premiums, taxes and assessments (if any), expenses, compensation and indemnification of the Trustee (to the extent not paid or otherwise provided for out of the proceeds of the sale of the Bonds), fees of auditors, accountants, attorneys or engineers, insurance premiums, and all other reasonable and necessary administrative costs of the Authority or charges required to be paid by it to comply with the terms of the Bonds or the Indenture.

Lease Payments and Additional Payments are subject to complete or partial abatement in the event and to the extent that there is substantial interference with the City’s right to use and occupy the Leased Property or any portion thereof. See “RISK FACTORS—Abatement.” Abatement of Lease Payments under the Lease

* Preliminary, subject to change.

Agreement, to the extent that payment is not made from alternative sources as set forth below, would result in all Owners receiving less than the full amount of principal of and interest on the Bonds. To the extent that proceeds of insurance are available, Lease Payments (or a portion thereof) may be made during periods of abatement.

THE SERIES 2020A BONDS ARE SPECIAL OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM REVENUES AND THE OTHER ASSETS PLEDGED THEREFOR UNDER THE INDENTURE. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE AUTHORITY, THE CITY OR THE STATE OF CALIFORNIA (THE "STATE"), OR ANY POLITICAL SUBDIVISION THEREOF, IS PLEDGED TO THE PAYMENT OF THE SERIES 2020A BONDS. THE AUTHORITY HAS NO TAXING POWER.

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

Neither the Authority nor the City is funding a debt service reserve for the Series 2020A Bonds.

The City has agreed to provide, or cause to be provided, to the Municipal Securities Rulemaking Board for purposes of Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission certain annual financial information and operating data and, in a timely manner, notice of certain listed events. These covenants have been made in order to assist the Underwriter in complying with SEC Rule 15c2 12(b)(5). See "CONTINUING DISCLOSURE" herein for a description of the specific nature of the annual report and notices of listed events and a summary description of the terms of the disclosure certificate pursuant to which such reports are to be made.

MUFG Union Bank, N.A., San Francisco, California, will act as Trustee with respect to the Series 2020A Bonds. The Series 2020A Bonds, respectively, will be issued subject to the approval as to their legality by Nixon Peabody LLP, Bond Counsel. Certain legal matters will be passed upon for the City and the Authority by Nixon Peabody LLP, as Disclosure Counsel and by the City Attorney. Certain legal matters will be passed upon for the Underwriter by Kutak Rock LLP, Irvine, California and for the Trustee by its counsel.

Certain events could affect the ability of the City to make the Lease Payments when due. See "RISK FACTORS" for a discussion of certain factors that should be considered, in addition to other matters set forth herein, in evaluating an investment in the Series 2020A Bonds.

The presentation of information, including tables of receipt of revenues, is intended to show recent historical information and, except for a budget discussion for Fiscal Year 2019-20, is not intended to indicate future or continuing trends in the financial position or other affairs of the City. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue or be repeated in the future. See Appendix A for financial and operating information related to the City.

The summaries or references to the Indenture, the Lease Agreement, the Site Lease, the Assignment Agreement and other documents, agreements and statutes referred to herein, and the description of the Series 2020A Bonds included in this Official Statement, do not purport to be comprehensive or definitive, and such summaries, references and descriptions are qualified in their entirety by reference to each such document or statute. All capitalized terms used in this Official Statement (unless otherwise defined herein) which are defined in the Indenture or the Lease Agreement shall have the meanings set forth therein, some of which are summarized in "APPENDIX B—SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS."

SOURCES AND USES OF FUNDS

The sources and uses of funds with respect to the Series 2020A Bonds and certain funds held with respect to the 2010 Bonds are shown below.

Sources

Principal Amount
Plus/Less Original Issue Premium/Discount
Transfers from Other Sources⁽¹⁾
Total Sources

Uses

Escrow Fund
Cost of Issuance⁽²⁾
Total Uses

⁽¹⁾ Amounts held in certain funds established with respect to the 2010 Bonds.

⁽²⁾ Includes legal, municipal advisory, rating agency, Underwriter's Discount, printing fees and other miscellaneous costs of issuance.

THE REFUNDING PLAN

Upon the forward delivery of the Series 2020A Bonds on or about August 6, 2020, a portion of the proceeds of the Series 2020A Bonds, together with amounts held in certain funds established in connection with the 2010 Bonds, will be deposited into an escrow fund (the "Escrow Fund") established under an escrow agreement (the "Escrow Agreement") by and between the City and MUFG Union Bank, N.A., as escrow agent. Amounts in the Escrow Fund will be held in cash or invested in certain obligations of the United States of America. Any obligations will be scheduled to mature in such amounts and at such times and bear interest at such rates as to provide amounts, together with the cash held therein, sufficient to pay interest and principal due on the outstanding 2010 Bonds through November 1, 2020 and to redeem on November 1, 2020, the outstanding 2010 Bonds maturing on and after November 1, 2021, at a redemption price equal to the principal amount thereof, without premium.

2010 Bonds to be Refunded

<u>Maturity Date</u> <u>(November 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest Rate</u>	<u>CUSIP</u>
2020 ⁽¹⁾	\$930,000	4.000%	376060BU2
2021	965,000	3.500	376060BV0
2022	1,005,000	4.000	376060BW8
2023	1,045,000	4.000	376060BX6
2024	1,090,000	4.000	376060BY4
2025	1,135,000	4.125	376060BZ1
2026	1,180,000	4.250	376060CA5
2033	10,205,000	5.250	376060CB3

⁽¹⁾ To be paid at maturity.

This Official Statement does not constitute notice or an advance notice of redemption of the 2010 Bonds. The refunding of the 2010 Bonds is conditioned upon the receipt of proceeds of the Series 2020A Bonds, which is subject to the conditions of the Forward Delivery Bond Purchase Agreement. See "FORWARD DELIVERY OF THE SERIES 2020A BONDS."

DEBT SERVICE SCHEDULE

Following is the annualized debt service schedule with respect to the Series 2020A Bonds, assuming no redemptions prior to maturity:

Bond Year Ending <u>(November 1)</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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THE LEASED PROPERTY

The Leased Property consists of the following real property and improvements:

Police Facility. A 1.89-acre site owned by the City, including a police facility (the “Police Facility”) completed in 2007 at an approximate cost of \$33.9 million. The City estimates the value of the site and the Police Facility is approximately \$35.0 million.

Sunrise Fire Station. A 1.2-acre site owned by the City, including a fire station facility (Sunrise Fire Station) completed in 2004 at an approximate cost of \$3.7 million. The City estimates the value of the site and the fire station facility is approximately \$2.8 million.

Corporation Yard. A 3.4-acre site owned by the City, including the City’s corporation yard, which was renovated and reconstructed in 2004. There are four buildings in the corporation yard, which the City estimates to have a value for insurance purposes of \$2.5 million. The City estimates the value of the Corporation Yard is \$6.4 million.

Sports Park Site. A 78.9-acre site owned by the City that the City is developing, in phases, into a sports park. The City completed the first two phases in 2004, which included the installation of utilities and access improvements necessary to develop the site and the construction of the first set of playing fields. The approximate cost of the first two phases was \$12.7 million. The City estimates the value of the 78.9-acre site and the improvements is approximately \$20.6 million.

The estimated value of the Leased Property set forth above are only estimates by the City. Neither the City, the Underwriter nor the Authority has undertaken an appraisal of the Leased Property in connection with issuance of the Bonds.

Substitution and Release of Property. Under the Lease Agreement, the City has the right to substitute other land and improvements for the Leased Property and has the right to release land and improvements from the Lease Agreement, upon satisfaction of certain conditions as set forth in the Lease Agreement. See APPENDIX B — “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS.”

Under the Lease Agreement, the City has the right to substitute or release all or portion of the Leased Property subject to certain conditions precedent. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2020A BONDS – Substitution and Removal of Property.”

Upon the legal defeasance or payment in full of the Authority’s 2013 Bonds, the Corporation Yard and Sports Park Site will automatically be released from the Lease Agreement, and the Leased Property will consist of the Police Facility and Sunrise Fire Station only.

THE SERIES 2020A BONDS

General

The 2020A Bonds shall be issued (assuming and subject to, with respect to the Series 2020A Bonds, the satisfaction of certain terms and conditions of a Forward Delivery Bond Purchase Agreement for the Series 2020A Bonds) in fully registered form, without coupons, in denominations of \$5,000 or any integral multiple thereof, and shall bear interest from their date of delivery, and such interest shall be computed on the basis of a 360-day year of twelve 30-day months. Interest on the Series 2020A Bonds will be paid semiannually on May 1 and November 1 (each, an “Interest Payment Date”) of each year, commencing November 1, 2020.

The interest on the Series 2020A Bonds will be paid in lawful money of the United States. The interest on the Series 2020A Bonds shall be payable on each Interest Payment Date by check sent by first class mail by the Trustee to the Owners of the Series 2020A Bonds as of the Record Date for such Interest Payment Date at

their addresses shown on the books required to be kept by the Trustee pursuant to the provisions of the Indenture. The principal and premium, if any, of the Series 2020A Bonds shall be payable upon presentation and surrender thereof on maturity or on redemption prior thereto at the Designated Corporate Trust Office of the Trustee. The term "Record Date," as defined in the Indenture, means the close of business on the 15th day of the month preceding any Interest Payment Date, whether or not such day is a Business Day.

The Owner of \$1,000,000 or more in aggregate principal amount of the Series 2020A Bonds may request in writing that the Trustee pay the interest on the Series 2020A Bonds by wire transfer to an account in the United States of America and the Trustee shall comply with such request for all Interest Payment Dates following the 15th day after receipt of such request.

Redemption

Optional Redemption. The Series 2020A Bonds maturing on or before November 1, 20__, are not subject to optional redemption. The Series 2020A Bonds maturing on or after November 1, 20__ are subject to optional redemption prior to maturity on or after November 1, 20__ at the option of the City, in whole, or in part, on any date, at a redemption price equal to the principal amount of the Series 2020A Bonds to be redeemed, plus accrued but unpaid interest to the redemption date.

Extraordinary Redemption from Condemnation Award or Insurance Proceeds. To the extent permitted or required by the Indenture, the Series 2020A Bonds are subject to redemption on any date prior to their respective maturity dates, as a whole, or in part, at the written direction of the City, from the net proceeds of any insurance or condemnation award with respect to the Leased Property or portions thereof, at a redemption price equal to the principal amount of the Series 2020A Bonds plus accrued interest thereon to the date fixed for redemption, without premium.

Notice of Redemption. Notice of redemption shall be mailed by first class mail by the Trustee, on behalf and at the expense of the City, not less than 30 nor more than 60 days prior to the redemption date to the respective Owners of Series 2020A Bonds designated for redemption at their addresses appearing on the bond registration books of the Trustee and, unless otherwise instructed by the Authority, provided by the Trustee to the MSRB. Each notice of redemption shall state the date of such notice, the Series 2020A Bonds to be redeemed, the Series and date of issue of such Series 2020A Bonds, the redemption date, the redemption price, the place or places of redemption (including the name and appropriate address or addresses), the CUSIP number (if any) of the maturity or maturities, and, if less than all of any such maturity are to be redeemed, the distinctive certificate numbers of the Series 2020A Bonds of such maturity to be redeemed and, in the case of Series 2020A Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice of optional redemption shall also state that such redemption may be rescinded by the City and that, unless such redemption is so rescinded, and provided that on said date funds are available for payment in full of the Series 2020A Bonds then called for redemption, on said date there will become due and payable on each of such Series 2020A Bonds the redemption price thereof or of said specified portion of the principal amount thereof in the case of a Series 2020A Bond to be redeemed in part only, together with interest accrued thereon to the redemption date, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such Series 2020A Bonds be then surrendered at the address or addresses of the Trustee specified in the redemption notice.

Failure by the Trustee to give notice of redemption pursuant to Indenture to any one or more of the information services or securities depositories, or the insufficiency of any such notice shall not affect the sufficiency of the proceedings for redemption. The failure of any Owner to receive any redemption notice mailed to such Owner and any defect in the notice so mailed shall not affect the sufficiency of the proceedings for redemption.

The City has the right to rescind any optional redemption by written notice to the Trustee on or prior to the date fixed for redemption. Any notice of redemption shall be cancelled and annulled if for any reason funds are not available on the date fixed for redemption for the payment in full of the Bonds then called for redemption,

and such cancellation shall not constitute an Event of Default under the Indenture. The Trustee shall mail notice of such rescission of redemption in the same manner as the original notice of redemption was sent.

Partial Redemption of Bonds. Whenever less than all the Outstanding Bonds maturing on any one date are called for redemption at any one time, the Trustee shall select the Bonds to be redeemed, from the Outstanding Bonds maturing on such date not previously selected for redemption, by lot in any manner which the Trustee deems appropriate.

Effect of Redemption. If notice of redemption has been duly given as set forth in the Indenture and moneys for the payment of the redemption price of the Series 2020A Bonds to be redeemed are held by the Trustee, then on the redemption date designated in such notice the Series 2020A Bonds so called for redemption shall become payable at the redemption price specified in such notice; and from and after the date so designated interest on the Series 2020A Bonds so called for redemption shall cease to accrue, such Series 2020A Bonds shall cease to be entitled to any benefit or security under the Indenture and the Owners of such Series 2020A Bonds shall have no rights in respect thereof except to receive payment of the redemption price represented thereby. The Trustee shall, upon surrender for payment of any of the Series 2020A Bonds to be redeemed, pay such Series 2020A Bonds at the redemption price thereof.

Book-Entry Only System

General. DTC will act as securities depository for the Series 2020A Bonds. The Series 2020A Bonds will be issued as fully registered bonds, registered in the name of Cede & Co. as nominee of DTC, and will be available to actual purchasers of the Series 2020A Bonds (the “Beneficial Owners”) in the denominations set forth above, under the book-entry system maintained by DTC, only through brokers and dealers who are or act through DTC Participants (as defined in Appendix F) as described herein. Beneficial Owners will not be entitled to receive physical delivery of the Series 2020A Bonds.

Transfer and Exchange of Bonds. The following provisions regarding the exchange and transfer of the Series 2020A Bonds apply only during any period in which the Series 2020A Bonds are not subject to DTC’s book-entry system. While the Series 2020A 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.

All Series 2020A Bonds may be presented for transfer by the Owner thereof, in person or by his attorney duly authorized in writing, at the Designated Corporate Trust Office of the Trustee, on the books required to be kept by the Trustee pursuant to the provisions of the Indenture, upon surrender of such Series 2020A Bonds for cancellation accompanied by delivery of a duly executed written instrument of transfer in a form acceptable to the Trustee. The Trustee may treat the Owner of any Series 2020A Bond as the absolute owner of such Series 2020A Bond for all purposes, whether or not such Series 2020A Bond shall be overdue, and the Trustee shall not be affected by any knowledge or notice to the contrary; and payment of the principal of, premium, if any, and interest on such Series 2020A Bond shall be made only to such Owner, which payments shall be valid and effectual to satisfy and discharge the liability of by such Series 2020A Bond to the extent of the sum or sums so paid.

Whenever any Series 2020A Bond or Series 2020A Bonds shall be surrendered for transfer, the Trustee shall execute and deliver a new Series 2020A Bond or Series 2020A Bonds in the same principal amount in Authorized Denominations. The Trustee shall require the payment by any Owner requesting such transfer of any tax or other governmental charge required to be paid with respect to such transfer.

Series 2020A Bonds may be presented for exchange at the Designated Corporate Trust Office of the Trustee, for a like aggregate principal amount of Series 2020A Bonds of other Authorized Denominations. The Trustee shall require the payment by the Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange.

The Trustee shall not be required to transfer or exchange any Series 2020A Bond during the period in which the Trustee is selecting Series 2020A Bonds for redemption, nor shall the Trustee be required to transfer or exchange any Series 2020A Bond or portion thereof selected for redemption from and after the date of mailing the notice of redemption thereof.

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2020A BONDS

Pledge of Revenues

Under the Indenture, the City will irrevocably pledge and transfer to the Trustee, for the benefit of the Owners, all of its right, title and interest in and to all amounts on deposit from time to time in the funds and accounts established under the Indenture (other than the Rebate Fund), subject to the provisions thereof permitting the disbursement thereof for or to the purposes and on the conditions and terms set forth therein, and in and to the Revenues (as defined below), which shall be used for the punctual payment of the interest and principal of the Bonds. The Revenues shall not be used for any other purpose while any of the Bonds remain Outstanding.

It is the intent of the parties to the Indenture that the Authority shall not have any right, title, in or to the Revenues. In the event, however, that it should be determined that the Authority has any right, title or interest in or to the Revenues, then the Authority irrevocably pledges and transfers to the Trustee, for the benefit of the Owners, all of such right, title and interest, which shall be used for the punctual payment of the interest and principal of the Bonds. These pledges shall constitute a first and exclusive lien on the funds established under the Indenture and the Revenues in accordance with the terms thereof.

Under the Indenture, "Revenues" includes all Lease Payments corresponding to the Series 2020A Bonds pursuant to the Lease Agreement, and all other benefits, charges, income, proceeds, profits, receipts, rents and revenues derived by the Authority from the operation or use of the Leased Property, including interest or profits from the investment of money in any account or fund (other than the Rebate Fund) pursuant to the Indenture. The City will covenant in the Lease Agreement to take such action as may be necessary to include all Lease Payments and Additional Payments due under the Lease Agreement in its annual budgets and to make the necessary annual appropriations therefor, subject to abatement as provided in the Lease Agreement.

The Authority, pursuant to the Assignment Agreement, will unconditionally grant, transfer and assign to the Trustee without recourse all of the Authority's rights under the Lease Agreement (excepting only the Authority's rights to Additional Payments, Release and Indemnity by the City and rights to attorneys' fees and expenses) including, but not limited to (i) all its rights to receive and collect the Lease Payments under and pursuant to the Lease Agreement, (ii) the right to receive and collect any proceeds of any insurance maintained under the Lease Agreement with respect to the Leased Property, or any eminent domain award (or proceeds of sale under threat of eminent domain) paid with respect to the Leased Property, (iii) the right to exercise such rights and remedies conferred on the Authority under the Lease Agreement as may be necessary or convenient to enforce payment of the Lease Payments and any amounts required to be deposited in the Insurance and Condemnation Fund established under the Indenture or otherwise to protect the interests of the Bondowners in the event of a default by the City under the Lease Agreement. The City will pay Lease Payments directly to the Trustee, as assignee of the Authority. See "—Lease Payments" below. Pursuant to the Indenture, the Authority may issue Additional Bonds payable from the Lease Payments on a parity with the Series 2020A Bonds. See "APPENDIX B—SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS—INDENTURE—Proceedings for Authorization of Additional Bonds."

THE SERIES 2020A BONDS ARE SPECIAL OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM REVENUES AND THE OTHER ASSETS PLEDGED THEREFOR UNDER THE INDENTURE. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE AUTHORITY, THE CITY OR THE STATE, OR ANY POLITICAL SUBDIVISION THEREOF, IS PLEDGED TO THE PAYMENT OF THE SERIES 2020A BONDS. THE AUTHORITY HAS NO TAXING POWER.

Lease Payments

The City will agree under the Lease Agreement to pay to the Trustee, as assignee of the Authority, the Lease Payments no later than the 5th Business Day prior to each Interest Payment Date (the "Lease Payment Date") on which such Lease Payment is due. All Lease Payments received by the Trustee will be deposited by the Trustee in the Revenue Fund to be established under the Indenture (the "Revenue Fund"). Such payments of Lease Payments will be paid or payable by the City for and in consideration of the right of the use and possession of, and the continued quiet use and enjoyment of, the Leased Property.

Lease Payments for each Lease Year or portion thereof during the term of the Lease Agreement shall constitute, together with the Additional Payments, the total amount due for such Lease Year or portion thereof and shall be paid or payable by the City for and in consideration of the right of the use and possession of, and the continued quiet use and enjoyment of, the Leased Property. Pursuant to the Indenture, on each Interest Payment Date, the Trustee will transfer amounts in the Revenue Fund as are necessary to the Interest Fund and the Principal Fund to provide for the payment of the interest on and principal of the Series 2020A Bonds.

The City will covenant in the Lease Agreement to take such action as may be necessary to include all Lease Payments and Additional Payments in its operating budget for each fiscal year and to make all necessary appropriations for such Lease Payments and Additional Payments, subject to abatement as provided in the Lease Agreement. See "DEBT SERVICE SCHEDULE."

THE OBLIGATION OF THE CITY TO MAKE THE LEASE PAYMENTS DOES NOT CONSTITUTE A DEBT OF THE CITY 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 OR THE STATE IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY OR THE STATE HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

Additional Payments

The Lease Agreement requires the City to pay to the Authority or the Trustee, as Additional Payments thereunder, in addition to the Lease Payments, such amounts as shall be required for the payment all costs and expenses incurred in connection with the execution, performance or enforcement of the Lease Agreement or the assignment thereof, the Indenture, or the respective interests in the Leased Property and the lease of the Leased Property by the Authority to the City thereunder, including but not limited to all fees, costs and expenses and all administrative costs of the Authority relating to the Leased Property. Such fees and costs include, without limitation, salaries and wages of employees, overhead, insurance premiums, taxes and assessments (if any), expenses, compensation and indemnification of the Trustee (to the extent not paid or otherwise provided for out of the proceeds of the sale of the Bonds), fees of auditors, accountants, attorneys or engineers, insurance premiums, and all other reasonable and necessary administrative costs of the Authority or charges required to be paid by it to comply with the terms of the Bonds or the Indenture.

Additional Payments will be billed to the City by the appropriate party from time to time, together with a statement certifying that the amount billed has been incurred or paid for one or more of the items constituting Additional Payments, or that such amount is then so payable for such items. Amounts so billed shall be paid by the City not later than the latest time as such amounts may be paid without penalty or, if no penalty is associated with a late payment of such amounts, within 30 days after receipt of a bill by the City for such amounts.

Abatement

Lease Payments and Additional Payments are paid by the City in each Lease Year or portion thereof for and in consideration of the right of the use and possession of, and the continued quiet use and enjoyment of, the Leased Property. During any period in which, by reason of material damage, destruction, or by taking by eminent

domain, or condemnation, there is substantial interference with the use and possession by the City of any portion of the Leased Property, rental payments due under the Lease Agreement with respect to the Leased Property shall be abated to the extent that the annual fair rental value of the portion of the Leased Property in respect of which there is no substantial interference is less than the annual Lease Payments, in which case rental payments shall be abated only by an amount equal to the difference.

The City may sublease any or all of the Leased Property under the Lease Agreement, as permitted by the Lease Agreement, for purposes of determining the annual fair rental value available to pay Lease Payments, annual fair rental value of the Leased Property shall first be allocated to the Lease Agreement. The City waives the benefits of California Civil Code Sections 1932(1) and 1932(2), but such waiver does not limit any of the rights of the City under the terms of the Lease Agreement.

Abatement shall continue for the period commencing with the date of such damage, destruction, title defect or condemnation and ending with the substantial completion of the work of repair or replacement of the portions of the Leased Property so damaged, destroyed, defective or condemned.

Notwithstanding the foregoing, to the extent there are (a) amounts received in respect of rental interruption insurance or (b) amounts in any reserve fund established for the Bonds, Lease Payments and Additional Payments will not be abated as provided above but, rather, will be payable by the City as a special obligation payable solely from said funds and accounts.

Any abatement of rental payments pursuant to the Lease Agreement is not considered an Event of Default as defined in the Lease Agreement.

See “APPENDIX B—SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS—LEASE AGREEMENT—Abatement of Lease Payments.”

Substitution and Removal of Property

The Authority and the City may amend the Lease Agreement to substitute other real property and/or improvements (the “Substituted Property”) for existing Leased Property and/or to remove real property (including undivided interests therein) and/or improvements from the definition of Leased Property, upon compliance with all of the conditions set forth in the Lease Agreement. After a substitution or removal, the part of the Leased Property for which the substitution or removal has been effected shall be released from the leasehold under the Lease Agreement and under the Site Lease. No substitution shall take place under the Lease Agreement until the City delivers to the Authority and the Trustee the following:

- (a) The City must file with the Authority and the Trustee, and cause to be recorded in the Office of the Santa Clara County Recorder sufficient memorialization of, an amended Appendix A to the Lease Agreement and an amended Appendix A to the Site Lease, which adds a description of such Substitute Property and deletes the description of such Former Property;
- (b) The City must obtain a CLTA policy of title insurance insuring the City’s leasehold estate under the Lease Agreement in the Substitute Property, in an amount at least equal to the outstanding principal amount of the Authority Debt then outstanding, and naming the Trustee as an additional insured;
- (c) The City must certify in writing to the Authority and the Trustee that such 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;
- (d) The City shall certify in writing to the Authority and the Trustee that the estimated value and the estimated fair rental value of the Substitute Property are at least equal to the estimated value and

the estimated fair rental value, respectively, of the Former Property, and that the useful life of the Substitute Property extends to June 1, 2049; and

- (e) The City shall file an opinion of Bond Counsel with the Trustee stating that the foregoing requirements of the Lease Agreement have been satisfied.

No removal shall take place under the Lease Agreement until the City delivers to the Authority and the Trustee the following:

- (a) The City has filed with the Authority and the Trustee, and caused to be recorded in the Office of the Santa Clara County Recorder sufficient memorialization of, an amendment of the Lease Agreement which removes the Released Property from the Site Lease and the Lease Agreement;
- (b) The City has certified in writing to the Authority and the Trustee that the value of the property which remains subject to the Lease Agreement following such release is at least equal to the aggregate original principal amount of the outstanding Authority Debt, and the fair rental value of the property which remains subject to the Lease Agreement following such release is at least equal to the Lease Payments thereafter coming due and payable under the Lease Agreement; and
- (c) The City shall file an opinion of Bond Counsel with the Trustee stating that the foregoing requirements of the Lease Agreement have been satisfied.

See “APPENDIX B—SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS.”

Action on Default

If the City defaults under the Lease Agreement, the Trustee, as assignee of the Authority under the Lease Agreement, may terminate the Lease Agreement and recover certain damages from the City, or may retain the Lease Agreement and hold the City liable for all Lease Payments thereunder on an annual basis. In such event, the City shall remain liable and agrees to keep or perform all covenants and conditions contained in the Lease Agreement to be kept or performed by the City and, to pay Lease Payments and Additional Payments to the end of the term of the Lease Agreement and further agrees to pay said Lease Payments and Additional Payments and/or deficiency thereof punctually at the same time and in the same manner as provided in the Lease Agreement for the payment of Lease Payments and Additional Payments thereunder. There is no provision for the acceleration of debt service on the Series 2020A Bonds in the Indenture or of Lease Payments in the Lease Agreement upon the happening of an event of default.

In each and every case during the continuance of an event of default under the Indenture, the Trustee or the Owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding (subject to the provisions of the Indenture) shall be entitled, upon notice in writing to the City and the Authority to exercise any of the remedies granted to the City under the Lease Agreement, to the Authority under the Lease Agreement and, in addition, to take whatever action at law or in equity may appear necessary or desirable to enforce its rights as assignee pursuant to the Assignment Agreement or to protect and enforce any of the rights vested in the Trustee or the Owners by this Indenture or by the Bonds, either at law or in equity or in bankruptcy or otherwise, whether for the specific enforcement of any covenant or agreement or for the enforcement of any other legal or equitable right.

For purposes of certain actions of Owners under the Indenture and the Lease Agreement, such as certain consents and amendments and the direction of remedies following default, Owners do not act alone and may not control such matters to the extent such matters are not supported by the requisite number of the Owners of all Series 2020A Bonds and Additional Bonds, if any.

For a description of the events of default and permitted remedies of the Trustee (as assignee of the Authority) contained in the Lease Agreement and the Indenture, see “APPENDIX B—SUMMARY OF THE

PRINCIPAL LEGAL DOCUMENTS—LEASE AGREEMENT—Events of Default; Remedies,” and “—INDENTURE — Events of Default.”

No Reserve Fund

The Authority has not funded a reserve fund in connection with the issuance of the Series 2020A Bonds.

Insurance

The Lease Agreement requires the City to obtain and maintain certain public liability, casualty, fire and extended coverage and rental interruption insurance coverage, which may have certain deductibles and may in some cases be maintained as part of or in conjunction with other insurance carried by the City and/or in the form of self-insurance or budgeted reserve. The rental interruption insurance must be maintained in an amount at least equal to the maximum Lease Payments related to improvements on the Leased Property coming due and payable during any future consecutive 24-month period. The Net Proceeds (as defined in the Lease Agreement) of any insurance award resulting from any damage to or destruction of the Leased Property by fire or other casualty shall be applied as set forth in the Lease Agreement.

See also “APPENDIX B—SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS.”

THE AUTHORITY

The Authority is a joint exercise of powers entity duly organized and existing under and by virtue of the laws of the State of California pursuant to a Joint Exercise of Powers Agreement, dated as of March 21, 1994, as amended on April 21, 1992, by and between the City and the Community Development Agency of the City of Gilroy. The Authority was created to finance the cost of any capital improvement, working capital, or liability and other insurance needs, or projects wherever there are significant public benefits, as determined by the City.

THE CITY

The City is the southernmost city in the County of Santa Clara (the “County”) sitting at the crossing of U.S. Highway 101 and State Highway 152. The City is located approximately 25 miles south of San Jose and approximately 75 miles south of San Francisco. Over the past few decades, the City has been transitioning from an agricultural economy into a light industrial- and services-based economy.

The City was first incorporated in 1870 and became a charter city on January 8, 1960. The City operates under the Council-Administrator form of government. The seven City Council members, including the Mayor, are elected-at-large to four year terms in alternate slates of three every two years, with the Mayor being elected every four years. In order to consolidate with the countywide elections and to help reduce the City's election costs, the City's charter was amended in November 2008 to provide that the City's general municipal election shall be held in each even-numbered year commencing with the year 2010 and extended the existing Council terms by one year.

The City Council appoints the City Administrator who heads the executive branch of the government, implements City Council directives and policies, and manages the administrative and operational functions through the department directors. The City Administrator appoints the department directors with the exception of the City Clerk and the City Attorney, who are appointed by the City Council.

The City provides municipal services including police and fire protection, community and economic development, recreation activities, parks and street maintenance, water and sewer utilities and general City administration.

For financial and demographic information regarding the City see “APPENDIX A—FINANCIAL, ECONOMIC AND DEMOGRAPHIC INFORMATION CONCERNING THE CITY AND THE COUNTY.”

RISK FACTORS

The following factors, along with the other information in this Official Statement, should be considered by potential investors in evaluating the purchase of the Series 2020A Bonds. However, they do not purport to be an exhaustive listing of risks and other considerations which may be relevant to an investment in the Series 2020A Bonds. In addition, the order in which the following factors are presented is not intended to reflect the relative importance of any such risks.

General Considerations – Security for the Series 2020A Bonds

The Series 2020A Bonds are special obligations of the Authority, payable solely from Revenues and the other assets pledged under the Indenture. Neither the faith nor credit of the Authority, the City or the State, or any political subdivision thereof, is pledged to the payment of the Series 2020A Bonds. The Authority has no taxing power.

The obligation of the City to make the Lease Payments does not constitute a debt of the City 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 or the State is obligated to levy or pledge any form of taxation or for which the City or the State has levied or pledged any form of taxation.

Although the Lease Agreement does not create a pledge, lien or encumbrance upon the funds of the City, the City is obligated under the Lease Agreement to pay the Lease Payments and Additional Payments from any source of legally available funds, subject to abatement as provided in the Lease Agreement, and the City will covenant in the Lease Agreement that it will take such action as may be necessary to include all Lease Payments and Additional Payments due under the Lease Agreement in its annual budgets and to make necessary annual appropriations for all such Rental Payments, subject to abatement. The City is currently liable and may become liable on other obligations payable from general revenues. See “CITY FINANCES—Direct and Overlapping Debt” in Appendix A attached hereto for a description of the City’s long-term and other obligations payable from general revenues.

The City has the capacity to enter into other obligations which may constitute additional charges against its revenues. To the extent that additional obligations are incurred by the City, the funds available to make Lease Payments may be decreased. In the event the City’s revenue sources are less than its total obligations, the City could choose to fund other activities before making Lease Payments and other payments due under the Lease Agreement. The same result could occur if, because of State constitutional limits on expenditures, the City is not permitted to appropriate and spend all of its available revenues. However, the City’s appropriations have never exceeded the limitation on appropriations under Article XIII B of the State Constitution. See “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS—Article XIII B of the State Constitution.”

Bonds as Parity Obligations

The pledge of, lien on and security interest in the Lease Payments that are established by the Indenture for the benefit of the Series 2020A Bonds is on a parity with the pledge, lien and security in the Lease Payments that secures the 2013 Bonds. In the event any Lease Payment is insufficient to provide for payment in full of the principal of and interest on the Series 2020A Bonds, and the principal of and interest on the 2013 Bonds when due, the Lease Payment will be applied to those purposes on a pro rata basis.

Abatement

In the event of substantial interference with the City’s right to use and occupy any portion of the Leased Property by reason of damage to, or destruction or condemnation of the Leased Property, or any defects in title to the Leased Property, Lease Payments will be subject to abatement. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2020A BONDS—Abatement.” In the event that such portion of the Leased

Property, if damaged or destroyed by an insured casualty, could not be replaced during the period of time in which proceeds of the City's rental interruption insurance will be available in lieu of Lease Payments, plus the period for which funds are available from (a) amounts held by the Trustee in the Revenue Bond, and (b) amounts, if any, otherwise legally available to the Trustee for payments in respect of the Bonds under the Indenture, or in the event that casualty insurance proceeds are insufficient to provide for complete repair or replacement of such portion of the Leased Property or redemption of the Series 2020A Bonds, there could be insufficient funds to make payments to Owners in full. The Authority has not funded a reserve fund for the Series 2020A Bonds.

If damage, destruction, title defect or eminent domain proceedings with respect to the Leased Property results in abatement of the Lease Payments related to such Leased Property and if such abated Lease Payments, if any, together with moneys from rental interruption or use and occupancy insurance (in the event of any insured loss due to damage or destruction), and eminent domain proceeds, if any, are insufficient to make all payments of principal and interest with respect to the Series 2020A Bonds during the period that the Leased Property is being replaced, repaired or reconstructed, then all or a portion of such payments of principal and interest may not be made. Under the Lease Agreement and the Indenture, no remedy is available to the Owners for nonpayment under such circumstances.

Limited Secondary Market

As stated herein, investment in the Series 2020A Bonds poses certain economic risks which may not be appropriate for certain investors, and only persons with substantial financial resources who understand the risk of investment in the Series 2020A Bonds should consider such investment. There can be no guarantee that there will be a secondary market for purchase or sale of the Series 2020A Bonds or, if a secondary market exists, that the Series 2020A Bonds can or could be sold for any particular price.

No Reserve Fund

Neither the Authority nor the City is funding a debt service reserve for the Series 2020A Bonds.

Seismic Activity

Generally, within the State, some level of seismic activity occurs on a regular basis. Periodically, the magnitude of a single seismic event can cause significant ground shaking and damage to property located at or near the center of such seismic activity. An earthquake along one of the faults in the vicinity, either known or unknown, could cause a number of casualties and extensive property damage. The effects of such a quake could be aggravated by aftershocks and secondary effects such as fires, landslides, dam failure, liquefaction and other threats to public health, safety and welfare. The potential direct and indirect consequences of a major earthquake can easily exceed the resources of the City and would require a high level of self-help, coordination and cooperation.

The City is located in the vicinity of several known active earthquake faults, heightening the risks associated with seismic events. The City does not currently maintain earthquake insurance coverage for the Leased Property.

Flood

The City and the Santa Clara Valley have a history of flooding which has resulted in property damage. The Federal Emergency Management Agency ("FEMA") has prepared a flood map for territory within the City and established designations to identify the risk of flooding in particular areas. The Sunrise Fire Station and new Police Facility are located in an area designated by FEMA as Zone A. In Zone A, mandatory flood insurance purchase requirements do not apply, but coverage is available. Most of the City is protected by a levee along the Uvas-Carnadero Creek. It was constructed by the U.S. Army Corps in 1987 and is maintained by the Santa Clara Valley Water District (the "SCVWD"). Various FEMA flood zones are found downstream of where the SCVWD levee terminates, where the induced flood easement area is occupied by the Gilroy Sports Park.

The Casualty and liability insurance maintained by the City under the Lease Agreement may not cover losses due to flood. The City is not obligated to and will not initially maintain flood insurance on the Leased Property.

Wildfire Conditions

In recent years, portions of California have experienced wildfires that have burned thousands of acres and destroyed thousands of homes and structures, even in areas not previously thought to be prone to wildfires. Such areas affected by wildfires are more prone to flooding and mudslides that can further lead to the destruction of homes. There can be no assurances that wildfires won't occur within the County and occur within the City. Property damage due to wildfire could result in a significant decrease in the market value of property in the City and in the ability or willingness of property owners to pay property taxes when due.

Hazardous Substances

The City knows of no existing hazardous substances which require remedial action on or near the Leased Property. However, it is possible such substances do currently or potentially exist and that the City is not aware of them.

Owners and operators of real property may be required by law to remedy conditions of the property relating to releases or threatened releases of hazardous substances. The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as "CERCLA" or the "Superfund Act," is the most well-known and widely applicable of these laws, but California laws with regard to hazardous substances are also stringent and similar. Under many of these laws, the owner (or operator) is obligated to remedy a hazardous substance whether or not the owner (or operator) has anything to do with creating or handling the hazardous substance. Further, such liabilities may arise not simply from the existence of a hazardous substance but from the method of handling it. All of these possibilities could significantly and adversely affect the operations and finances of the City, may result in the reduction in the assessed value of property, and therefor property tax revenue.

Cybersecurity

The City relies on computers and technology to conduct its operations. The City and its departments face cyber threats from time to time including, but not limited to, hacking, viruses, malware and other forms of technology attacks. The City owns and operates its own enterprise class data network serving the municipal city government and its operations. The City has retained information technology professionals to support, maintain and protect these operations locally in a purpose-built and physically secure environment. This network and its operations are governed by and in compliance with all applicable governmental regulations as well as the City's own administrative regulations. Within the City's operations and guidance is an active cyber-security program designed to protect from, and to quickly identify and mitigate, a multitude of complex security threats. While no network is completely immune from all possible compromise, the City exercises its due diligence in protecting the data it possesses and the systems it operates. To date, there have been no significant cyber-attacks on the City's computers and technologies.

While the City is routinely maintaining its technology systems and continuously implementing new information security controls, no assurances can be given that the City's security and operational control measures will be successful in guarding against all cyber threats and attacks. The results of any attack on the City's computer and technology could negatively impact the City's operations, and the costs related to such attacks could be substantial.

Limited Recourse on Default; No Acceleration of Base Rental

Failure by the City to make Lease Payments or Additional Payments required to be made under the Lease Agreement, or failure to observe and perform any other terms, covenants or conditions contained in the Lease

Agreement or in the Indenture for a period of 30 days after written notice of such failure and request that it be remedied has been given to the City by the Authority or the Trustee, constitute events of default under the Lease Agreement and permit the Trustee or the Authority to pursue any and all remedies available. In the event of a default, notwithstanding anything in the Lease Agreement or in the Indenture to the contrary, there is no right under any circumstances to accelerate the Lease Payments or otherwise declare any Lease Payments not then in default to be immediately due and payable.

The enforcement of any remedies provided in the Lease Agreement and the Indenture could prove both expensive and time consuming. If the City defaults on its obligation to make Lease Payments with respect to the Leased Property, the Trustee, as assignee of the Authority, may retain the Lease Agreement and hold the City liable for all Lease Payments thereunder on an annual basis and enforce any other terms or provisions of the Lease Agreement to be kept or performed by the City. Any suit for money damages would be subject to limitations on legal remedies against cities in California, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2020A BONDS” and “APPENDIX B—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS.”

Limitations on Remedies Available; Bankruptcy

The enforceability of the rights and remedies of the Owners and the obligations of the City may become subject to the following: the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors’ rights generally, now or hereafter in effect; usual equitable principles which may limit the specific enforcement under state law of certain remedies; the exercise by the United States of America of the powers delegated to it by the Federal Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police power inherent in the sovereignty of the State of California and its governmental bodies in the interest of servicing a significant and legitimate public purpose.

Under Chapter 9 of the United States Bankruptcy Code (Title 11, United States Code) (the “Bankruptcy Code”), which governs bankruptcy proceedings of public entities such as the City, no involuntary bankruptcy petition may be filed against a public entity. However, upon satisfaction of certain prerequisite conditions, a voluntary bankruptcy petition may be filed by the City. The filing of a bankruptcy petition results in a stay against enforcement of remedies under agreements to which the bankrupt entity is a party. A bankruptcy filing by the City could thus limit remedies under the Lease Agreement. A bankruptcy debtor may choose to assume or reject executory contracts and leases, such as the Lease Agreement. In the event of rejection of a lease by debtor lessee, the leased property is returned to the lessor and the lessor has a claim for a limited amount of the resulting damages.

Under the Indenture, the Trustee holds a security interest in the Revenues, including Lease Payments, for the benefit of the Owners of the Bonds, but such security interest arises only when the Lease Payments are actually received by the Trustee following payment by the City. The Leased Property is not subject to a security interest, mortgage or any other lien in favor of the Trustee for the benefit of Owners. In the event of a bankruptcy filed by the City and the subsequent rejection of the Lease Agreement by the City, the Authority would recover possession of the Leased Property and the Trustee, as assignee of the Authority, would have a claim for damages against the City. The Trustee’s claim would constitute a secured claim only to the extent of Revenues in the possession of the Trustee; the balance of such claim would be unsecured.

Bankruptcy proceedings would subject the Owners of the Series 2020A Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently entail risks of delay, limitation, or modification of their rights with respect to the Series 2020A Bonds. In a bankruptcy case, the amount recovered by Owners of the Series 2020A Bonds could be affected by whether the Lease Agreement is determined to be a “true lease” or a loan or other financing arrangement (a “financing lease”), and the Owners’ recovery could be reduced in either case. If the Lease Agreement is determined by the bankruptcy court to constitute a “true lease” (rather than a financing lease), the City could choose not to perform under the Lease Agreement by rejecting it and the claim of the Owners could be substantially limited pursuant to Section 365 of the Bankruptcy Code to a

fraction of the scheduled amount of Lease Payments, and that reduced claim amount could be impaired as an unsecured claim under a plan of adjustment. If a bankruptcy court were to treat the Lease Agreement as a financing lease then, under a plan of adjustment, the priority, payment terms, collateral, payment dates, payment sources, covenants and other terms or provisions of the Lease Agreement and the Series 2020A Bonds may be altered. Such a plan could be confirmed even over the objections of the Trustee and the Owners, and without their consent. For example, the amount of the Lease Payments from the City might be substantially reduced because of the power of the bankruptcy court under the Bankruptcy Code to adjust secured claims to the value of their collateral, which, as described above, could be limited to the Revenues held by the Trustee. In addition there can be a substantial disparity in treatment based on the nature of the Leased Property. Whether the Lease Agreement is characterized by the bankruptcy court as a true lease or a financing lease, either scenario could result in the Owners not receiving the full amount of the principal and interest due on the Series 2020A Bonds.

Possible Insufficiency of Insurance Proceeds

The Lease Agreement obligates the City to keep in force various forms of insurance, subject to deductibles, for repair or replacement of the Leased Property in the event of damage, destruction or title defects, subject to certain exceptions. The Authority and the City make no representation as to the ability of any insurer to fulfill its obligations under any insurance policy obtained pursuant to the Lease Agreement, and no assurance can be given as to the adequacy of any such insurance to fund necessary repair or replacement or to pay principal of and interest on the Series 2020A Bonds when due. In addition, insurance for certain risks, such as earthquakes and floods, are not required under the Lease Agreement, but are currently carried by the City. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2020A BONDS—Insurance.”

Loss of Tax Exemption

As discussed under the heading “TAX MATTERS,” the interest on the Series 2020A Bonds (assuming their issuance upon satisfaction of certain terms and conditions of a Forward Delivery Bond Purchase Agreement) could become includable in gross income for purposes of federal income taxation retroactive to the date of delivery of such bonds, as a result of acts or omissions of the Authority or the City in violation of their respective covenants in the Indenture, the Lease Agreement and the Tax Certificate. Should such an event of taxability occur, the Series 2020A Bonds (assuming their issuance upon satisfaction of certain terms and conditions of a Forward Delivery Bond Purchase Agreement) would not be subject to a special redemption and would remain Outstanding until maturity or until redeemed under the redemption provisions contained in the Indenture.

No Liability of Authority to the Owners

Except as expressly provided in the Indenture, the Authority will not have any obligation or liability to the Owners of the Series 2020A Bonds with respect to the payment when due of the Lease Payments by the City, or with respect to the performance by the City of other agreements and covenants required to be performed by it contained in the Lease Agreement or the Indenture, or with respect to the performance by the Trustee of any right or obligation required to be performed by it contained in the Indenture.

Dependence on State for Certain Revenues

In 2008, the State began experiencing the most significant economic downturn and financial pressure since the Great Depression of the 1930s. Despite the recent significant budgetary improvements, according to the State, there remain a number of major risks and pressures that threaten the State’s financial condition, including a stock market correction, federal policy, slower global growth and an eventual U.S. recession. The State’s revenues (particularly the personal income tax) can be volatile and correlate to overall economic conditions. There can be no assurances that the State will not face fiscal stress and cash pressures again, or that other changes in the State or national economies will not materially adversely affect the financial condition of the State.

The City cannot predict the extent of any budgetary problems the State will encounter in future fiscal years and it is not clear what measures would be taken by the State to balance its budget, as required by law. In addition, the City cannot predict the impact that State budgets will have on the City's finances and operations or what actions will be taken in the future by the State Legislature and the Governor to deal with changing State revenues and expenditures. Current and future State budgets will be affected by national and State economic conditions and other factors, including the current economic downturn, over which the City has no control.

A number of the City's revenues are collected and dispersed by the State (such as sales tax and motor-vehicle license fees) or allocated in accordance with State law (most importantly, property taxes). Therefore, State budget decisions can have an impact on City finances. In the event of a material economic downturn in the State, there can be no assurance that any resulting revenue shortfalls to the State will not reduce revenues to local governments (including the City) or shift financial responsibility for programs to local governments as part of the State's efforts to address any such related State financial difficulties.

See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS—Proposition 1A" and "—Proposition 22" below.

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS

Principal of and interest on the Series 2020A Bonds are payable from Lease Payments made from the City's General Fund. See the caption "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2020A BONDS." Articles XIII A, XIII B, XIII C and XIII D of the State Constitution, Propositions 62, 111, 218, 1A and 22, and certain other provisions of law discussed below are included in this Official Statement to describe the potential effect of these Constitutional and statutory measures on the ability of the City to levy taxes and spend tax proceeds for operating and other purposes.

Article XIII A of the State Constitution

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

Article XIII A has subsequently been amended to permit reduction of the "full cash value" base in the event of declining property values caused by damage, destruction or other factors, including a general economic downturn, to provide that there would be no increase in the "full cash value" base in the event of reconstruction of property damaged or destroyed in a disaster, and in other minor or technical ways.

Legislation Implementing Article XIII A

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

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

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

Article XIII B of the State Constitution

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

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

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

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

Articles XIII C and XIII D of the State Constitution

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

Article XIII C requires that all new local taxes be submitted to the electorate before they become effective. Taxes for general governmental purposes of the City require a majority vote and taxes for specific purposes, even if deposited in the City’s General Fund, require a two-thirds vote. The voter approval requirements of Proposition

218 reduce the flexibility of the City to raise revenues for the General Fund, and no assurance can be given that the City will be able to impose, extend or increase such taxes in the future to meet increased expenditure needs.

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

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

Proposition 62

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

On September 28, 1995, the California Supreme Court, in the case of Santa Clara County Local Transportation Authority v. Guardino, upheld the constitutionality of Proposition 62. In this case, the court held that a countywide sales tax of one-half of one percent was a special tax that, under Section 53722 of the Government Code, required a two-thirds voter approval. Because the tax received an affirmative vote of only 54.1%, this special tax was found to be invalid. The decision did not address the question of whether or not it should be applied retroactively.

Following the California Supreme Court's decision upholding Proposition 62, several actions were filed challenging taxes imposed by public agencies since the adoption of Proposition 62, which was passed in November 1986. On June 4, 2001, the California Supreme Court released its decision in one of these cases, *Howard Jarvis Taxpayers Association v. City of La Habra, et al.* In this case, the court held that public agency's continued imposition and collection of a tax is an ongoing violation, upon which the statute of limitations period begins anew with each collection. The court also held that, unless another statute or constitutional rule provided differently, the statute of limitations for challenges to taxes subject to Proposition 62 is three years. Accordingly, a challenge to a tax subject to Proposition 62 may only be made for those taxes received within three years of the date the action is brought.

The City has not experienced any substantive adverse financial impact as a result of the passage of Proposition 62.

Proposition 1A

Proposition 1A was approved by the voters at the November 2, 2004 election. Proposition 1A amended the State Constitution to, among other things, reduce the Legislature's authority over local government revenue sources by placing restrictions on the State's access to local governments' property, sales, and vehicle license fee revenues as of November 3, 2004. Beginning with Fiscal Year 2008-09, the State may borrow up to eight percent of local property tax revenues, but only if the Governor proclaims such action is necessary due to a severe State fiscal hardship and two-thirds of both houses of the Legislature approves the borrowing. The amount borrowed is required to be paid back within three years. The State also will not be able to borrow from local property tax revenues for more than two fiscal years within a period of 10 fiscal years. In addition, the State cannot reduce the local sales tax rate or restrict the authority of local governments to impose or change the distribution of the statewide local sales tax.

Many of the provisions of Proposition 1A have been superseded by Proposition 22 enacted in November 2010 and described below.

Proposition 22

On November 2, 2010, the voters of the State approved Proposition 22, known as "The Local Taxpayer, Public Safety, and Transportation Protection Act" ("Proposition 22"). Proposition 22, among other things, broadens the restrictions established by Proposition 1A. While Proposition 1A permits the State to appropriate or borrow local property tax revenues on a temporary basis during times of severe financial hardship, Proposition 22 amends Article XIII of the State Constitution to prohibit the State from appropriating or borrowing local property tax revenues under any circumstances. The State can no longer borrow local property tax revenues on a temporary basis even during times of severe financial hardship. Proposition 22 also prohibits the State from appropriating or borrowing proceeds derived from any tax levied by a local government solely for the local government's purposes. Furthermore, Proposition 22 restricts the State's ability to redirect redevelopment agency property tax revenues to school districts and other local governments and limits uses of certain other funds although this provision no longer has any meaningful impact given the statewide dissolution of redevelopment agencies. Proposition 22 is intended to stabilize local government revenue sources by restricting the State government's control over local revenues. The City cannot predict whether Proposition 22 will have a beneficial effect on the City's financial condition.

Proposition 26

On November 2, 2010, State voters also approved Proposition 26. Proposition 26 amends Article XIII C of the State Constitution to expand the definition of "tax" to include "any levy, charge, or exaction of any kind imposed by a local government" except the following: (a) a charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege; (b) a charge imposed

for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product; (c) a charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections, and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof; (d) a charge imposed for entrance to or use of local government property, or the purchase, rental or lease of local government property; (e) a fine, penalty or other monetary charge imposed by the judicial branch of government or a local government as a result of a violation of law; (f) a charge imposed as a condition of property development; and (g) assessments and property-related fees imposed in accordance with the provisions of Article XIID. Proposition 26 provides that the local government bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor's burdens on, or benefits received from, the governmental activity. The City does not believe that Proposition 26 will adversely affect its General Fund revenues.

Possible Future Initiatives

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

TAX MATTERS

Federal Income Taxes. The Internal Revenue Code of 1986, as amended (the "Code"), imposes certain requirements that must be met subsequent to the issuance and delivery of the Series 2020A Bonds for interest thereon to be and remain excluded from gross income for federal income tax purposes. Noncompliance with such requirements could cause the interest on the Series 2020A Bonds to be included in gross income for federal income tax purposes retroactive to the date of issue of the Series 2020A Bonds. Pursuant to the Indenture, the Lease Agreement and the Tax Document, the Authority and the City have covenanted to comply with the applicable requirements of the Code in order to maintain the exclusion of the interest on the Series 2020A Bonds from gross income for federal income tax purposes pursuant to Section 103 of the Code. In addition, the Authority and the City have made certain representations and certifications in the Indenture, the Lease Agreement and the Tax Document. Bond Counsel will not independently verify the accuracy of those representations and certifications.

In the opinion of Nixon Peabody LLP, Bond Counsel, under existing law and assuming compliance with the aforementioned covenant, including the satisfaction of certain terms and conditions provided in the Forward Delivery Bond Purchase Agreement as described under the heading "FORWARD DELIVERY OF THE SERIES 2020A BONDS", and the accuracy of certain representations and certifications made by the Authority and the City described above, interest on the Series 2020A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code. Bond Counsel is also of the opinion that such interest is not treated as a preference item in calculating the alternative minimum tax imposed under the Code.

State Taxes. Bond Counsel is also of the opinion that interest on the Series 2020A Bonds is exempt from personal income taxes of the State of California under present State law. Bond Counsel expresses no opinion as to other state or local tax consequences arising with respect to the Series 2020A Bonds nor as to the taxability of the Series 2020A Bonds or the income therefrom under the laws of any state other than California.

Original Issue Discount. Bond Counsel is further of the opinion that the excess of the principal amount of a maturity of the Series 2020A Bonds over its issue price (i.e., the first price at which price a substantial amount of such maturity of the Series 2020A Bonds was sold to the public, excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers) (each, a "Discount Series 2020A Bond" and collectively the "Discount Series 2020A Bonds") constitutes original issue discount which is excluded

from gross income for federal income tax purposes to the same extent as interest on the Series 2020A Bonds. Further, such original issue discount accrues actuarially on a constant interest rate basis over the term of each Discount Series 2020A Bond and the basis of each Discount Series 2020A Bond acquired at such issue price by an initial purchaser thereof will be increased by the amount of such accrued original issue discount. The accrual of original issue discount may be taken into account as an increase in the amount of tax-exempt income for purposes of determining various other tax consequences of owning the Discount Series 2020A Bonds, even though there is not a corresponding cash payment. Owners of the Discount Series 2020A Bonds are advised that they should consult with their own advisors with respect to the state and local tax consequences of owning such Discount Series 2020A Bonds.

Original Issue Premium. Series 2020A Bonds sold at prices in excess of their principal amounts are “Premium Series 2020A Bonds”. An initial purchaser with an initial adjusted basis in a Premium Series 2020A Bond in excess of its principal amount will have amortizable bond premium which is not deductible from gross income for federal income tax purposes. The amount of amortizable bond premium for a taxable year is determined actuarially on a constant interest rate basis over the term of each Premium Series 2020A Bond based on the purchaser’s yield to maturity (or, in the case of Premium Series 2020A Bonds callable prior to their maturity, over the period to the call date, based on the purchaser’s yield to the call date and giving effect to any call premium). For purposes of determining gain or loss on the sale or other disposition of a Premium Series 2020A Bond, an initial purchaser who acquires such obligation with an amortizable bond premium is required to decrease such purchaser’s adjusted basis in such Premium Series 2020A Bond annually by the amount of amortizable bond premium for the taxable year. The amortization of bond premium may be taken into account as a reduction in the amount of tax-exempt income for purposes of determining various other tax consequences of owning such Series 2020A Bonds. Owners of the Premium Series 2020A Bonds are advised that they should consult with their own advisors with respect to the state and local tax consequences of owning such Premium Series 2020A Bonds.

Ancillary Tax Matters. Ownership of the Series 2020A Bonds may result in other federal tax consequences to certain taxpayers, including, without limitation, certain S corporations, foreign corporations with branches in the United States, property and casualty insurance companies, individuals receiving Social Security or Railroad Retirement benefits, individuals seeking to claim the earned income credit, and taxpayers (including banks, thrift institutions and other financial institutions) who may be deemed to have incurred or continued indebtedness to purchase or to carry the Series 2020A Bonds. Prospective investors are advised to consult their own tax advisors regarding these rules.

Interest paid on tax-exempt obligations such as the Series 2020A Bonds is subject to information reporting to the Internal Revenue Service (the “IRS”) in a manner similar to interest paid on taxable obligations. In addition, interest on the Series 2020A Bonds may be subject to backup withholding if such interest is paid to a registered owner that (a) fails to provide certain identifying information (such as the registered owner’s taxpayer identification number) in the manner required by the IRS, or (b) has been identified by the IRS as being subject to backup withholding.

Bond Counsel is not rendering any opinion as to any federal tax matters other than those described in the opinions attached as Appendix D. Prospective investors, particularly those who may be subject to special rules described above, are advised to consult their own tax advisors regarding the federal tax consequences of owning and disposing of the Series 2020A Bonds, as well as any tax consequences arising under the laws of any state or other taxing jurisdiction.

Changes in Law and Post Issuance Events. Legislative or administrative actions and court decisions, at either the federal or state level, could have an adverse impact on the potential benefits of the exclusion from gross income of the interest on the Series 2020A Bonds for federal or state income tax purposes, and thus on the value or marketability of the Series 2020A Bonds. This could result from changes to federal or state income tax rates, changes in the structure of federal or state income taxes (including replacement with another type of tax), repeal of the exclusion of the interest on the Series 2020A Bonds from gross income for federal or state income tax

purposes, or otherwise. It is not possible to predict whether any legislative or administrative actions or court decisions having an adverse impact on the federal or state income tax treatment of holders of the Series 2020A Bonds may occur. Prospective purchasers of the Series 2020A Bonds should consult their own tax advisors regarding the impact of any change in law on the Series 2020A Bonds.

Bond Counsel has not undertaken to advise in the future whether any events after the date of issuance and delivery of the Series 2020A Bonds may affect the tax status of interest on the Series 2020A Bonds. Bond Counsel expresses no opinion as to any federal, state or local tax law consequences with respect to the Series 2020A Bonds, or the interest thereon, if any action is taken with respect to the Series 2020A Bonds or the proceeds thereof upon the advice or approval of other counsel.

CERTAIN LEGAL MATTERS

The validity of the Series 2020A Bonds and certain other legal matters are subject to the respective approving opinions of Nixon Peabody LLP, Bond Counsel. Nixon Peabody LLP is acting as Disclosure Counsel for the Authority. Complete copies of the proposed forms of opinion of Bond Counsel are contained in Appendix D hereto. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Bond Counsel and Disclosure Counsel will receive compensation from the Authority contingent upon the sale and delivery of the Series 2020A Bonds. From time to time, Bond Counsel and Disclosure Counsel represents the Underwriter on matters unrelated to the Series 2020A Bonds. Certain legal matters will be passed upon for the Underwriter by Kutak Rock LLP, Irvine, California. Counsel to the Underwriter will receive compensation contingent upon that issuance of the Series 2020A Bonds.

ABSENCE OF LITIGATION

To the best knowledge of the City and the Authority, there is no action, suit or proceeding pending or threatened either restraining or enjoining the execution or delivery of the Series 2020A Bonds, the Site Lease, the Lease Agreement, the Assignment Agreement or the Indenture, or in any way contesting or affecting the validity of the foregoing or any proceedings of the Authority or the City taken with respect to any of the foregoing.

UNDERWRITING

The Series 2020A Bonds are being purchased by Hilltop Securities Inc. (the “Underwriter”) from the Authority on a forward delivery basis as described below under the caption “FORWARD DELIVERY OF THE SERIES 2020A BONDS.”

The Series 2020A Bonds are offered for sale at the initial yields stated on the pages following the cover page of this Official Statement, which may be changed from time to time by the Underwriter. The Series 2020A Bonds may be offered and sold to certain dealers at yield higher than the public offering yields.

FORWARD DELIVERY OF THE SERIES 2020A BONDS

General

The Series 2020A Bonds are being purchased by the Underwriter from the Authority on a forward delivery basis, subject to the satisfaction of certain terms and conditions of a Forward Delivery Bond Purchase Agreement (the “Forward Delivery Bond Purchase Agreement”) among the Authority, the City and the Underwriter. The Underwriter has agreed, subject to the satisfaction of certain terms and conditions of the Forward Delivery Bond Purchase Agreement, certain of which are described below, to purchase the Series 2020A Bonds for delivery by the Authority on or after August 6, 2020 (the “Settlement Date”) at purchase price of \$_____ (representing the principal amount of the Series 2020A Bonds, plus \$_____ of original issue premium and less \$_____ of Underwriter’s discount). The Forward Delivery Bond Purchase Agreement provides that the Underwriter will purchase all of the Series 2020A Bonds if any are purchased.

During the period of time between the date hereof and the Settlement Date (the “Delayed Delivery Period”), certain information contained in this Official Statement may change in a material respect. The Authority and the City have agreed to amend this Official Statement (the “updated Official Statement”) to the extent necessary to assure its accuracy as of a date not later than seven days prior to the Settlement Date and to provide a reasonable number of copies of the updated Official Statement, if any, to the Underwriter at such time. With this exception, the Authority, the City and the Underwriter have not agreed to, nor are they obligated to, provide updates to the information contained in this Official Statement during the Delayed Delivery Period.

Certain Terms Concerning Forward Delivery

Under the Forward Delivery Bond Purchase Agreement, the Underwriter is not required to purchase the Series 2020A Bonds if, among other conditions, (1) there has been a Change in Law (as defined below); (2) legislation is enacted, or a decision by a court of the United States is rendered, or any action is taken by, or on behalf of, the Securities and Exchange Commission which has the effect of requiring the Series 2020A Bonds, and any and all underlying obligations, to be registered under, or the sale thereof to be in violation of, the Securities Act of 1933, as amended or has the effect of requiring the Indenture to be qualified under the Trust Indenture Act of 1939, as amended, or, in each case, any law analogous thereto relating to governmental bodies; (3) as a result of any legislation, regulation, ruling, order, release, court decision or judgment or action by the U.S. Department of Treasury, the IRS, or any agency of the State either enacted, issued, effective, adopted or proposed, or for any other reason Bond Counsel cannot issue an opinion to the effect that (i) the interest on the Series 2020A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code (or comparable provisions of any successor federal tax laws) and (ii) the interest on the Series 2020A Bonds is exempt from the State of California personal income taxes; (4) there has occurred (A) an outbreak or escalation of hostilities or the declaration by the United States of a national emergency or war or (B) any other calamity or crisis in the financial markets of the United States or elsewhere; (5) this Official Statement (as amended, if applicable) as of its date or as of the date of delivery of the Series 2020A Bonds contained any untrue statement or misstatement of material fact or omitted to state a material fact necessary in order to make the statements and information contained therein not misleading in any material respect; or the updated Official Statement to be delivered in connection with the forward delivery of the Series 2020A Bonds (as amended, if applicable) as of its date or as of the date of delivery of the Series 2020A Bonds, contained or contains any untrue statement or misstatement of material fact or omitted or omits to state a material fact necessary in order to make the statements and information contained therein not misleading in any material respect; (6) the declaration of a general banking moratorium by federal, New York or California authorities, or the general suspension of trading on any national securities exchange; (7) a general suspension of trading on the New York Stock Exchange or other major exchange is in force or minimum or maximum prices for trading has been fixed and in force, or maximum ranges for prices for securities has been required and is in force on any such exchange, whether by virtue of determination by that exchange or by order of the SEC or any other governmental authority having jurisdiction; (8) The New York Stock Exchange or other national securities exchange, or any governmental authority, has imposed as to the Series 2020A Bonds or securities of the general character of the Series 2020A Bonds any material restrictions not now in force, or increase materially those now in force, with respect to the extension of credit by or the charge to the net capital requirements of the Underwriter; (9) additional material restrictions not in force as of the date of the Forward Delivery Bond Purchase Agreement have been imposed upon trading in securities generally by any federal, State or New York governmental authority or by any United States national securities exchange; or (10) the Series 2020A Bonds are no longer rated investment grade by S&P.

A “Change in Law” means (i) any change in or addition to applicable federal or State law, whether statutory or as interpreted by the courts or by federal or State agencies, including any changes in or new rules, regulations or other pronouncements or interpretations by federal or State agencies; (ii) any legislation enacted by the Congress of the United States (if such enacted legislation has an effective date which is on or before the date of delivery of the Series 2020A Bonds), (iii) any law, rule or regulation enacted by any governmental body, department or agency (if such enacted law, rule or regulation has an effective date which is on or before the date of delivery of the Series 2020A Bonds) or (iv) any judgment, ruling or order issued by any court or administrative body, which in any such case would, (A) as to the Underwriter prohibit the Underwriter from completing the

underwriting of the Series 2020A Bonds or selling the Series 2020A Bonds or beneficial ownership interests therein to the public, or (B) as to the Authority or the City, would make the completion of the issuance, sale or delivery of the Series 2020A Bonds illegal.

Delayed Delivery Contract

The Underwriter has advised the Authority that the Series 2020A Bonds may be sold to investors who execute the Delayed Delivery Contract in substantially the form attached hereto as Appendix G. The Delayed Delivery Contract sets forth certain terms, conditions and representations of the investors who commit thereunder to purchase the Series 2020A Bonds from the Underwriter if and when they are issued. The proposed form of Delayed Delivery Contract is attached as Appendix G at the request and for the convenience of the Underwriter. The Authority will not be a party to any Delayed Delivery Contract and the Authority is not in any way responsible for the performance thereof or for any representations or warranties contained therein. The rights and obligations under the Forward Delivery Bond Purchase Agreement are not conditioned or dependent upon the performance of any Delayed Delivery Contract.

Certain Considerations

Issuance and delivery of the Series 2020A Bonds will be dependent on receipt by the Authority of the opinion of Bond Counsel to the effect set forth in Appendix D on the Settlement Date and of certain other documents required by the Forward Delivery Bond Purchase Agreement, and payment of the purchase price by the Underwriter in accordance with the Forward Delivery Bond Purchase Agreement on the Settlement Date.

Bond Counsel could be prevented from rendering its opinion on the Settlement Date with respect to the Series 2020A Bonds as a result of (i) changes or proposed changes, prior to the Settlement Date, in federal or California state laws, court decisions, regulations or proposed regulations, or rulings of administrative agencies or (ii) the failure of the Authority or the City to provide closing documents, satisfactory to Bond Counsel, of the type customarily required in connection with the issuance of tax-exempt bonds, such as certificates to the effect that the proceedings of the Authority and the City with respect to the issuance of the Series 2020A Bonds have not been amended or repealed, in a manner detrimental to holders of the Series 2020A Bonds, by executive, legislative or administrative action.

Rating Risk

S&P has issued its rating for the Series 2020A Bonds. See "RATING" below. No assurance can be given that at the Settlement Date of the Series 2020A Bonds, such rating will continue to be in effect. The Underwriter may not terminate its obligation to purchase the Series 2020A Bonds unless as of the Settlement Date, S&P no longer maintains an investment grade rating on the Series 2020A Bonds. The rating in effect as of the Settlement Date need not be the same rating that was expected as of the date of the Official Statement.

Secondary Market Risk

The Underwriter is not obligated to make a secondary market in the Series 2020A Bonds and no assurance can be given that a secondary market will exist for the Series 2020A Bonds, including during the Delayed Delivery Period. Prospective purchasers of the Series 2020A Bonds should assume that there will be no secondary market during the Delayed Delivery Period.

Market Value Risk

The market value of the Series 2020A Bonds as of the Settlement Date may be affected by a variety of factors including, without limitation, general market conditions, the rating on the Series 2020A Bonds, the financial condition and business operations of the City and federal and state income tax and other laws. Thus, the market value of the Series 2020A Bonds on the Settlement Date could be greater or less than the agreed purchase

price. None of the Authority, the City or the Underwriter makes any representation as to the market value of the Series 2020A Bonds as of the Settlement Date.

Federal Tax Proposals

The Forward Delivery Bond Purchase Agreement obligates the Authority to deliver and the Underwriter to acquire the Series 2020A Bonds if the Authority delivers an opinion of Bond Counsel substantially in the form set forth in Appendix D hereto to the effect that the interest on the Series 2020A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code. It is possible that certain bills could be introduced (or that bills previously introduced could be amended) in the U.S. Congress that, if adopted, would reform the system of federal taxation. Those bills could (i) eliminate the tax exemption granted under Section 103 of the Code to interest payable on “state or local bonds” such as the Series 2020A Bonds, or (ii) diminish the value of the federal tax exemption granted interest on such bonds under the current system of federal income taxation. If as a result of any legislation, regulation, ruling, order, release, court decision or judgment or action by the U.S. Department of Treasury, the IRS, or any agency of the State either enacted, issued, effective, adopted or proposed, or for any other reason Bond Counsel cannot issue an opinion to the effect that (i) the interest on the Series 2020A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code (or comparable provisions of any successor federal tax laws) and (ii) the interest on the Series 2020A Bonds is exempt from the State of California personal income taxes, then Underwriter may terminate its obligation to purchase the Series 2020A Bonds. If, however, legislation only diminishes the value of the tax exemption, and the Authority satisfies the requirements for the delivery of the Series 2020A Bonds set forth in the Forward Delivery Bond Purchase Agreement, then the Underwriter would still be required to accept delivery of the Series 2020A Bonds at the Settlement Date. Prospective purchasers of the Series 2020A Bonds are encouraged to consult their tax advisors regarding the likelihood that such bills would be introduced or amended or enacted and the consequences of such enactment to the purchasers.

RATING

S&P Global Ratings (“S&P”) has assigned an issuer credit rating of “AA” to the Series 2020A Bonds. Such rating reflects only the views of S&P and any desired explanation of the significance of such ratings should be obtained from S&P. Generally, a rating agency bases its ratings on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agency, if in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of either rating may have an adverse effect on the market price of the Series 2020A Bonds. Neither the City nor the Underwriter has undertaken any responsibility either to bring to the attention of the owners of the Series 2020A Bonds a proposed change in or proposed withdrawal of any rating or to oppose any such proposed revision or withdrawal.

MUNICIPAL ADVISOR

NHA Advisors, LLC, San Rafael, California, served as municipal advisor (the “Municipal Advisor”) to the Authority and the City with respect to the sale of the Series 2020A Bonds. The Municipal Advisor will receive compensation contingent upon the sale and delivery of the Series 2020A Bonds. The Municipal Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume any responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement.

NHA Advisors, LLC, is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal or other public securities.

CONTINUING DISCLOSURE

The City will covenant for the benefit of the Owners of the Series 2020A Bonds to provide annually certain financial information and operating data relating to the Series 2020A Bonds and the City (the “Annual Report”), and to provide notices of the occurrence of certain enumerated events. For a complete listing of items of information which will be provided in each Annual Report and further description of the City’s undertaking with respect to the Annual Report and certain enumerated events, see “APPENDIX E—FORM OF CONTINUING DISCLOSURE CERTIFICATE.” The Annual Report is to be provided by the City not later than March 31 after the end of the City’s fiscal year, commencing with the report for the 2019-20 fiscal year. Each Annual Report will be filed by the City with the Municipal Securities Rulemaking Board. These covenants have been made in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

FINANCIAL STATEMENTS OF THE CITY

Included herein as Appendix C are the audited financial statements of the City as of and for the year ended June 30, 2019, together with the report thereon of White Nelson Diehl Evans LLP, Certified Public Accounts (the “Auditor”). Such audited financial statements have been included herein in reliance upon the report of the Auditor. The Auditor has not been engaged to perform and has not performed, since the date of its report (December 26, 2019) included in Appendix C to this Official Statement, any procedures on the financial statements addressed in such report. The Auditor also has not performed any procedures relating to this Official Statement.

MISCELLANEOUS

References are made herein to certain documents and reports which are brief summaries thereof which do not purport to be complete or definitive and reference is made to such documents and reports for full and complete statements of the contents thereof. Copies of the Indenture, the Lease Agreement, the Site Lease and other documents are available, upon request, and upon payment to the City of a charge for copying, mailing and handling, from the City Clerk at the City of Gilroy, 7351 Rosanna Street, Gilroy, California 95020.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Authority or the City and the purchasers or Owners of any of the Series 2020A Bonds.

[Signature page follows]

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

GILROY PUBLIC FACILITIES FINANCING AUTHORITY

By: _____
Executive Director

CITY OF GILROY

By: _____
City Administrator

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APPENDIX A

FINANCIAL, ECONOMIC AND DEMOGRAPHIC INFORMATION CONCERNING THE CITY AND THE COUNTY

The following material is descriptive of the City of Gilroy (the “City”) and Santa Clara County (the “County”). The following information covers general information about the City’s governance structure, budget processes, and tax and revenue sources, City expenditures, labor relations, employment benefits and retirement costs, and investments, bonds and other long-term obligations. The information concerning the County is included only for the purpose of supplying general information regarding the community. The Bonds are not a debt of the County.

The various reports, documents, websites and other information referred to herein are not incorporated herein by such references. The City has referred to certain specified documents in this Appendix A, including financial information, concerning the City is available from the City’s publications, websites and its departments. Any such information that is inconsistent with the information set forth in this Official Statement should be disregarded and is not a part of or incorporated into this Appendix A. The information contained in this Official Statement, including this Appendix A, speaks only as of its date, and the information herein is subject to change. Prospective investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision. Certain material in this Appendix A has been prepared by or excerpted from the sources as noted herein and has not been reviewed for accuracy by the City or Bond Counsel.

Introduction

The City. The City is the southernmost city in the County sitting at the crossing of U.S. Highway 101 and State Highway 152. The City is located approximately 25 miles south of San Jose and approximately 75 miles south of San Francisco. Over the past few decades, the City has been transitioning from an agricultural economy into a light industrial- and services-based economy.

Situated between the Diablo and Santa Cruz mountains in the Santa Clara Valley, the City experiences mild temperatures, while missing most of the coastal fog. The agricultural growing season ranges from 300 to 350 days a year.

The City was first incorporated in 1870 and became a charter city on January 8, 1960. The City operates under the Council-Administrator form of government. The seven City Council members, including the Mayor, are elected-at-large to four year terms in alternate slates of three every two years, with the Mayor being elected every four years. In order to consolidate with the countywide elections and to help reduce the City's election costs, the City’s charter was amended in November 2008 to provide that the City's general municipal election shall be held in each even-numbered year commencing with the year 2010 and extended the existing Council terms by one year.

The City Council appoints the City Administrator who heads the executive branch of the government, implements City Council directives and policies, and manages the administrative and operational functions through the department directors. The City Administrator appoints the department directors with the exception of the City Clerk and the City Attorney, who are appointed by the City Council.

The City provides municipal services including police and fire protection, community and economic development, recreation activities, parks and street maintenance, water and sewer utilities and general City administration.

Natural gas and electricity are provided by Pacific Gas and Electric Company. Water service is provided by the City. Wastewater is collected and treated by the South County Regional Wastewater Authority. Recycling and solid waste disposal services are provided in the City by Recology South Valley.

The County. The County lies immediately south of San Francisco Bay and is the sixth most populous county in the State of California (the “State”). It encompasses an area of approximately 1,316 square miles. Named after Mission Santa Clara, which was established in 1777, and named for Saint Clara of Assisi, Italy, the County was incorporated in 1850 as one of the original 28 counties of the State and operates under a home rule charter adopted by the County voters in 1950 and amended in 1976.

The southern portion of the County has retained the agricultural base which once existed throughout the area and has two cities, separated by roughly twenty miles. The northern portion of the County is densely populated, extensively urbanized and heavily industrialized. It contains 15 cities, the largest of which is the City of San Jose, the third largest city in the State and the county seat. The uppermost northwestern portion of the County, with its concentration of high-technology, electronics-oriented industry, is popularly referred to as the “Silicon Valley.”

City Management

The City Administrator’s office oversees all of the City’s department responsible for City services and operations. Biographies of certain City executive staff are described below.

City Administrator. Gabriel Gonzalez has over 20 years’ experience working in local government, most notably his city manager experience with the cities of Rohnert Park and Mendota. Gabriel has a Bachelor of Science degree in Business Administration from National University and a Masters of Public Administration from California State University, Fresno.

Finance Director. Jimmy Forbis has 17 years of municipal finance experience, previously serving as the Finance Director in Monterey, and with Morgan Hill and San Mateo County, California. He is a Certified Public Finance Officer (CPFO) through the Government Finance Officers Association (GFOA) accreditation program and is a member of GFOA’s Committee on Treasury and Investment Management. He has a Master’s Degree in Public Administration from San Jose State University.

Public Works Director. Girum Awoke brings over 14 years of public works experience to the City of Gilroy. His previous experience includes Montgomery County Department of Transportation, Montgomery County Public Works, Maryland State Highway Administration, Nolan Associates, Inc., and with GEOENV Engineers. Girum has a Bachelor of Science degree in Civil Engineering from Addis Ababa University and a Master of Science in Civil Engineering from the University of Maryland. He also holds his Ph.D. in Civil Engineering from the University of Maryland as well as a Graduate Certificate in Project Management. Girum is a registered Professional Engineer in Maryland and California.

Employee Relations and Collective Bargaining

Most City employees are represented by one of the four following employee associations. Pursuant to the City’s Employee Relations Ordinance and the Meyers-Millias-Brown-Act, the City and the employee associations negotiate wages, hours and conditions of employment.

- Gilroy Policy Officers Association (GPOA) – represents all sworn law enforcement personnel. Current contract runs from July 1, 2018 through June 30, 2022 and includes 4% annual cost of living adjustments effective July 1st of each contract year.

- Firefighters Local 2805 (IAFF) – represents all sworn fire personnel. Current contract runs from July 1, 2018 through June 30, 2020 and includes 3.5% annual cost of living adjustments effective July 1st of each contract year.
- American Federation of State, County, and Municipal Employees (AFSCME) – represents general, non-management employees. Current contract runs from July 1, 2019 through June 30, 2021 and includes 3.0% annual cost of living adjustments effective July 1st of each contract year.
- Gilroy Management Association (GMA) – represents management (non-executive) employees. Current contract runs from July 1, 2019 through June 30, 2021 and includes 3.0% annual cost of living adjustments effective July 1st of each contract year.

Insurance

Bodily injury, property damage and public officials' errors and omissions insurance is provided via participation in a joint powers authority. Effective July 1, 2015, the City is a member of the Municipal Pooling Authority (MPA), a joint powers authority established pursuant to California Government Code Sections 990.4-990.8 and 6500, et seq. The pool has 20 member cities. The City is insured by the MPA for up to \$29,000,000 per claim for liability coverage, including \$28,000,000 provided by an excess policy with the California Affiliated Risk Management Authority, after a deductible of \$50,000 which is paid by the City. Premiums paid by the participating members may be retrospectively increased or decreased to reflect the actual operating costs of MPA and the City's share of incurred losses. The City is contingently liable for assessments which may be made by MPA in the event that MPA has insufficient resources to pay unexpectedly large claims. Prior to July 1, 2015, the City was a member of the ABAG Plan Corp. (ABAG Plan) insurance pool, a nonprofit public benefit corporation organized under Section 5110, et seq. of the Corporations Code of California. ABAG Plan coverage applies to occurrences/claims prior to July 1, 2015. For claims prior to July 1, 2015, the City is insured by the ABAG Plan for up to \$25,000,000 per claim for liability coverage, including \$20,000,000 provided by excess policies, after a deductible of \$50,000 which is paid by the City. The City is operating under a five-year withdrawal agreement with ABAG Plan due to unresolved claims that have not yet closed. It is expected that all the City's claims will close over the five-year withdrawal agreement period. Based on annual actuarial valuations, the City will either pay an assessment or receive a refund depending upon the outcome of the remaining City claims.

The City is self-insured for the first \$500,000 of each workers' compensation claim. The City belongs to the Local Agency Workers Compensation Excess (LAWCX) joint powers authority, established pursuant to California Government Code Sections 990.4-990.8 and 6500 et seq., for the purpose of workers' compensation excess coverage. LAWCX coverage is for individual workers' compensation claims in excess of \$500,000 up to \$5,000,000. In addition, additional excess coverage beyond \$5,000,000 is purchased via California State Association of Counties Excess Insurance Authority (CSAC EIA) bringing statutory coverage to \$50,000,000.

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Population

The following table below shows historical population figures for the City, the County and the State from 2010 through 2019.

POPULATION ESTIMATES City, County and State 2010 through 2019

<u>Year</u>	<u>City Population</u>	<u>County Population</u>	<u>State Population</u>
2010	48,853	1,781,427	37,223,900
2011	49,587	1,805,767	37,594,781
2012	50,645	1,832,983	37,971,427
2013	52,297	1,860,687	38,321,459
2014	52,896	1,882,230	38,622,301
2015	53,697	1,906,511	38,952,462
2016	54,506	1,925,306	39,214,803
2017	55,160	1,936,052	39,504,609
2018	55,252	1,947,798	39,740,508
2019	55,928	1,954,286	39,927,315

Source: California Department of Finance (as of January 1, 2019).

CITY FINANCES

Accounting Practices

The accounting practices of the City conform to generally accepted accounting principles. The City's accounting is organized on the basis of fund groups to account for specific activities or objectives. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenues and expenditures, as appropriate. Government resources are allocated to and accounted for in individual funds based on the purposes for which they are to be spent and the means by which the spending activities are controlled. The fund financial statements include statements for each of the three categories of activities – governmental, business-type (proprietary) and fiduciary. The governmental activities are prepared using the current financial resources measurement focus and the modified accrual basis of accounting. The business-type (proprietary) activities are prepared using the economic resources measurement focus and the accrual basis of accounting. The fiduciary activities are agency funds which only report a balance sheet and do not have a measurement focus, and trust funds and prepaid pension trust. The major fund classification is the City's general fund which is used to account for all revenues and expenditures necessary to carry out basic government activity of the City that is not accounted for in other funds. The basis of accounting for all funds is more fully explained in the "Notes to the Financial Statements" contained in Appendix B hereto. The City's fiscal year begins on July 1 and ends on June 30.

Financial Statements

The City's general fund finances the legally authorized activities of the City for which restricted funds are not provided. General fund revenues are derived from such sources as taxes, fees, use of money and property, and aid from other governmental agencies. Audited financial statements for the City for the fiscal year ended June 30, 2019, and prior fiscal years are on file with the City and available for public inspection at the office of the City Clerk, 7351 Rosanna Street, Gilroy, California 95020, telephone number (408) 846-0204.

The following tables provide the City's comparative General Fund balance sheet from fiscal year 2014-15 through fiscal year 2018-19 and comparative General Fund revenues, expenditures, transfers and ending fund balances from fiscal year 2014-15 through fiscal year 2018-19.

CITY OF GILROY
General Fund Balance Sheet
(As of June 30)

	Audited 2015	Audited 2016	Audited 2017	Audited 2018	Audited 2019
ASSETS					
Cash and investments	\$18,055,104	\$17,893,015	\$23,250,994	\$25,195,718	\$26,506,179
Accounts receivable	66,031	117,730	83,176	65,053	60,662
Due from other governments	3,362,922	6,501,011	4,248,156	4,354,381	4,683,605
Due from other funds	2,307,271	366,537	330,005	835,420	1,433,558
Prepaid items	-	11,010	7,680	58,933	16,337
Inventory of materials	74,622	73,913	66,537	68,002	59,663
Total assets	<u>\$23,865,950</u>	<u>\$24,963,216</u>	<u>\$27,986,548</u>	<u>\$30,577,507</u>	<u>\$32,760,004</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES:					
Liabilities:					
Accounts payable	\$682,408	\$842,630	\$1,150,313	\$855,610	\$965,759
Accrued liabilities	89,306	58,481	49,881	2,033,573	2,272,242
Unearned revenue	1,657,451	1,451,776	2,288,478	2,086,284	1,725,533
Total liabilities	<u>2,429,165</u>	<u>2,352,887</u>	<u>3,488,672</u>	<u>4,975,467</u>	<u>4,963,534</u>
Deferred inflows of resources:					
Unavailable revenue	45,223	323,090	69,050	-	36,600
Fund balances (deficits):					
Nonspendable	74,622	84,923	74,217	126,935	76,000
Unassigned	21,316,940	22,202,316	24,354,609	25,475,105	27,683,870
Total fund balances (deficits)	<u>21,391,562</u>	<u>22,287,239</u>	<u>24,428,826</u>	<u>25,602,040</u>	<u>27,759,870</u>
Total liabilities, deferred inflows of resources, and fund balances (deficits)	<u>\$23,865,950</u>	<u>\$24,963,216</u>	<u>\$27,986,548</u>	<u>\$30,577,507</u>	<u>\$32,760,004</u>

Source: City of Gilroy Comprehensive Annual Financial Reports (Fiscal Years 2014-15 through 2018-19).

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CITY OF GILROY
Statement of General Fund Revenues, Expenditures and Ending Fund Balances
(As of June 30)

	<u>Audited 2015</u>	<u>Audited 2016</u>	<u>Audited 2017</u>	<u>Audited 2018</u>	<u>Audited 2019</u>
REVENUES					
Taxes	\$34,614,432	\$37,736,968	\$38,669,506	\$40,646,414	\$43,224,793
Licenses and permits	2,847,912	3,720,755	2,713,733	2,751,137	3,487,338
Intergovernmental	150,959	171,345	492,258	247,249	181,015
Charges for services	7,830,860	6,009,535	6,185,427	7,511,373	7,151,331
Fines	281,580	266,163	293,899	208,305	239,873
Investment income	165,665	137,855	135,103	225,952	739,568
Miscellaneous	1,973,858	1,708,331	1,311,413	1,402,048	1,502,637
Total Revenues	<u>47,865,266</u>	<u>49,750,952</u>	<u>49,801,339</u>	<u>52,992,478</u>	<u>56,526,555</u>
EXPENDITURES					
Current:					
General government	4,025,604	4,532,241	4,906,824	5,103,946	5,760,831
Public safety	27,646,176	28,568,401	29,705,447	30,749,253	33,075,083
Community services	6,322,864	6,764,060	7,231,274	7,723,166	7,831,193
Community development	4,765,066	5,429,783	5,916,150	6,545,412	6,702,442
Total Expenditures	<u>42,759,710</u>	<u>45,294,485</u>	<u>47,759,695</u>	<u>50,121,777</u>	<u>53,369,549</u>
Excess (deficiency) of revenues over (under) expenditures	<u>5,105,556</u>	<u>4,456,467</u>	<u>2,041,644</u>	<u>2,870,701</u>	<u>3,157,006</u>
OTHER FINANCING SOURCES (USES):					
Transfers in	345,245	373,162	345,448	270,972	229,788
Transfers out	<u>(6,403,384)</u>	<u>(3,933,952)</u>	<u>(245,505)</u>	<u>(1,968,459)</u>	<u>(1,228,964)</u>
Total other financing sources (uses)	<u>(6,058,139)</u>	<u>(3,560,790)</u>	<u>99,943</u>	<u>(1,697,487)</u>	<u>(999,176)</u>
Net change in fund balances	<u>(952,583)</u>	<u>895,677</u>	<u>2,141,587</u>	<u>1,173,214</u>	<u>2,157,830</u>
Fund Balances (deficits) – July 1	<u>22,344,145</u>	<u>21,391,562</u>	<u>22,287,239</u>	<u>24,428,826</u>	<u>25,602,040</u>
Fund Balances (deficits) – June 30	<u>\$21,391,562</u>	<u>\$22,287,239</u>	<u>\$24,428,826</u>	<u>\$25,602,040</u>	<u>\$27,759,870</u>

Source: City of Gilroy Comprehensive Annual Financial Reports (Fiscal Years 2014-15 through 2018-19).

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General Fund Tax Revenues

A majority of the City's General Fund revenues come from sales and use taxes and *ad valorem* taxes levied on behalf of the City upon all property subject to taxation by the City. In addition to sales and use taxes and property taxes, the City has several other major tax as described below. The following table illustrates the source of Tax Revenues for the General Fund for fiscal year 2014-15 through 2018-19.

CITY OF GILROY Source of Tax Revenues (Fiscal Years)

Types of Tax Revenues	<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u>	<u>2017-18</u>	<u>2018-19</u>
Sales Taxes	\$15,858,910	\$17,884,735	\$17,768,469	\$18,827,189	\$20,186,105
Property Taxes	10,862,568	11,468,510	12,278,552	13,161,022	14,476,481
Utility Users Tax	4,520,149	4,610,631	4,748,382	4,666,131	4,721,529
Motor Vehicle in lieu of Taxes	21,479	21,385	24,715	29,444	26,695
Franchise Taxes	1,463,770	1,569,059	1,623,952	1,713,690	1,669,817
Transient Occupancy Taxes	1,501,837	1,676,691	1,709,332	1,722,355	1,771,882
Document Transfer Tax	385,719	505,957	516,105	526,583	372,284

⁽¹⁾ Includes secured, unsecured and supplemental property tax revenue along with penalties and interest.
Source: City of Gilroy Comprehensive Annual Financial Report (Fiscal Years 2014-15 through 2018-19).

Budget Procedures

The City Administrator submits to the City Council a proposed budget for all funds. Council then proceeds to make any changes to the proposed budget it deems necessary. Before adopting the proposed budget, Council holds a public hearing for any interested party desiring to be heard. Notice must be given 10 days prior to the hearing and must be published in the City's official newspaper. After the conclusion of the public hearing, Council may further make revisions to the proposed budget. Thereafter, Council adopts the budget with revisions, if any.

City Council approval is required for all revisions to the adopted budget that require additional appropriations or new funding. City Administrator approval is required for all transfers within the adopted budget. Operational appropriations lapse at fiscal year-end unless City Council takes formal action to carry forward appropriations into the following fiscal year.

The level on which expenditures may not legally exceed appropriations is the fund level.

Set forth below is the original and final General Fund budgets for fiscal year 2018-19 and the audited actuals with variance for the fiscal year, and the original and adjusted General Fund budget for fiscal year 2019-20. Based on current estimates, the City expects the fiscal year 2019-20 actual results to be substantially similar to the adjusted General Fund budget.

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**CITY OF GILROY
GENERAL FUND BUDGETS**

	<i>2018-19 Original Budget</i>	<i>2018-19 Final Budget</i>	<i>2018-19 Actual</i>	<i>Variance</i>	<i>2019-20 Original Budget</i>	<i>2019-20 Final Budget</i>
Revenues:						
Taxes and assessments	\$40,077,941	\$40,077,941	\$43,224,793	\$3,146,852	\$43,836,328	\$43,836,328
Licenses and Permits	3,658,461	3,658,461	3,487,338	(171,123)	3,654,218	3,654,218
Intergovernmental revenues	138,500	138,500	181,015	42,515	141,500	141,500
Charges for services	8,498,243	8,498,243	7,151,331	(1,346,912)	5,669,485	5,669,485
Fines	262,730	262,730	239,873	(22,857)	262,730	262,730
Investment income	162,100	162,100	739,568	577,468	475,334	475,334
Miscellaneous	1,666,599	1,666,599	1,502,637	(163,962)	1,463,849	1,605,849
Total Revenues	<u>54,464,574</u>	<u>54,464,574</u>	<u>56,526,555</u>	<u>2,061,981</u>	<u>55,503,444</u>	<u>55,645,444</u>
Expenditures:						
Current::						
General Government	4,980,027	5,349,397	5,760,831	(411,434)	6,367,252	10,971,436
Public Safety	34,394,444	34,637,069	33,075,083	1,561,986	35,651,417	35,795,081
Community services	8,420,385	8,525,595	7,831,193	694,402	5,524,790	5,524,790
Community development	5,565,756	7,517,691	6,702,442	815,249	5,240,657	5,240,657
Total Expenditures	<u>53,360,612</u>	<u>56,029,752</u>	<u>53,369,549</u>	<u>2,660,203</u>	<u>52,784,116</u>	<u>57,531,964</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>1,103,962</u>	<u>(1,565,178)</u>	<u>3,157,006</u>	<u>4,722,184</u>	<u>2,719,328</u>	<u>(1,886,520)</u>
Other Financing Sources (Uses):						
Transfers In	177,000	177,000	229,788	52,788	142,000	142,000
Transfers Out	(234,999)	(1,234,999)	(1,228,964)	6,035	(4,747,850)	(4,747,850)
Total Other Financing Sources (Uses)	<u>(57,999)</u>	<u>(1,057,999)</u>	<u>(999,176)</u>	<u>58,823</u>	<u>(4,605,850)</u>	<u>(4,605,850)</u>
Net Change in Fund Balance	<u>1,045,963</u>	<u>(2,623,177)</u>	<u>2,157,830</u>	<u>4,781,007</u>	<u>(1,886,522)</u>	<u>(6,492,370)</u>
Fund Balance at Beginning of Year	<u>25,602,040</u>	<u>25,602,040</u>	<u>25,602,040</u>	<u>-</u>	<u>22,818,842</u>	<u>22,818,842</u>
Fund Balance at End of Year	<u>\$26,648,003</u>	<u>\$22,978,863</u>	<u>\$27,759,870</u>	<u>\$4,781,007</u>	<u>\$20,932,320</u>	<u>\$16,326,472</u>

Source: City of Gilroy.

Impact of State Budget on City Revenues

In 2008, the State began experiencing the most significant economic downturn and financial pressure since the Great Depression of the 1930s. Despite the recent significant budgetary improvements, according to the State, there remain a number of major risks and pressures that threaten the State’s financial condition, including a stock market correction, federal policy, slower global growth and an eventual U.S. recession. The State’s revenues (particularly the personal income tax) can be volatile and correlate to overall economic conditions. There can be no assurances that the State will not face fiscal stress and cash pressures again, or that other changes in the State or national economies will not materially adversely affect the financial condition of the State.

The City cannot predict the extent of any budgetary problems the State will encounter in future fiscal years and it is not clear what measures would be taken by the State to balance its budget, as required by law. In addition, the City cannot predict the impact that State budgets will have on the City’s finances and operations or what actions will be taken in the future by the State Legislature and the Governor to deal with changing State revenues and expenditures. Current and future State budgets will be affected by national and State economic conditions and other factors, including the current economic downturn, over which the City has no control.

A number of the City’s revenues are collected and dispersed by the State (such as sales tax and motor-vehicle license fees) or allocated in accordance with State law (most importantly, property taxes). Therefore, State budget decisions can have an impact on City finances. In the event of a material economic downturn in the State, there can be no assurance that any resulting revenue shortfalls to the State will not reduce revenues to local governments (including the City) or shift financial responsibility for programs to local governments as part of the State’s efforts to address any such related State financial difficulties.

See “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS—Proposition 1A” and “—Proposition 22.”

City Reserve Policy

In June 2017, the City Council adopted a new general fund reserve policy that consisted of (i) an unrestricted General Fund Reserve of 20% of general fund expenditures and (ii) an Economic Stability Reserve of 10% of general fund expenditures that is intended to help the City weather a severe economic crisis. The following table summarizes the adopted general fund reserve policy.

General Fund Reserve	Description of Use	Amount
Unrestricted	Unbudgeted costs or revenue shortfall	Minimum of 20% of expenditures
Economic Stability	Specific triggers in severe economic downturn	Minimum of 10% of expenditures

The Economic Stability Reserve shall only be used in extraordinary circumstances, upon satisfaction of one of the following “economic triggers: and with the majority vote of the City Council:

- State take-away of significant revenue
- Large drop in property taxes (decrease in assessed valuations)
- Major business closures (sales tax and/or utility users’ tax impact)
- Dramatic drop in development from projections

- Large unexpected drop in sales taxes (or other primary revenues - utility users' tax, franchise fees or transient occupancy tax) due to severe recession
- The economic triggers cause the General Fund Reserve to fall below a predetermined percentage of expenditures (e.g. 20%).

When the Economic Stability Reserve is used, the City is obligated to replenish the reserve by the end of the next biennial budget to 10% of the general fund expenditures for the given year.

Property Tax

This section describes property tax levy and collection procedures and certain information regarding historical assessed values and major property taxpayers in the City. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS" and "RISK FACTORS" for a description of risks associated with the levy and collection of property tax revenues.

Property taxes have historically been the primary revenue source affected by voter initiatives and legislative actions. With approval of Proposition 13 ("Proposition 13"), property tax revenues were reduced by two-thirds and thereafter limited to 2% annual increases or the consumer price index, whichever is less. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS – Article XIII A of the State Constitution" for further description of Proposition 13.

Levy and Collection

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 are a lien sufficient, 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. The exclusive means of enforcing the payment of delinquent taxes in respect of property on the secured roll is the sale of the property securing the taxes for the amount of taxes which are delinquent.

Beginning in 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. See “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS – Article XIII A of the State Constitution” for further description of Proposition 13.

Taxation of State-Assessed Utility Property

Some amount of property tax revenue of the City is derived from utility property which is considered part of a utility system with components located in many taxing jurisdictions (“unitary property”). Under the State Constitution, such property is assessed by the State Board of Equalization (“BOE”) as part of a “going concern” rather than as individual pieces of real or personal property. Such State-assessed unitary property is allocated to the counties by BOE, taxed at special county-wide rates, and the tax revenues distributed to taxing jurisdictions (including the City) according to statutory formulae generally based on the distribution of taxes in the prior year.

The State’s electric utility industry has been undergoing significant changes in its structure and the way in which components of the industry are regulated and owned. Sale of electric generation assets to largely unregulated, nonutility companies may affect how those assets are assessed, and which local agencies are to receive the property taxes. The City is unable to predict the impact of these changes on its utility property tax revenues, or whether legislation may be proposed or adopted in response to industry restructuring, or whether any future litigation may affect ownership of utility assets of the State’s methods of assessing utility property and the allocation of assessed value to local taxing agencies, including the City.

Assessed Valuation

All property is assessed using full cash value as defined by Article XIII A of the State Constitution. State law provides exemptions from *ad valorem* property taxation for certain classes of property such as churches, colleges, non-profit hospitals, and charitable institutions. See “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS.”

Future assessed valuation growth allowed under Article XIII A (new construction, certain changes of ownership, 2% inflation) will be allocated on the basis of “situs” among the jurisdictions that serve the tax rate area within which the growth occurs. Local agencies and schools will share the growth of “base” revenues from the tax rate area. Each year’s growth allocation becomes part of each agency’s allocation in the following year.

For assessment and collection purposes, property is classified as either “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 property and real property having a tax lien which is sufficient, in the opinion of the assessor, to secure payment of the taxes. Unsecured property comprises all property not attached to land such as personal property or business property. Boats and airplanes are examples of unsecured property. Unsecured property is assessed on the unsecured roll.

Assessed Valuation History. The following table shows current and historical assessed valuation of taxable property in the City.

CITY OF GILROY
Assessed Value of All Taxable Property
Fiscal Years 2013-14 through 2019-20

<u>Fiscal Year</u>	<u>Net Local Secured⁽¹⁾</u>	<u>Net Utility⁽²⁾</u>	<u>Net Unsecured⁽³⁾</u>	<u>Total⁽⁴⁾</u>
2013-14	\$5,867,342,070	\$64,186,470	\$260,981,844	\$6,192,510,384
2014-15	6,349,703,846	52,530,836	265,879,967	6,668,114,649
2015-16	6,752,750,370	47,030,836	268,445,327	7,068,226,533
2016-17	7,338,552,561	42,130,836	273,713,487	7,654,396,884
2017-18	7,825,703,486	39,330,836	263,667,226	8,128,701,548
2018-19	8,397,307,378	38,939,704	256,724,279	8,692,971,361
2019-20	8,953,812,193	32,539,704	257,410,089	9,243,761,986

⁽¹⁾ Net of homeowner's exemptions.

⁽²⁾ Beginning in Fiscal Year 1988-89, Chapter 921 of the Statutes of 1987 requires the establishment of a single Countywide tax area for the assignment of the assessed value of certain types of State-assessed utility property and sets forth formulas for the determination of Countywide tax rates for this particular type of property. This statute also spells out how to distribute the taxes which have been collected from the bills derived from this value and specified tax rate.

⁽³⁾ Does not include aircraft.

Source: Santa Clara County Auditor-Controller's Office

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Assessed Valuation by Land Use. The following table shows the land use of parcels in the City for fiscal year 2019-20, according to assessed valuation. As shown below, the majority of land in the City is used for residential purposes.

CITY OF GILROY
Assessed Valuation and Parcels by Land Use

<u>Non-Residential:</u>	<u>2019-20 Assessed Valuation⁽¹⁾</u>	<u>% of Total</u>	<u>No. of Parcels</u>	<u>% of Total</u>
Agricultural/Rural	\$ 56,927,412	0.63%	140	0.94%
Commercial	1,098,563,012	12.20	449	3.00
Industrial	531,343,458	5.90	223	1.49
Recreational	10,012,863	0.11	28	0.19
Government/Social/Institutional	14,150,173	0.16	68	0.46
Miscellaneous	2,506,500	0.03	3	0.02
Subtotal Non-Residential	\$1,713,503,418	19.04%	911	6.10%
 <u>Residential:</u>				
Single Family Residence	\$6,367,759,852	70.74%	11,740	78.56%
Condominium/Townhouse	187,582,471	2.08	743	4.97
Mobile Home	11,345,884	0.13	165	1.10
2-4 Residential Units	183,978,788	2.04	391	2.62
5+ Residential Units/Apartments	297,253,650	3.30	200	1.34
Subtotal Residential	\$7,047,920,645	78.30%	13,239	88.59%
 Vacant/Undeveloped	 \$ 240,262,530	 2.67%	 794	 5.31%
 Total	 \$9,001,686,593	 100.00%	 14,944	 100.00%

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

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Assessed Valuation of Single-Family Residential Parcels. The following table shows a breakdown of the assessed valuations of improved single-family residential parcels in the City, according to assessed valuation.

CITY OF GILROY
Per Parcel Fiscal Year 2019-20 Assessed Valuation of Single-Family Homes

	<u>No. of Parcels</u>	<u>2019-20 Assessed Valuation</u>	<u>Average Assessed Valuation</u>	<u>Median Assessed Valuation</u>
Single-Family Residential	11,740	\$6,367,759,852	\$542,399	\$544,151

<u>2019-20 Assessed Valuation</u>	<u>No. of Parcels⁽¹⁾</u>	<u>% of Total</u>	<u>Cumulative % of Total</u>	<u>Total Valuation</u>	<u>% of Total</u>	<u>Cumulative % of Total</u>
\$0 - \$49,999	196	1.670%	1.670%	\$ 7,424,588	0.117%	0.117%
\$50,000 - \$99,999	508	4.327	5.997	37,100,832	0.583	0.699
\$100,000 - \$149,999	345	2.939	8.935	43,431,891	0.682	1.381
\$150,000 - \$199,999	398	3.390	12.325	69,898,497	1.098	2.479
\$200,000 - \$249,999	482	4.106	16.431	109,519,952	1.720	4.199
\$250,000 - \$299,999	631	5.375	21.806	173,399,657	2.723	6.922
\$300,000 - \$349,999	717	6.107	27.913	233,619,125	3.669	10.591
\$350,000 - \$399,999	697	5.937	33.850	260,807,254	4.096	14.687
\$400,000 - \$449,999	605	5.153	39.003	257,044,548	4.037	18.723
\$450,000 - \$499,999	689	5.869	44.872	328,088,493	5.152	23.876
\$500,000 - \$549,999	683	5.818	50.690	359,085,263	5.639	29.515
\$550,000 - \$599,999	779	6.635	57.325	447,935,995	7.034	36.549
\$600,000 - \$649,999	761	6.482	63.807	475,312,906	7.464	44.013
\$650,000 - \$699,999	880	7.496	71.303	593,271,949	9.317	53.330
\$700,000 - \$749,999	793	6.755	78.058	575,057,376	9.031	62.361
\$750,000 - \$799,999	601	5.119	83.177	465,246,866	7.306	69.667
\$800,000 - \$849,999	514	4.378	87.555	422,618,470	6.637	76.304
\$850,000 - \$899,999	376	3.203	90.758	328,255,671	5.155	81.459
\$900,000 - \$949,999	260	2.215	92.973	240,162,523	3.772	85.231
\$950,000 - \$999,999	210	1.789	94.761	204,541,565	3.212	88.443
\$1,000,000 and greater	615	5.239	100.000	735,936,431	11.557	100.000
Total	11,740	100.000%		\$6,367,759,852	100.000%	

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

Alternative Method of Tax Apportionment – Teeter Plan

The Board of Supervisors of the County has approved the implementation of the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the “Teeter Plan”), as provided for in Section 4701 et seq. of the California Revenue and Taxation Code. Under the Teeter Plan, the County apportions secured property taxes as they are collected throughout the year to participating political subdivisions. Then, as of June 30 each year, the County advances the remaining current year ad valorem secured taxes and direct charges that are due and unpaid to all local agencies participating in the Teeter Plan. In return, the County receives and retains delinquent payments, penalties and interest collected that would have been due the local agency in the absence of the Teeter Plan. The City has opted into the Teeter Plan and receives all of the property taxes that are due and payable whether or not they are actually collected, and the County retains any penalties and interest on delinquent taxes.

Appeals of Assessed Value

There are two types of appeals of assessed values that could adversely impact property tax revenues within the City.

Appeals may be based on Proposition 8 of November 1978, which requires that for each January 1 lien date, the taxable value of real property must be the lesser of its base year value, annually adjusted by the inflation factor pursuant to Article XIII A 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 State law, property owners may apply for a Proposition 8 reduction of their property tax assessment by filing a written application, in form prescribed by the BOE, with the 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. Proposition 8 reductions may also be unilaterally applied by the County Assessor.

Any reduction in the assessment granted as a result of such appeal applies to the year for which the application is made and during which the written application was filed. These reductions are subject to yearly reappraisals 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 XIII A.

A second type of assessment appeal involves a challenge to the base year value of an assessed 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.

County data shows 934 parcels remaining in the pool that have received Proposition 8 adjustments. For fiscal year 2018-19, this pool showed an aggregate increase in net assessed value of approximately \$34,541,419, an average increase in net assessed value of approximately 7.76%. Of such parcels remaining in the Proposition 8 pool, only 11 parcels had their net assessed values decline in fiscal year 2018-19. The aggregate reduction to net assessed value on these 11 parcels was \$1,127,385.

The City cannot predict the changes in assessed values that might result from pending or future appeals by taxpayers. Any reduction in aggregate City assessed valuation due to appeals, as with any reduction in assessed valuation due to other causes, will cause the tax rate levied to repay the Bonds to increase accordingly, so that the fixed debt service on the Bonds (and other outstanding general obligation bonds, if any) may be paid.

Risk of Loss of Assessed Value

The greater the assessed value of taxable property in the City, the lower the tax rate necessary to generate taxes sufficient to pay scheduled debt service on bonds. Natural and economic forces can affect the assessed value of taxable property in the City. Economic and market forces, such as a downturn in the State's economy generally or a relocation out of the City or financial difficulty or bankruptcy by one or more major property taxpayer or employer of City residents, can also affect assessed values, as those forces affect the residential housing and commercial property markets. In addition, the total assessed value can be reduced through the reclassification of taxable property to a class exempt from taxation whether by

ownership or use (such as exemptions for property owned by State and local agencies and property used for qualified educational, hospital, charitable or religious purposes).

The City, like all California communities, may be subject to unpredictable seismic activity, fires, flood or other natural disasters. Seismic activity represents a potential risk for damage to buildings, roads, bridges and property within the City. In addition, land susceptible to seismic activity may be subject to liquefaction during the occurrence of such event. In recent years, wildfires have caused extensive damage throughout the State. Certain of these fires have burned thousands of acres and destroyed hundreds and in some cases thousands of homes. In some instances, entire neighborhoods have been destroyed. Several fires which occurred in 2018 damages or destroyed property in areas that were not previously considered to be at risk from such events. In the event of a severe earthquake, fire, flood or other natural disaster, there may be significant damage to both property and infrastructure in the City. As a result, as substantial portion of the property owners may be unable or unwilling to pay property taxes when due.

Top Taxpayers

The following table lists the top twenty local secured taxpayers in the City in fiscal year 2019-20.

CITY OF GILROY
Top Twenty Local Secured Taxpayers
Fiscal Year 2019-20

	Property Owner	Primary Land Use	2019-20 Assessed Valuation	% of Total⁽¹⁾
1.	Simon Property Group	Outlet Stores	\$216,750,517	2.41%
2.	Excel Gilroy LLC	Commercial	77,783,995	0.86
3.	Olam West Coast Inc.	Food Processing	67,575,848	0.75
4.	United Natural Foods West Inc.	Food Processing	59,227,472	0.66
5.	Mabury Vineyards LLC	Apartments	55,665,651	0.62
6.	Pacheco Pass Retail XII LLC	Commercial	43,660,386	0.49
7.	Wal Mart Real Estate Business Trust	Commercial	33,720,630	0.37
8.	Performance Food Group Inc.	Food Processing	31,681,994	0.35
9.	7610 Isabella Way LLC	Residential Care Facilities	30,930,799	0.34
10.	E P & G South Valley Plaza LLC	Shopping Center	27,540,000	0.31
11.	CalAtlantic Group Inc.	Residential Development	26,977,077	0.30
12.	Calpine Gilroy Cogen LP	Power Plant	26,392,634	0.29
13.	Central Valley Coalition	Apartments	25,173,640	0.28
14.	Costco Wholesale Corp.	Commercial	23,013,776	0.26
15.	Tri Pointe Homes Inc.	Residential Development	21,978,500	0.24
16.	Redwoods Wheeler LP	Apartments	19,952,347	0.22
17.	Sterigenics US LLC	Industrial	17,713,699	0.20
18.	Target Corporation	Commercial	17,660,892	0.20
19.	First Street Gilroy I LLC	Shopping Center	17,646,000	0.20
20.	Mission Park Gilroy LLC	Apartments	16,678,530	0.19
			\$857,724,387	9.53%

⁽¹⁾ 2019-20 Local Secured Assessed Valuation: \$9,001,686,593
Source: California Municipal Statistics, Inc.

Direct and Overlapping Debt

Set forth below is a direct and overlapping debt report (the “Debt Report”) prepared by California Municipal Statistics, Inc. and effective October 1, 2019. The Debt Report is included for general informational purposes only. Neither the City nor the Underwriter has reviewed the Debt Report for completeness or accuracy and make no representation in connection therewith.

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

The contents of the Debt Report are as follows: (a) the first column indicates the public agencies which have outstanding debt as of the date of the Debt Report and whose territory overlaps the boundaries of the City; (b) the second column shows the percentage that the City’s assessed valuation represents of the total assessed valuation of each public agency identified in the first column; and (c) the third column is an apportionment of the dollar amount of each public agency’s outstanding debt to property in the City, as determined by multiplying the total outstanding debt of each agency by the percentage of the City’s assessed valuation represented in the second column.

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CITY OF GILROY
Statement of Direct and Overlapping Debt

2019-20 Assessed Valuation: \$9,291,636,386

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	% Applicable	Debt 10/1/19
Santa Clara County	1.802%	\$ 15,883,819
Gavilan Joint Community College District	26.109	32,393,436
Gilroy Unified School District General Obligation Bonds	81.924	197,002,282
City of Gilroy	100.	27,983,538
City of Gilroy Community Facilities District No. 2000-1	100.	7,212,008
Santa Clara Valley Water District Benefit Assessment District	1.802	1,325,731
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$281,800,814
<u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u>		
Santa Clara County General Fund Obligations	1.802%	\$ 17,754,009
Santa Clara County Pension Obligation Bonds	1.802	6,252,879
Santa Clara County Board of Education Certificates of Participation	1.802	76,675
Gavilan Joint Community College District Certificates of Participation	26.109	3,521,060
Gilroy Unified School District Certificates of Participation	81.924	20,571,116
City of Gilroy General Fund Obligations	100.	37,515,000⁽¹⁾
Santa Clara County Vector Control Certificates of Participation	1.802	40,455
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT		\$ 85,731,194
Less: Santa Clara County supported obligations		5,796,646
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT		\$ 79,934,548
GROSS COMBINED TOTAL DEBT		\$367,532,008⁽²⁾
NET COMBINED TOTAL DEBT		\$361,735,548

Ratios to 2019-20 Assessed Valuation:

Direct Debt (\$27,983,538)	0.30%
Total Direct and Overlapping Tax and Assessment Debt	3.03%
Combined Direct Debt (\$65,498,538)	0.70%
Gross Combined Total Debt.....	3.96%
Net Combined Total Debt	3.89%

⁽¹⁾ Excludes the Bonds.

⁽²⁾ Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations.

Source: California Municipal Statistics, Inc.

Sales and Use Tax

Sales and use taxes represent the largest source of tax revenue to the City. The sales tax is an excise tax imposed on retailers for the privilege of selling or leasing tangible personal property. The use tax is an excise tax imposed for the storage, use, or other consumption of tangible personal property purchased from any retailer. The total sales tax rate within the City is currently 9.0%.

The California Department of Tax and Fee Administration (“CDTFA”) administers collection of the sales and use tax. 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 CDTFA 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.

The CDTFA began operation on July 1, 2017 following the enactment of the Taxpayer Transparency and Fairness Act of 2017 which restructured the State Board of Equalization into three separate entities: The State Board of Equalization, the CDTFA and the Office of Tax Appeals.

Defined Benefit Pension Plans

Plan Descriptions

The City participates in the 2.5% at 55 (Miscellaneous Tier I), 2.0% at 62 (Miscellaneous Tier II PEPPRA), 3.0% at 50 (Police Safety Tier I), 2.0% at 50 (Police Safety Tier II), 2.7% at 57 (Police Safety Tier III PEPPRA), 3% at 55 (Fire Safety Tier I), 2% at 55 (Fire Safety Tier II), and 2% at 57 (Fire Safety Tier III PEPPRA) agent multiple-employer defined benefit plans. The City's defined benefit pension plans provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Plans are part of the Public Agency portion of the California Public Employees Retirement System (CalPERS), an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions as well as other requirements are established by state statutes within the Public Employees' Retirement Law.

The City selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through City ordinance. CalPERS issues a separate comprehensive annual financial report. Copies of CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814 or via <http://www.calpers.ca.gov>.

All full-time employees of the City are eligible to participate in the Plans. Part-time employees and temporary employees who work an average of 20 hours per week and over 1,000 hours per year are also eligible to participate. Upon 5 years of service, miscellaneous employees and public safety employees who retire at or after age 50 are entitled to receive an annual retirement benefit.

The benefit is payable monthly for life, in an amount that varies from each Tier, of the employees' single highest year's salary for each year of credited service. The Plans also provide death and disability benefits.

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.

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

incurring additional unfunded liabilities, including prohibiting retroactive benefits increases, generally prohibiting contribution holidays, and prohibiting purchases of additional non-qualified service credit.

The City participates in separate CalPERS plans for employees based on hire date. The City's plans are part of CalPERS risk pools. Benefit provisions for each active plan as of the June 30, 2018 actuarial valuation are set forth below.

	Miscellaneous	
	Prior to January 1, 2013	Prior to January 1, 2013
Hire date		
Benefit formula	2.5% @55	2.0% @62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 67	52 - 67
Monthly benefits, as a % of eligible compensation	2.0% to 2.5%	1.0% to 2.5%

Source: CalPers Annual Valuation Report for the Miscellaneous Plan of the City of Gilroy, as of June 30, 2018

	Safety - Police		
	Prior to January 5, 2011	Prior to January 1, 2013	On or After January 1, 2013
Hire date			
Benefit formula	3.0% @50	2.0% @50	2.7% @57
Benefit vesting schedule	5 years of service	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50-55	50-55	50-57
Monthly benefits, as a % of eligible compensation	3.00%	2.00% to 2.70%	2.0% to 2.7%

Source: CalPers Annual Valuation Report for the Safety Plan of the City of Gilroy, as of June 30, 2018

	Safety - Fire		
	Prior to January 5, 2011	Prior to January 1, 2013	On or After January 1, 2013
Hire date			
Benefit formula	3.0% @55	2.0% @55	2.0% @57
Benefit vesting schedule	5 years of service	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50-55	50-55	50-57
Monthly benefits, as a % of eligible compensation	2.4% to 3.0%	1.426% to 2.0%	1.426% to 2.0%

Source: CalPers Annual Valuation Report for the Safety Plan of the City of Gilroy, as of June 30, 2018

At June 30, 2018, the following employees were covered by the benefit terms for all Plans:

	Miscellaneous	Safety
Active Employees	140	101
Transferred and terminated employees	156	40
Retired Employees and Beneficiaries	221	133
Total	517	274

Source: CalPers Annual Valuation Report for the Miscellaneous and Safety Plan of the City of Gilroy, as of June 30, 2018

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. 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. City contribution rates may change if plan contracts are amended. Payments made by the employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contributions requirements are classified as plan member contributions.

**Required Contributions
(Miscellaneous)**

	<i>Fiscal Year</i>
Required Employer Contributions	2020-21
Employer Normal Cost Rate	11.363%
<i>Plus, Either</i>	
1) Monthly Employer Dollar UAL Payment	\$ 208,440
or	
2) Annual UAL Prepayment Option*	\$2,418,074
Required PEPRA Member Contribution Rate	7.00%

Source: CalPers Annual Valuation Report for the Miscellaneous Plan of the City of Gilroy, as of June 30, 2018

The total minimum required employer contribution is the sum of the Plan's Employer Normal Cost Rate (expressed as a percentage of payroll) plus the Employer Unfunded Accrued Liability (UAL) Contribution Amount (billed monthly in dollars).

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	<i>Fiscal Year 2019-20</i>	<i>Fiscal Year 2020-21</i>
Normal Cost Contribution as a Percentage of Payroll		
Total Normal Cost	18.255%	19.059%
Employee Contribution ⁽¹⁾	7.724%	7.696%
Employer Normal Cost ⁽²⁾	10.531%	11.363%
 Projected Annual Payroll for Contribution Year	 \$12,140,168	 \$12,672,277
Estimated Employer Contributions Based On Projected Payroll		
Total Normal Cost	\$2,216,188	\$2,415,210
Employee Contribution ⁽¹⁾	937,707	975,258
Employer Normal Cost ⁽²⁾	1,278,481	1,439,952
Unfunded Liability Contribution	2,249,502	2,501,275
% of Projected Payroll (illustrative only)	18.529%	19.738%
Estimated Total Employer Contribution	\$3,527,983	\$3,941,227
% of Projected Payroll (illustrative only)	29.060%	31.101%

⁽¹⁾ For classic members, this is the percentage specified in the Public Employees' Retirement Law, net of any reduction from the use of a modified formula or other factors. For PEPRA members, the member contribution rate is based on 50 percent of the normal cost.

⁽²⁾ The Employer Normal Cost is a blended rate for all benefit groups in the plan.

Source: CalPers Annual Valuation Report for the Miscellaneous Plan of the City of Gilroy, as of June 30, 2018

Required Contributions (Safety)

	<i>Fiscal Year 2020-21</i>
Required Employer Contributions	
Employer Normal Cost Rate	21.412%
<i>Plus, Either</i>	
1) Monthly Employer Dollar UAL Payment	\$ 331,040
or	
2) Annual UAL Prepayment Option*	\$3,840,342
 Required PEPRA Member Contribution Rate (Fire)	 10.50%
Required PEPRA Member Contribution Rate (Police)	13.00%

Source: CalPers Annual Valuation Report for the Safety Plan of the City of Gilroy, as of June 30, 2018

The total minimum required employer contribution is the sum of the Plan's Employer Normal Cost Rate (expressed as a percentage of payroll) plus the Employer Unfunded Accrued Liability (UAL) Contribution Amount (billed monthly in dollars).

	<i>Fiscal Year 2019-20</i>	<i>Fiscal Year 2020-21</i>
Normal Cost Contribution as a Percentage of Payroll		
Total Normal Cost	29.124%	30.648%
Employee Contribution ⁽¹⁾	9.159%	9.236%
Employer Normal Cost ⁽²⁾	19.965%	21.412%
 Projected Annual Payroll for Contribution Year	 \$13,647,032	 \$14,231,529
Estimated Employer Contributions Based On Projected Payroll		
Total Normal Cost	\$3,974,561	\$4,361,680
Employee Contribution ⁽¹⁾	1,249,932	1,314,424
Employer Normal Cost ⁽²⁾	<u>2,724,629</u>	<u>3,047,256</u>
Unfunded Liability Contribution	3,589,689	3,972,481
% of Projected Payroll (illustrative only)	26.304%	27.913%
Estimated Total Employer Contribution	\$6,314,318	\$7,019,737
% of Projected Payroll (illustrative only)	46.269%	49.325%

⁽¹⁾ For classic members, this is the percentage specified in the Public Employees' Retirement Law, net of any reduction from the use of a modified formula or other factors. For PEPRA members, the member contribution rate is based on 50 percent of the normal cost.

⁽²⁾ The Employer Normal Cost is a blended rate for all benefit groups in the plan.

Source: CalPers Annual Valuation Report for the Safety Plan of the City of Gilroy, as of June 30, 2018

Plan's Funded Status. The following tables shows the changes in UAL for the City's miscellaneous and safety plan.

**Plan's Funded Status
(Miscellaneous)**

	<i>June 30, 2017</i>	<i>June 30, 2018</i>
1. Present Value of Projected Benefits	\$119,466,909	\$131,051,580
2. Entry Age Normal Accrued Liability	104,232,395	114,142,332
3. Market Value of Assets (MVA)	<u>\$74,065,540</u>	<u>\$78,514,090</u>
4. Unfunded Accrued Liability (UAL) [(2) – (3)]	\$30,166,855	\$35,628,242
5. Funded Ratio [(3) / (2)]	71.1%	68.8%

Source: CalPers Annual Valuation Report for the Miscellaneous Plan of the City of Gilroy, as of June 30, 2018

**Plan's Funded Status
(Safety)**

	<i>June 30, 2017</i>	<i>June 30, 2018</i>
1. Present Value of Projected Benefits	\$185,909,734	\$199,667,063
2. Entry Age Normal Accrued Liability	155,429,033	166,875,721
3. Market Value of Assets (MVA)	<u>\$106,053,987</u>	<u>\$113,589,955</u>
4. Unfunded Accrued Liability (UAL) [(2) – (3)]	\$49,375,046	\$53,285,766
5. Funded Ratio [(3) / (2)]	68.2%	68.1%

Source: CalPers Annual Valuation Report for the Safety Plan of the City of Gilroy, as of June 30, 2018

This measure of funded status is an assessment of the need for future employer contributions based on the selected actuarial cost method used to fund the plan. The UAL is the present value of future employer contributions for service that has already been earned and is in addition to future normal cost contributions for active members.

CalPERS Plan Actuarial Methods. In December of 2016 the CalPERS Board of Administration lowered the discount rate from 7.50 percent to 7.00 percent using a three-year phase-in beginning with the June 30, 2016 actuarial valuation. The minimum employer contributions for Fiscal Year 2020-21 determined in this valuation were calculated using a discount rate of 7.00 percent, payroll growth of 2.75 percent and an inflation rate of 2.50 percent. The projected employer contributions are calculated under the assumption that the discount rate remains at 7.00 percent going forward and that furthermore the realized rate of return on assets for Fiscal Year 2018-19 is 7.00 percent.

The decision to reduce the discount rate was primarily based on reduced capital market assumptions provided by external investment consultants and CalPERS investment staff. The specific decision adopted by the Board reflected recommendations from CalPERS staff and additional input from employer and employee stakeholder groups. Based on the investment allocation adopted by the Board and capital market assumptions, the reduced discount rate assumption provides a more realistic assumption for the long-term investment return of the fund.

CalPERS has implemented a new actuarial valuation software system for the June 30, 2018 valuation. With this new system we have refined and improved some of our calculation methodology. Any difference in liability between the old software and new software calculations is captured as a method change line item.

The CalPERS Board of Administration has adopted a new amortization policy effective with the June 30, 2019 actuarial valuation. The new policy shortens the period over which actuarial gains and losses are amortized from 30 years to 20 years with the payments computed using a level dollar amount. In addition, the new policy removes the 5-year ramp-up and ramp-down on UAL bases attributable to assumption changes and non-investment gains/losses. The new policy removes the 5-year ramp-down on investment gains/losses. These changes will apply only to new UAL bases established on or after June 30, 2019.

Other Post-Employment Healthcare Plan

Plan Description

The City of Gilroy Retiree Healthcare Plan (Plan) is a single-employer defined benefit healthcare plan administered by the City. The plan provides healthcare benefits to eligible retirees and their dependents through the California Public Employee's Retirement System healthcare program (PEMHCA) and a postemployment retention/recognition incentive benefit program (RRIB) which requires proof of medical coverage. Benefit provisions are established and may be amended through agreements and memorandums of understanding between the City, its management employees, and unions representing City employees.

For all retirees under the plan, the City contributes the PEMHCA minimum on the unequal method for eligible retirees and surviving spouses. The PEMHCA minimum amount is \$133 in 2018 and \$136 in 2019. No dental, vision, or life insurance benefits are provided.

Employees Covered

As of the June 30, 2018 actuarial valuation, the following current and former employees were covered by the benefit terms under the plan:

Inactive employees currently receiving benefits	93
Inactive employees entitled to but not yet receiving benefits	110
Active employees	<u>243</u>
Total	<u><u>446</u></u>

Total OPEB Liability

The City’s OPEB liability of \$14,934,000 was measured as of June 30, 2018, and was determined by an actuarial valuation as of June 30, 2017 rolled forward to 2018 using standard updated procedures. The OPEB liability from the governmental activities is primarily liquidated from the general fund.

Actuarial Assumptions and Other Inputs

The total OPEB liability as of June 30, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Valuation Date	June 30, 2017
Measurement Date	June 30, 2018
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	3.87% Bond Buyer 20 Index
Projected Salary Increase	3.00% per annum, in aggregate
Expected long term investment rate of return	not applicable
Healthcare Cost Trend Rates	Non-Medicare - 7.5% for 2019 decreasing in 2076 Medicare - 6.5% for 2019, decreasing to 4.0% in 2076
Pre-retirement Turnover	Derived from CalPERS pension plan
Mortality, Retirement, Disability, Termination	CalPERS 1997-2011 Experience Study
Mortality Improvement	Projected fully generational with Scale MP-2017
Medical Plan at Retirement	Current active and retirees - current election
Medical Participation at Retirement	Current Actives PEMCHA Minimum - 60% RRIB- 100% Current retirees: current election

The discount rate was based on a high-quality 20-year tax-exempt bond buyer index rate. The municipal bond rate utilized was 3.87%.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the City, calculated using the discount rate for the Plan, as well as what the City's total OPEB 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:

	1 % Decrease (2.87%)	Discount Rate (3.87%)	1 % Increase (4.87%)
Total OPEB Liability	\$ 17,272,000	\$ 14,934,000	\$ 13,051,000

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate (Continued)

The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage point lower (5.00% HMO/5.50% PPO decreasing to 4.00% HMO/4.00% PPO) or 1-percentage point higher (7.00% HMO/7.50% PPO decreasing to 6.00% HMO/6.00% PPO) than the current healthcare cost trend rates:

	1 % Decrease	Current Healthcare Cost Trend Rates	1 % Increase
Total OPEB Liability	\$ 12,860,000	\$ 14,934,000	\$ 17,577,000

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the year ended June 30, 2019, the City recognized OPEB expense of \$922,000. 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
Employer contributions made subsequent to the measurement date	\$ 524,000	\$ -
Change in assumptions	-	(1,715,000)
Total	\$ 524,000	\$ (1,715,000)

The change in assumptions was due to the change in discount rate of 3.87% from 3.58% for the June 30, 2018 measurement date and is amortized over the average expected remaining service lives.

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

Year Ending June 30,	Amount
2020	\$(347,000)
2021	(347,000)
2022	(347,000)
2023	(347,000)
2024	(260,000)
Thereafter	(67,000)

Investment of City Funds

The City pools idle cash from all funds for the purpose of its investment activities in order to maximize investment income. Idle funds are invested in accordance with the City's investment policy and California Government Code Section 53647, which is reviewed annually by City Council. The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. See Appendix C, Note 2 for further information on the City's cash and investments.

Personal Income

The following table shows of per capita personal income for the County, State of California and the United States from 2007 through 2018.

PER CAPITA PERSONAL INCOME⁽¹⁾
Santa Clara County, State of California, and United States
2007 through 2018

<u>Year</u>	<u>County of Santa Clara</u>	<u>California</u>	<u>United States</u>
2007	\$62,558	\$43,629	\$39,844
2008	61,503	43,890	40,904
2009	57,097	42,044	39,284
2010	61,330	43,634	40,546
2011	66,406	46,170	42,735
2012	72,792	48,798	44,599
2013	72,927	49,277	44,851
2014	79,055	52,324	47,058
2015	86,188	55,758	48,978
2016	92,505	57,739	49,870
2017	100,177	60,156	51,885
2018	107,877	63,557	54,446

⁽¹⁾ Per capita personal income is the total personal income divided by the total mid-year population estimates of the U.S. Bureau of the Census. All dollar estimates are in current dollars (not adjusted for inflation).
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

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Employment

The following table summarizes the labor force, employment and unemployment figures for the City, the County and the State from 2013 through 2018.

CIVILIAN LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT RATE City, County and State 2013 through 2018⁽¹⁾

<u>Year</u>	<u>Area</u>	<u>Labor Force</u>	<u>Employment</u>	<u>Unemployment</u>	<u>Unemployment Rate (%)</u>
2013	City	26,200	24,000	2,200	8.4
	County	971,900	909,000	62,800	6.5
	State	18,625,000	16,958,400	1,666,600	8.9
2014	City	26,500	24,700	1,800	6.7
	County	989,900	938,900	51,000	5.2
	State	18,714,700	17,310,900	1,403,800	7.5
2015	City	27,100	25,600	1,500	5.4
	County	1,013,200	971,100	42,000	4.1
	State	18,851,100	17,681,800	1,169,200	6.2
2016	City	28,300	27,000	1,300	4.6
	County	1,028,700	989,900	38,800	3.8
	State	19,044,500	18,002,800	1,041,700	5.5
2017	City	29,600	28,500	1,100	3.9
	County	1,039,900	1,006,500	33,400	3.2
	State	19,205,300	18,285,500	919,800	4.8
2018	City	29,800	28,900	900	3.2
	County	1,048,800	1,021,500	27,300	2.6
	State	19,398,200	18,582,800	815,400	4.2

⁽¹⁾ Data is based on annual averages, unless otherwise specified, and is not seasonally adjusted.

Source: U.S. Department of Labor – Bureau of Labor Statistics, California Employment Development Department. March 2018 Benchmark.

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Industry

The City is included in the San Jose-Sunnyvale-Santa Clara Metropolitan Statistical Area. The distribution of employment in the San Jose-Sunnyvale-Santa Clara Metropolitan Statistical Area is presented in the following table for the calendar years 2014 through 2018. These figures are countywide statistics and may not necessarily accurately reflect employment trends in the City.

INDUSTRY EMPLOYMENT & LABOR FORCE ANNUAL AVERAGES San Jose-Sunnyvale-Santa Clara Metropolitan Division- Calendar Years 2014 through 2018

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
<u>Civilian Labor Force:</u> ⁽¹⁾					
Employment	965,400	998,700	1,018,400	1,035,400	1,050,800
Unemployment Rate	5.3%	4.2%	3.9%	3.3%	2.7%
<u>Wage and Salary Employment:</u> ⁽²⁾					
Agriculture	5,300	5,500	6,100	5,800	5,800
Mining, Logging, and Construction	40,000	44,100	48,600	49,500	49,600
Manufacturing	161,700	164,800	166,600	166,400	172,300
Wholesale Trade	35,800	35,800	35,200	32,900	31,700
Retail Trade	85,300	86,600	85,800	85,800	86,300
Transportation, Warehousing, Utilities	14,400	14,600	15,500	15,400	16,000
Information	63,300	68,400	74,700	84,700	91,700
Financial Activities	34,100	34,600	35,600	36,100	37,100
Professional and Business Services	210,000	224,000	233,000	237,400	237,300
Educational and Health Services	150,000	156,300	162,500	168,800	172,700
Leisure and Hospitality	92,900	96,800	100,600	103,400	105,000
Other Services	26,400	26,900	27,600	28,900	28,800
Government	93,400	92,900	94,100	95,500	96,800
Total, All Industries. ⁽³⁾	1,012,500	1,051,500	1,086,000	1,110,700	1,131,000

⁽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⁾ Data is based on annual averages, unless otherwise specified, and is not seasonally adjusted. Data may not add due to rounding. Source: Labor Division of the California State Employment Development Department.

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Largest Employers

The following table shows the largest employers located in the County for fiscal year 2018-19.

<u>Employer</u>	<u>Number of Employees⁽²⁾</u>	<u>Rank</u>	<u>Percentage of Total County Employment</u>
Apple Inc.	25,000	1	2.44%
Google Inc.	24,626	2	2.40
County of Santa Clara	20,883	3	2.04
Stanford University	16,919	4	1.65
Cisco Systems Inc.	14,674	5	1.43
Kaiser Permanente Northern California	12,500	6	1.22
Stanford Health Care	10,034	7	0.98
Tesla Motors Inc.	10,000	8	0.98
Applied Materials, Inc.	8,500	9	0.83
Intel Corporation	8,400	10	0.82
Total Employment Labor Force ⁽¹⁾	1,024,900		

⁽¹⁾ State Employment Development Department, Labor Market Information Division <http://www.labormarketinfo.edd.ca.gov/data/unemployment-and-labor-force.html>

⁽²⁾ Silicon Valley Business Journal, July 19, 2019

Source: Santa Clara County Comprehensive Annual Financial Report (Fiscal Year 2018-19).

The following table shows the largest employers located in the City for fiscal year 2018-19.

<u>Employer</u>	<u>Number of Employees</u>	<u>Rank</u>	<u>Percentage of Total Employment</u>
Gilroy Unified School District ⁽¹⁾	1,148	1	3.85%
Christopher Ranch LLC	951	2	3.19
Saint Louise Regional Hospital	440	3	1.48
Community Solutions	331	4	1.11
Wal-Mart	274	5	0.92
Costco Wholesale	263	6	0.88
City of Gilroy	262	7	0.88
Gavilan College ⁽²⁾	229	8	0.77
Rebekah Childrens Services	226	9	0.76
Cintas Corporation	180	10	0.60
Total City Labor Force ⁽³⁾	29,800		

⁽¹⁾ Includes FTE & PTE.

⁽²⁾ Includes permanent employees only.

⁽³⁾ Total City Labor Force provided by EDD Labor Force Data.

Source: City of Gilroy Comprehensive Annual Financial Report (Fiscal Year 2018-19).

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Commercial Activity

Summaries of annual taxable sale date for the County and the City for years 2009 through 2018 are shown in the following tables.

TAXABLE SALES Santa Clara County 2009 through 2018 (Dollars in Thousands)

<u>Year</u>	<u>Retail Permits</u>	<u>Retail Stores Taxable Transactions</u>	<u>Total Permits</u>	<u>Total Outlets Taxable Transactions</u>
2009	26,695	\$16,385,238	43,396	\$27,427,709
2010	27,215	17,695,858	43,583	30,523,322
2011	27,252	19,419,542	43,390	33,431,217
2012	28,109	21,116,708	43,980	36,220,445
2013	29,535	22,424,642	45,310	37,621,606
2014	30,058	23,271,753	45,852	39,628,655
2015	30,354	23,700,907	50,573	41,231,759
2016	30,146	24,158,590	50,519	41,831,669
2017	30,263	24,862,883	50,812	42,805,399
2018	30,266	26,885,138	52,994	45,353,074

Source: California Board of Equalization (2009-2016) and California Tax and Fee Administration (2017-18).

TAXABLE SALES City of Gilroy 2009 through 2018 (Dollars in Thousands)

<u>Year</u>	<u>Retail Permits</u>	<u>Retail Stores Taxable Transactions</u>	<u>Total Permits</u>	<u>Total Outlets Taxable Transactions</u>
2009	924	\$893,564	1,361	\$1,010,486
2010	931	933,062	1,366	1,062,813
2011	926	1,028,046	1,332	1,160,862
2012	950	1,072,867	1,362	1,209,176
2013	1,029	1,103,278	1,444	1,243,769
2014	1,058	1,179,076	1,474	1,329,340
2015	1,078	1,205,058	1,618	1,367,037
2016	1,092	1,240,424	1,658	1,428,270
2017	1,125	1,366,535	1,728	1,579,940
2018	1,130	1,404,031	1,804	1,609,771

Source: California Board of Equalization (2009-2016) and California Tax and Fee Administration (2017-18).

Building Activity

The number of building permits issued each year from 2014 through 2018 in the City are shown below.

City of Gilroy Commercial and Residential Building Permits and New Units Fiscal Years 2014 through 2018

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Commercial/Industrial					
Number of Permits	120	171	159	159	185
Number of New Units	2,153	4	6	3	272
Aggregate Valuation	\$12,029,307	\$11,896,452	\$49,921,905	\$14,720,884	\$48,454,309
Residential					
Number of Permits	1,259	1,391	1,725	1,565	1,430
Number of New Units	323	483	702	648	409
Aggregate Valuation	\$13,355,209	\$31,972,241	\$58,713,655	\$39,953,956	\$73,684,446
Total					
Number of Permits	1,379	1,562	1,884	1,724	1,615
Number of New Units	2,476	487	708	651	681
Aggregate Valuation	<u>\$25,384,516</u>	<u>\$43,868,693</u>	<u>\$108,635,560</u>	<u>\$54,674,840</u>	<u>\$122,138,755</u>

Source: City of Gilroy.

APPENDIX B

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following is a brief summary of the provisions of the Site Lease, Lease Agreement, Assignment Agreement and Indenture. Such summary is not intended to be definitive, and reference is made to the 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:

“*Additional Bonds*” means the additional bonds authorized by a Supplemental Indenture that are authenticated and delivered by the Trustee under and pursuant to the Indenture.

“*Additional Payments*” means the additional payments payable by the City under and pursuant to the Lease Agreement.

“*Assignment Agreement*” means that certain Assignment Agreement, dated as of August 1, 2009, by and between the Authority and the Trustee, as it may from time to time be amended.

“*Authority*” means the Gilroy Public Facilities Financing Authority, a joint powers authority duly organized and existing under and by virtue of the laws of the State of California.

“*Authority Debt*” means, collectively, the 2020A Bonds and the 2013 Bonds.

“*Authorized Denominations*” means \$5,000 or any integral multiple thereof.

“*Base Payments*” means the aggregate lease payments with interest components and principal components payable by the City under and pursuant to the Lease Agreement in the amounts and at the times set forth in Exhibit C thereof.

“*Beneficial Owner*” has the same meaning as set forth in the Continuing Disclosure Certificate.

“*Bonds*” means the Series 2020A Bonds and all Additional Bonds.

“*Bond Counsel*” means (a) Nixon Peabody LLP, 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.

“*Business Day*” means any day other than a Saturday, a Sunday, a day on which banking institutions in the State, or any state in which the Designated Corporate Trust Office is located are closed, or a day on which the New York Stock Exchange is closed.

“*Certificate of Completion*” means a Certificate of the City filed with the Trustee, stating that construction of a Project has been substantially completed and that all Construction Costs have been paid or provided for.

“*Certificate*,” “*Statement*,” “*Written Request*” and “*Requisition*” of the Authority or of the City means, respectively, a written certificate, statement, request or requisition signed in the name of the Authority by its Chair, Vice Chair, Executive Director, Treasurer or Secretary, or any other person designated and authorized to sign for the Authority in writing to the Trustee, and with respect to the City means its City Manager, Finance Director and City Clerk or such other person as may be designated and authorized to sign for the City in writing to the Trustee. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined will be read and construed as a single instrument. If and to the extent required by the Indenture, each such instrument will include the statements provided for in the Indenture.

“*Code*” means the Internal Revenue Code of 1986, as amended.

“*Construction Costs*” means all costs of constructing a Project, including, but not limited to:

(1) all costs which the Authority or the City will be required to pay to a manufacturer, vendor or contractor or any other person under the terms of any contract or contracts for the construction, installation or improvement of a Project;

(2) obligations of the Authority, the City or others incurred for labor and materials (including obligations payable to the Authority, the City or others for actual out-of-pocket expenses of the Authority, the City or others) in connection with the construction, installation or improvements of a Project, including reimbursement to the Authority, the City or others for all advances and payments made in connection with a Project prior to or after delivery of the Bonds;

(3) the costs of performance or other bonds and any and all types of insurance that may be necessary or appropriate to have in effect during the course of construction, installation or improvement of a Project;

(4) all costs of engineering and architectural services, including the actual out-of-pocket costs of the Authority or the City for test borings, surveys, estimates, plans and specifications and preliminary investigations therefor, development fees and sales commissions, and for supervising construction, installation and improvement, as well as for the performance of all other duties required by or consequent to the proper construction, installation or improvement of a Project; and

(5) any sums required to reimburse the Authority or the City for advances made by the Authority or the City for any of the above items or for any other costs incurred and for work done by the Authority or the City which are properly chargeable to the construction, installation or improvement of a Project.

“*Construction Fund*” means the fund by that name established pursuant to the Indenture and a Supplemental Indenture.

“*Continuing Disclosure Certificate*” means collectively, the Continuing Disclosure Certificate executed by the City at the time of the initial issuance of the Series 2020A Bonds, together with any Continuing Disclosure Certificate executed by the City at the time of the execution and delivery of any Additional Bonds, as originally executed and as each such Certificate may be amended from time to time in accordance with the terms thereof.

“*Cost of Issuance Fund*” means the fund by that name established in accordance with the Indenture.

“*Costs of Issuance*” means all the costs of executing and delivering the Bonds, including, but not limited to, all printing and document preparation expenses in connection with the Indenture, the Lease Agreement, the Site Lease, the Assignment Agreement, the Bonds and the preliminary official statement and final official statement pertaining to the Bonds; rating agency fees; municipal advisor fees; verification agent fees; bidding agent fees; title insurance fees; CUSIP Service Bureau charges; market study fees; legal fees and expenses of counsel with respect to the Lease Agreement of the Leased Property; any computer and other expenses incurred in connection with the Bonds; the fees and expenses of the Trustee, including fees and expenses of their respective counsel; and other fees and expenses incurred in connection with the execution of the Bonds, to the extent such fees and expenses are approved by the City.

“*City*” means the City of Gilroy, a political subdivision duly organized and existing under the Constitution and laws of the State of California.

“*Debt Service*” means the scheduled amount of interest and amortization of principal payable on Authority Debt during the period of computation, including the principal amount of Authority Debt required to be redeemed during such period by operation of mandatory sinking fund redemption.

“*Defeasance Securities*” means any of the following:

- (1) Cash (insured at all times by the Federal Deposit Insurance Corporation);
- (2) Obligations of, or obligations guaranteed as to principal and interest by, the U.S. or any agency or instrumentality thereof, when such obligations are backed by the full faith and credit of the U.S. including:
 - U.S. Treasury obligations;
 - All direct or fully guaranteed obligations
 - Farmers Home Administration
 - General Services Administration
 - Guaranteed Title XI financing
 - Government National Mortgage Association (GNMA); and
 - State and Local Government Series; and

- (3) Obligations described in paragraph (7) of the definition of Permitted Investments.

“*Designated Corporate Trust Office*” means the corporate trust office of the Trustee at the address set forth in the Indenture, except for purposes of payment, registration, transfer, exchange and surrender of Bonds, means the corporate trust office of the Trustee in San Francisco, California, or such other office specified by the Trustee.

“*DTC*” means The Depository Trust Company, New York, New York, a limited-purpose trust company organized under the laws of the State of New York, and its successors as securities depository for the Bonds including any such successor appointed pursuant to the Indenture.

“*Electronic Means*” means telecopy, facsimile transmission or other similar electronic means of communication, including a telephonic communication confirmed by writing or written transmission.

“*Escrow Agreement*” means the Escrow Agreement, dated as of August 1, 2020, between the City and MUFG Union Bank, N.A., as escrow agent providing for the defeasance and redemption of the Series 2010 Bonds.

“*Event of Default*” means any occurrence or event specified in and defined in the Indenture.

“*Fiscal Year*” means the fiscal year of the City which, as of the date of the Indenture, is the period from July 1 to and including the following June 30.

“*Indenture*” means the Indenture by and among the Trustee, the City and the Authority, dated as of August 1, 2020, as originally executed and as it may from time to time be amended or supplemented in accordance with the Indenture.

“*Insurance Proceeds and Condemnation Awards Fund*” means the fund by that name established in accordance with the Indenture.

“*Interest Fund*” means the Series 2020A Interest Fund and each additional fund established for the payment of interest of a Series of Additional Bonds within the Revenue Fund established in accordance with the Indenture.

“*Interest Payment Date*” means May and November 1 of each year, commencing November 1, 2020.

“*Lease Agreement*” means that certain First Amended and Restated Lease Agreement, dated as of August 1, 2009, with respect to the Leased Property, by and between the City, as sublessee, and the Authority, as sublessor, as originally executed and as it may be amended from time to time.

“*Lease Default Event*” means any of the events of default under and as defined in the Lease Agreement.

“*Lease Payment Date*” means, with respect to any Interest Payment Date, the 5th Business Day preceding such Interest Payment Date.

“*Lease Payments*” means the aggregate amount of all the payments required to be paid by the City under the Lease Agreement for the lease of the Leased Property thereunder.

“*Leased Property*” means the real property and all the improvements thereon or to be located thereon described in the Site Lease and in the Lease Agreement (as the same may be changed from time to time by Removal or Substitution, as defined in the Lease Agreement).

“*Mandatory Sinking Account Payment*” means the principal amount of any Bond required to be paid on each Mandatory Sinking Account Payment Date pursuant to the terms of any Supplemental Indenture.

“*Mandatory Sinking Account Payment Date,*” if applicable, means November 1 of each year set forth in any Supplemental Indenture.

“*MSRB*” means the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at <http://emma.msrb.org>.

“*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.

“*Notes*” means the Authority’s 2009 Lease Revenue Notes (City of Gilroy Refunding and Capital Improvement Project) issued by the Authority in the aggregate principal amount of \$46,370,000 under the Trust Agreement.

“*Opinion of Counsel*” means a written opinion of counsel of recognized national standing in the field of law relating to municipal bonds, appointed and paid by the City.

“*Outstanding*” when used as of any particular time with reference to Bonds, means all Bonds, including, but not limited to, the Bonds as described in “Discharge of Bonds and Indenture” of the Indenture, except:

- (1) Bonds previously canceled by the Trustee or delivered to the Trustee for cancellation;
- (2) Bonds which pursuant to “Disqualified Bonds” of the Indenture are not deemed outstanding;
- (3) Bonds paid or deemed to have been paid within the meaning of “Discharge of Bonds and Indenture” in the Indenture; and

- (4) Bonds in lieu of or in substitution for which other Bonds will have been executed and delivered by the Trustee pursuant to “Execution and Delivery of Additional Bonds” under the Indenture.

“*Owner*” means any person who is the registered owner of any Outstanding Bond as indicated in the 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 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 any policy of title insurance issued with respect to the Leased Property; 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 to the extent then permitted by applicable laws and any investment policies of the City:

- (1) Defeasance Securities;
- (2) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including:
 - Export-Import Bank;
 - Rural Economic Community Development Administration;
 - U.S. Maritime Administration;
 - Small Business Administration;
 - U.S. Department of Housing & Urban Development (PHAs);
 - Federal Housing Administration; and
 - Federal Financing Bank.
- (3) Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America:
 - Senior debt obligations issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC);
 - Obligations of the Resolution Funding Corporation (REFCORP);
 - Senior debt obligations of the Federal Home Loan Bank System; and

— Senior debt obligations of other Government Sponsored Agencies.

- (4) U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of "A-1" or "A-1+" by S&P and maturing not more than 360 calendar days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank).
- (5) Commercial paper which is rated at the time of purchase in the single highest classification, "A-1" or better by S&P and which matures not more than 270 calendar days after the date of purchase.
- (6) Investments in a money market fund rated "AAAm" or "AAAm-G" or better by S&P, excluding those with a floating net asset value.
- (7) Pre-refunded Municipal Obligations defined as follows: any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and
 - (A) which are rated, based on an irrevocable escrow account or fund (the "escrow"), in the highest rating category of S&P or any successors thereto; or
 - (B) (i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in clause (2) of the definition of "Defeasance Securities" contained in the Indenture, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate;
- (8) Municipal Obligations rated in the top two rating categories or higher by S&P.

- (9) Investment Agreements with entities rated at the time of entry into the agreement in the top three rating categories or higher by S&P (supported, as may be required, by appropriate opinions of counsel);
- (10) Any investment authorized by California Government Code Section 53601;
- (11) Any CalTrust fund;
- (12) The Local Agency Investment Fund or similar pooled fund operated by or on behalf of the State of California and which is authorized to accept investments of moneys held in any of the funds or accounts established pursuant to the Indenture; and
- (13) Senior obligations of (a) International Bank for Reconstruction and Development (“IBRD” or “World Bank”); (b) International Financing Corporation (“IFC”) and (c) Inter-American Development Bank (“IADB”).

Any references to long-term rating categories in this definition of “Permitted Investments” will not take into account any plus or minus sign or numerical modifiers.

“*Principal Fund*” means the Series 2020A Principal Fund and each additional fund established for the payment of principal of a Series of Additional Bonds within the Revenue Fund established in accordance with the Indenture.

“*Principal Payment*” means the principal amount of Bonds required to be paid on each Principal Payment Date.

“*Principal Payment Date*” means November 1 of each year, commencing on the Principal Payment Date or Dates set forth in the Indenture.

“*Project*” means, to the extent identified by the City as such, the public facilities to be acquired and constructed with the proceeds of any Additional Bonds.

“*Proceeds Fund*” will have the meaning set forth in the Indenture.

“*Rebate Requirement*” means the Rebate Requirement as defined in the Tax Certificate.

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

“*Redemption Fund*” means the fund by that name established in accordance with the Indenture.

“*Refunding Documents*” means the indenture of trust, trust agreement or other document entered into by the Board, authorizing the issuance of any Refunding Obligations.

“*Refunding Obligations*” means (a) the bonds, notes or other obligations issued by the Authority for the purpose of refunding the Notes on or before the maturity thereof, and (b) any and

all other bonds, notes or other obligations issued by the Authority to refund any prior issue of Refunding Obligations.

“*Rental Payments*” means, collectively, the Base Payments and the Additional Payments.

“*Rental Period*” means the twelve-month period beginning on June 2 in any year and continuing to and including June 1 in the succeeding year.

“*Representation Letter*” means the Letter of Representations from the City and the Trustee to DTC, or any successor securities depository for the Bonds, in which the City and the Trustee make certain representations with respect to the Bonds, the payment with respect thereto and delivery of notices with respect thereto.

“*Revenue Fund*” will have the meaning given to such term in the Indenture.

“*Revenues*” means all Base Payments pursuant to the Lease Agreement, and all other benefits, charges, income, proceeds, profits, receipts, rents and revenues derived by the Authority from the operation or use of the Leased Property, including interest or profits from the investment of money in any account or fund (other than the Rebate Fund) pursuant to the Indenture.

“*S&P*” means S&P Global Ratings, its successors and their assigns, or, if such corporation is dissolved or liquidated or is no longer able to perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the City by notice in writing to the Authority and the Trustee.

“*Series*”, when used with reference to the Bonds, means all of the Bonds authenticated and delivered on original issuance and identified pursuant to the Indenture or a Supplemental Indenture authorizing such Bonds as a separate Series of Bonds, and any Bonds thereafter authenticated and delivered in lieu of or in substitution for such Bonds pursuant to the Indenture.

“*Series 2010 Bonds*” means the Gilroy Public Facilities Financing Authority Refunding Lease Revenue Bonds, Series 2010.

“*Series 2020A Bonds*” means the Gilroy Public Facilities Financing Authority Lease Revenue Refunding Bonds, Series 2020A.

“*Serial Bonds*” means Bonds for which no sinking fund payments are provided.

“*Site Lease*” means that certain First Amended and Restated Site Lease, dated as of August 1, 2009, with respect to the Leased Property, by and between the City, as lessor, and the Authority, as lessee, as originally executed and as it may be amended from time to time.

“*Supplemental Indenture*” means an agreement amending or supplementing the terms of the Indenture entered into pursuant to the terms of the Indenture.

“*Surplus Subaccount*” means the account by that name established in accordance with the Indenture.

“*Tax Certificate*” means that Tax Certificate and Agreement, by and between the City and the Authority, executed at the time of execution and delivery of a Series of Bonds relating to the requirements of Section 148 of the Code, as such Tax Certificate and Agreement may be amended or supplemented.

“*Tax-Exempt*” means, with respect to any obligation of a state or local government, that such interest is excluded from the gross income of the owners thereof for federal income tax purposes, whether or not such interest is includable as an item of tax preference or otherwise includable directly or indirectly for purposes of calculating other tax liabilities, including any alternative minimum tax or environmental tax under the Code.

“*Term Bonds*” means Bonds which are payable on or before their specified maturity dates from sinking fund payments established for that purpose and calculated to retire such Bonds on or before their specified maturity dates.

“*Trust Agreement*” means the Trust Agreement of Trust dated as of August 1, 2009, between the Authority and Union Bank, N.A., authorizing the issuance of the Notes, as amended from time to time in accordance with its terms.

“*Trustee*” means MUFG Union Bank, N.A., a national banking association duly organized and existing under and by virtue of the laws of the United States of America and having a corporate trust office located at San Francisco, California, or any other bank or trust company which may at any time be substituted in its place as provided in the Indenture.

“*Underwriter*” means Hilltop Securities Inc.

SITE LEASE

The City has previously leased the Leased Property to the Authority under a First Amended and Restated Site Lease dated as of August 1, 2009 (the “Site Lease”). The Site Lease was originally entered into in connection with the issuance of the 2009 Notes, and ends on June 1, 2039, or such earlier date on which all outstanding Authority Debt is redeemed or retired. If on June 1, 2039, any issue of Authority Debt remains outstanding and unpaid, then the term of the Site Lease will be extended until such issue of Authority Debt has been paid and discharged by its terms, but not beyond June 1, 2049.

If the City exercises its option under the Lease Agreement to substitute property for the Leased Property in whole or in part, such substitution will also operate to substitute property for the Leased Property which is leased under the Site Lease. If the City exercises its option under the Lease Agreement to release any portion of the Leased Property from the Lease Agreement, such release will also operate to release property under the Site Lease. The description of the property which is leased under the Site Lease will conform at all times to the description of the property which is leased under the Lease Agreement.

The Authority agrees, upon the termination of the Site Lease, to quit and surrender the Leased Property in the same good order and condition as the Leased Property was in at the time of commencement of the term of the Site Lease, reasonable wear and tear excepted, and agrees

that all buildings, improvements and structures then existing upon the Leased Property will remain thereon and title thereto will vest thereupon in the City for no additional consideration.

LEASE AGREEMENT

Amendment and Restatement of Prior Leases.

In connection with the original issuance of the 2009 Notes, the City and the Authority entered into a First Amended and Restated Lease Agreement dated as of August 1, 2009 (the "Lease Agreement"). The Lease Agreement represented an amendment and restatement of certain leases previously entered into between the City and the Authority in connection with the issuance of bonds which were previously refunded. Under the Lease Agreement, the Authority has leased the Leased Property back to the City. The Lease Agreement ends on June 1, 2039, or such earlier date on which all outstanding Authority Debt is redeemed or retired. If on June 1, 2039, any issue of Authority Debt remains outstanding and unpaid, then the term of the Lease Agreement will be extended until such issue of Authority Debt has been paid and discharged by its terms, but not beyond June 1, 2049.

Obligation to Pay Lease Payments.

In consideration of the lease of the Leased Property from the Authority, and subject to the abatement provisions described below, the City agrees to pay the Lease Payments to the Authority as rental for the use and occupancy of the Leased Property during each Rental Period. The Lease Payments are payable on each Lease Payment Date in an amount equal to the aggregate amount of the Debt Service coming due and payable on the Authority Debt the next succeeding Interest Payment Date. All amounts on deposit in the respective funds established under the Refunding Documents for payment of current debt service on the related issue of Refunding Obligations, will be credited towards the amount then required to be paid by the City.

Budget and Appropriation of Lease Payments.

The Lease Payments are payable from any source of available funds of the City, subject to abatement as described below. The City agrees to take such actions as may be necessary to include all Lease Payments in its final approved budgets for the City's general fund and to appropriate such Lease Payments coming due and payable during the period covered by such budget during the term of the Lease Agreement.

Abatement of Lease Payments.

The Lease Payments are subject to abatement under the Lease Agreement during any period in which due to damage or destruction of the Leased Property in whole or in part, or due to taking in eminent domain proceedings of the Leased Property in whole or in part, there is substantial interference with the City's use and occupancy of all or any portion of the Leased Property. The amount of such abatement will be an amount agreed upon by the City and the Authority such that the resulting Lease Payments represent fair consideration for the use and occupancy of the remaining usable portions of the Leased Property. In the event of such abatement,

the City will have no obligation to pay abated Lease Payments and there is no remedy available to Bond Owners arising from such abatement.

Title.

At all times during the term of the Lease Agreement, the City will hold title to the Leased Property, subject to the provisions of the Site Lease and other Permitted Encumbrances. Upon the termination of the Lease Agreement, all right, title and interest of the Authority in and to the Leased Property will be transferred to and vested in the City. Upon the payment in full of all Lease Payments, all right, title and interest of the Authority in and to the Leased Property will be transferred to and vested in the City.

Maintenance, Utilities, Taxes and Installation of Personal Property.

The City, at its own expense, agrees to maintain or cause to be maintained the Leased Property in good repair; the Authority has no responsibility for such maintenance. The City is also obligated to pay all taxes and assessments charged to the Leased Property. The City has the right under the Lease Agreement to install or permit to be installed other items of equipment or other personal property in or upon the Leased Property. All such items will remain the sole property of the City, in which neither the Authority nor the Trustee has any interest, and may be modified or removed by the City at any time provided that the City repairs and restores any and all damage to the Leased Property resulting from the installation, modification or removal of any such items. The City or the Authority may not, directly or indirectly, create, incur, assume or suffer to exist any mortgage, pledge, lien, charge, encumbrance or claim on or with respect to all or any portion of the Leased Property, other than the respective rights of the Authority and the City as provided in the Lease Agreement.

Option to Prepay.

The City has the right, on any Lease Payment Date immediately preceding an Interest Payment Date on which any Authority Debt is subject to optional redemption, to prepay the principal components of the Lease Payments from any source of legally available funds, in whole or in part. The amount to be prepaid by the City is equal to the principal components of the Lease Payments to be prepaid, together with (a) the interest component of the Lease Payment required to be paid on such Lease Payment Date and (b) a premium equal to the amount of premium (if any) required to be paid upon the corresponding redemption of the Authority Debt.

Substitution of Property.

The City has the option at any time to substitute other land, facilities, improvements or other property (“Substitute Property”) for the Leased Property or portion thereof (“Former Property”), subject to the conditions set forth in the Lease Agreement, including the following:

- (a) No event of default has occurred and is continuing under and as defined in the Lease Agreement.
- (b) The City must file with the Authority and the Trustee, and cause to be recorded in the Office of the Santa Clara County Recorder sufficient memorialization of,

appropriate documentation which adds thereto a description of such Substitute Property and deletes therefrom the description of such Former Property.

- (c) The City must obtain a CLTA policy of title insurance insuring the City's leasehold estate in the Substitute Property, in an amount at least equal to the outstanding principal amount of the Authority Debt then outstanding, and naming the Trustee as an additional insured.
- (d) The City must certify in writing to the Authority and the Trustee that such 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.
- (e) The Substitute Property may not cause the City to violate any of its covenants, representations and warranties made in the Lease Agreement.
- (f) The City must certify in writing to the Authority and the Trustee that the estimated value and the estimated fair rental value of the Substitute Property is at least equal to the estimated value and the estimated fair rental value, respectively, of the Former Property, and that the useful life of the Substitute Property at least equals the lesser of (i) the useful life of the Former Property, or (ii) the final Lease Payment Date of the Lease Payments allocable thereto.
- (g) The City has received written confirmation from each rating agency which then maintains a rating on the outstanding Authority Debt that such substitution will not cause a reduction or withdrawal of the rating then assigned to such issue of Authority Debt.
- (h) The City will file an opinion of Bond Counsel with the Trustee stating that the foregoing requirements have been satisfied.

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:

- (a) No event of default has occurred and is continuing under and as defined in the Lease Agreement.
- (b) The City must file with the Authority and the Trustee, and caused to be recorded in the office of the Santa Clara County Recorder sufficient memorialization of, an amendment which removes the Released Property from the Site Lease and the Lease Agreement.
- (c) The City must certify in writing to the Authority and the Trustee that the value of the property which remains subject to the Lease Agreement following such release is at least equal to the aggregate original principal amount of the outstanding

Authority Debt, and the fair rental value of the property which remains subject to the Lease Agreement following such release is at least equal to the Lease Payments thereafter coming due and payable.

- (d) The City has received written confirmation from each rating agency which then maintains a rating on the outstanding Authority Debt that such release will not cause a reduction or withdrawal of the rating then assigned to such issue of Authority Debt.
- (e) The City will file an opinion of Bond Counsel with the Trustee stating that the foregoing requirements have been satisfied.

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 agree to 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.

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 will 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 comprehensive general insurance policy or policies in protection of the Authority, the City and their respective members, officers, agents, employees and assigns. Said policy or policies will 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 will provide coverage in such liability limits and be subject to such deductibles as the City will deem 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 will be applied by the City toward extinguishment or satisfaction of the liability with respect to which paid.

Casualty Insurance. The City will procure and maintain, or cause to be procured and maintained throughout the term of the Lease Agreement, from reputable insurers, insurance against loss or damage to any improvements constituting any part of the Leased Property by fire and lightning, with extended coverage and vandalism and malicious mischief insurance, and earthquake insurance (but with respect to such earthquake insurance, only if and to the extent available at reasonable cost from reputable insurers). Said extended coverage insurance will, 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. Such insurance will be in a loss recoverable amount at least equal to the lesser of (a) 100% of the aggregate principal amount of the outstanding Authority Debt, or (b) 100% of the replacement cost of the insured property. Such insurance will be subject to such deductibles as are deemed reasonable by the City. Such insurance may be maintained as part of or in conjunction with any other fire and extended coverage insurance carried by the City which provides separate coverage for each insured property, and such insurance 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 insurance will be applied as provided in the applicable provisions of the Refunding Documents.

Rental Interruption Insurance. The City will maintain, throughout the term of the Lease Agreement, rental interruption or use and occupancy insurance to cover loss, total or partial, of the use of the portion of the Leased Property which constitutes improvements as a result of any of the hazards covered in the casualty insurance described above, in an amount at least equal to the maximum Lease Payments coming due and payable with respect to such portion of the Leased Property during any future consecutive 24-month period. 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. Such insurance may not be provided in the form of self-insurance by the City. The proceeds of such insurance, if any, will be paid to the Trustee and credited towards the payment of Lease Payments which would otherwise be subject to abatement.

Amendment of Lease.

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 Authority Debt; or (b) without the consent of any owners of Authority Debt, but only if such amendment or modification is for any one or more of the following purposes:

- (i) 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 therein reserved to or conferred upon the City;
- (ii) To make cure any ambiguity, or to cure, correct or supplement any defective provision contained therein, or 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 any Authority Debt;
- (iii) To amend any provision relating to the Tax Code, to any extent whatsoever but only if and to the extent such amendment will not adversely affect the exclusion from gross income of interest on any issue of Authority Debt under the Tax Code, in the opinion of Bond Counsel;

- (iv) To conform to any amendment of the Trust Agreement or the Refunding Documents which is made thereto in accordance with the provisions thereof; or
- (v) For the purpose of effectuating any substitution of property or release of property.
- (vi) To conform to the terms and conditions upon which any issue of Refunding Obligations are issued, including for the purpose of reflecting any policy of bond insurance or any letter of credit or other liquidity facility which is provided for any issue of Refunding Obligations.

Events of Default; Remedies.

Each of the following constitutes an event of default under the Lease Agreement:

- (a) Failure by the City to pay any Lease Payment when due and payable.
- (b) Failure by the City to pay any Additional Payment when due and payable and the continuation of such failure for a period of ten days.
- (c) Failure by the City to observe and perform any covenant, condition or agreement on its part to be observed or performed under the Lease Agreement, other than as referred to in the preceding clause (a) or clause (b) above, 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; *provided, however*, if in the reasonable opinion of the City the failure stated in the notice can be corrected, but not within such 30-day period, such failure will not constitute an Lease Default Event if corrective action is instituted by the City within such 30-day period and diligently pursued until such failure is corrected.
- (d) Certain events relating to the bankruptcy or insolvency of the City.

Upon the occurrence and continuance of any event of default, the Authority has the right to terminate the Lease Agreement and, with or without such termination, reenter, 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 reletting of the Leased Property will be credited towards the City's unpaid Lease Payments. Any net proceeds of re-leasing or other disposition of the Leased Property are required to be deposited in the respective funds established under the Refunding Documents for payment of current debt service on the related issue of Refunding Obligations and applied to pay Lease Payments in order of payment date. Under the Assignment Agreement, the Authority assigns all of its rights with respect to remedies in an event of default to the Trustee.

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.

Such rights and remedies as are given to the Authority under the Lease Agreement will be assigned by the Authority to the Trustee under the Assignment Agreement for the benefit of the owners of the Series 2020A Bonds and the Bonds, to all of which assignments the City consents.

ASSIGNMENT AGREEMENT

In connection with the original issuance of the 2009 Notes, the Authority entered into the Assignment Agreement with the Trustee. Under the Assignment Agreement, the Authority has irrevocably transferred and assigned to the Trustee for the benefit of the owners of the Refunding Obligations and the Bonds, all of the Authority's rights under the Lease Agreement (excepting only the Authority's rights to receive certain payments and certain indemnification rights), including without limitation (a) the right to receive and collect all of the Lease Payments from the City under the Lease Agreement, (b) the right to receive and collect any proceeds of any insurance maintained thereunder, of any condemnation award rendered with respect to the Leased Property, and (c) the right to exercise such rights and remedies conferred on the Authority under the Lease Agreement as may be necessary or convenient (i) to enforce payment of the Lease Payments and any other amounts required to be deposited in the respective funds established under the Refunding Documents for payment of current debt service on the related issue of Refunding Obligations, or (ii) otherwise to protect the interests of the owners of the Series 2020A Bonds and the Bonds in the event of a default by the City under the Lease Agreement. All rights assigned by the Authority to the Trustee will be administered by the Trustee for the benefit of the owners of the Series 2020A Bonds and the Bonds.

THE INDENTURE

Proceedings for Authorization of Additional Bonds.

Whenever the City and the Authority determine to authorize the execution and delivery of any Additional Bonds pursuant to the Indenture, the City, the Authority and the Trustee will enter into a Supplemental Indenture without the consent of the Owners of any Bonds, providing for the execution and delivery of such Additional Bonds, specifying the maximum principal amount of such Additional Bonds and prescribing the terms and conditions of such Additional Bonds. Such Supplemental Indenture will prescribe the form or forms of such Additional Bonds and, subject to the provisions of the Indenture, will provide for the distinctive designation, denominations, method of numbering, dates, Principal Payment Dates, interest rates, Interest Payment Dates, provisions for redemption (if desired) and places of payment of principal and interest.

Before such Additional Bonds are executed and delivered, the City and the Authority will file or cause to be filed the following documents with the Trustee:

(a) An Opinion of Counsel (which may rely upon the Certificate of the City required by Section (b) below and such other opinions and certificates as may be appropriate) setting forth (1) that such Counsel has examined the Supplemental Indenture and the amendment, if any, to the Site Lease and the Lease Agreement required by the Indenture; (2) that the execution and delivery of the Additional Bonds have been sufficiently and duly authorized by the City and the Authority; (3) that said amendments to the Site Lease and the Lease Agreement and the

Supplemental Indenture, when duly executed by the City and the Authority, will be the legal valid and binding obligations of the City and the Authority; (4) that said amendments to the Site Lease and the Lease Agreement have been duly authorized, executed and delivered; and (5) that the amendments to the Site Lease and the Lease Agreement do not adversely affect the Tax-Exempt status of interest on any Outstanding Bonds the interest on which is intended to be Tax-Exempt;

(b) A Certificate of the City that the requirements of the Indenture have been met, including a Certificate of the City as to the annual fair rental value of the Leased Property; which Certificate may assume the timely construction and completion of any Project to be financed with the proceeds of Additional Bonds so long as the proceeds of Additional Bonds or other funds of the City have been deposited with the Trustee (i) in the Construction Fund, in an amount reasonably expected to be sufficient to provide for the Construction Costs of such Project, and (ii) in a capitalized interest account, in an amount sufficient to pay interest on the Additional Bonds for the period of time from their date of issuance until 6 months following the expected delivery date of the Certificate of Completion with respect to such Project;

(c) Certified copies of the resolutions of the City and the Authority, authorizing the execution of the amendments to the Site Lease and Lease Agreement required by the Indenture;

(d) An executed counterpart or duly authenticated copy of the amendments to the Site Lease and Lease Agreement required by the Indenture;

(e) Certified copies of the policies of insurance required by “ARTICLE IV — Maintenance; Taxes; Insurance; and Other Matters” of the Lease Agreement or certificates thereof, which will evidence that the amounts of the insurance required under the Lease Agreement have been increased, if necessary, to cover the amount of such Additional Bonds; and

(f) A CLTA or ALTA title insurance policy or other appropriate form of policy in the amount of the Additional Bonds of the type and with the endorsements described in the Lease Agreement.

Upon the delivery to the Trustee of the foregoing instruments so as to permit the execution and delivery of the Additional Bonds in accordance with the Supplemental Indenture then delivered to the Trustee, the Trustee will authenticate and deliver said Additional Bonds, in the aggregate principal amount specified in such Supplemental Indenture, to, or upon the request of, the City.

Pledge of Revenues; Revenue Fund.

(a) There is established a special fund designated as the “Revenue Fund” which will be held by the Trustee and which will be kept separate and apart from all other funds and moneys held by the Trustee. Within the Revenue Fund, the Trustee will establish and maintain a separate fund designated the “Series 2020A Interest Fund” and a separate fund designated the “Series 2020A Principal Fund.” Upon the issuance of Additional Bonds, the Trustee will also establish and maintain, within the Revenue Fund, a separate Interest Fund and a separate Principal Fund for each Series of Additional Bonds. The City irrevocably pledges and transfers to the Trustee, for the benefit of the Owners, all of its right, title and interest in and to all amounts on deposit from time to time in the funds and accounts established under the Indenture (other than the

Rebate Fund), subject to the provisions of the Indenture permitting the disbursement thereof for or to the purposes and on the conditions and terms set forth in the Indenture, and in and to the Revenues, which will be used for the punctual payment of the interest and principal of the Bonds and the Revenues will not be used for any other purpose while any of the Bonds remain Outstanding. It is the intent of the parties to the Indenture that the Authority will not have any right, title, in or to the Revenues. In the event, however, that it should be determined that the Authority has any right, title or interest in or to the Revenues, then the Authority irrevocably pledges and transfers to the Trustee, for the benefit of the Owners, all of such right, title and interest, which will be used for the punctual payment of the interest and principal of the Bonds. These pledges will constitute a first and exclusive lien on the funds established under the Indenture and the Revenues in accordance with the terms of the Indenture subject in all events to the power of the City and the Authority to cause the execution and delivery of Additional Bonds pursuant to the Indenture which will be on a parity with the Bonds Outstanding.

(b) All Revenues will be paid directly by the City to the Trustee, and if received by the Authority at any time will be deposited by the Authority, as the case may be, with the Trustee within one Business Day after the receipt thereof. All Revenues, the proceeds of rental interruption insurance and liquidated damages, if any, will be deposited by the Trustee in the Revenue Fund and all amounts on deposit therein will be held in trust by the Trustee, which fund the Trustee agrees to establish and maintain for the benefit of the Owners until all required Revenues are paid in full pursuant to the Lease Agreement or until such date as the Bonds are no longer Outstanding; *provided, however*, and notwithstanding the foregoing, if the Trustee receives Revenues in an amount in excess of the amount necessary to pay the amount due and owing on the next Interest Payment Date, Principal Payment Date or Mandatory Sinking Account Payment Date, as the case may be, after giving effect to the funds then on deposit in the Revenue Fund not needed for any other purpose under the Indenture, then amounts in the Revenue Fund not needed to make such payments may be utilized by the Trustee, as directed in writing by the City, for any other purpose.

Deposit of Revenues.

Except as otherwise provided in this Section, the Trustee will deposit the amounts in the Revenue Fund at the time and in the priority and manner provided in the Indenture in the following respective funds, each of which the Trustee agrees to establish and maintain until all required Revenues are paid in full pursuant to the Lease Agreement or until such date as the Bonds are no longer Outstanding, and the moneys in each of such funds will be disbursed only for the purposes and uses authorized in the Indenture.

(a) **Interest Fund.** The Trustee, on each Interest Payment Date, will transfer from the Revenue Fund to each Interest Fund an amount equal to the interest on the related Series of Bonds coming due on such Interest Payment Date; *provided, however*, that if and to the extent that such amount is available for such Series of Bonds in any capitalized interest subaccount established pursuant to a Supplemental Indenture on such Interest Payment Date, the Trustee will, instead, transfer such amount from such capitalized interest subaccount to the related Interest Fund on such Interest Payment Date. Moneys in each Interest Fund will be withdrawn and used by the Trustee for the purpose of paying interest on the related Series of Bonds as and when due and payable.

(b) **Principal Fund.** The Trustee, on each Principal Payment Date and Mandatory Sinking Account Payment Date, will transfer from the Revenue Fund to each Principal Fund an amount equal to the principal of the related Series of Bonds, including principal due and payable by reason of a Mandatory Sinking Account Payment coming due on such date. Moneys in each Principal Fund will be withdrawn and used by the Trustee for the purpose of paying principal of the related Series of Bonds, including principal due and payable by reason of a Mandatory Sinking Account Payment, as and when due and payable.

(c) **Redemption Fund.** The Trustee, on the redemption date specified in the Written Request of the City filed with the Trustee at the time that any prepaid Base Payment is paid to the Trustee pursuant to the Lease Agreement, will deposit in the Redemption Fund that amount of moneys representing the portion of the Base Payments designated as prepaid Base Payments. Monies in the Redemption Fund will be used and withdrawn by the Trustee for the purpose of paying the principal, premium, if any, and interest of the Bonds to be redeemed.

Application of Insurance Proceeds and Condemnation Awards.

The Trustee will not be responsible for the sufficiency of any insurance required by the Lease Agreement and will be fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss agreed to by the City or the Authority. Delivery to the Trustee of the schedule of insurance policies under the Lease Agreement will not confer responsibility upon the Trustee as to the sufficiency of coverage or amounts of such policies.

Except as provided in the Indenture, in the event of any damage to or destruction of any part of the Leased Property, caused by the perils covered by the policies of insurance required to be maintained by the City pursuant to the Lease Agreement, the City and the Authority will cause the proceeds of such insurance (other than rental interruption insurance which is to be placed in the Revenue Fund) to be used in accordance with the Lease Agreement. The Trustee will hold said proceeds in a separate fund to be established and maintained by the Trustee when deposit is required and designated the "Insurance Proceeds and Condemnation Awards Fund." The Trustee will only make disbursements from the Insurance Proceeds and Condemnation Awards Fund upon receipt of a Written Request of the City on behalf of the Authority, which (i) states with respect to each disbursement to be made: (A) the requisition number, (B) the name and address of the person, firm or authority to whom payment is due, (C) the amount to be disbursed, and (D) that each obligation therein has been properly incurred for the purpose of repair, reconstruction or replacement of the Leased Property to at least the same good order, repair and condition as it was in prior to the damage or destruction, insofar as the same may be accomplished by the use of said proceeds and is a proper charge against the Insurance Proceeds and Condemnation Awards Fund and has not been the basis of any previous disbursement; (ii) specifies in reasonable detail the nature of the obligation; and (iii) is accompanied by a bill or statement of account for each obligation. Any balance of said proceeds not required for such repair, reconstruction or replacement as evidenced by a Certificate of the City to the effect that such repair, reconstruction or replacement has been completed and all amounts owing therefor have been paid or provision for the payment therefor has been made will be transferred by the Trustee to Redemption Fund and applied in the manner provided by the Indenture. Alternatively, the City, at its option, and if the proceeds of such insurance together with any other moneys then available for the purpose are at least sufficient to redeem all Outstanding Bonds, may elect not to repair, reconstruct or replace

the damaged or destroyed portion of the Leased Property and thereupon will cause said proceeds to be transferred to the Redemption Fund and used for the redemption of Outstanding Bonds pursuant to the Indenture; provided, that if the City elects to so redeem the Outstanding Bonds, then the City will make said election within 45 days after the damage to or destruction of the Leased Property. Notwithstanding any other provision in the Indenture, the City will only redeem less than all of the Outstanding Bonds if the annual fair rental value of the Leased Property after such damage, destruction or condemnation is at least equal to the aggregate annual amount of principal and interest of the Outstanding Bonds not being redeemed.

The proceeds of any award in eminent domain will be transferred by the City to the Trustee for deposit in the Redemption Fund and applied to the redemption of Outstanding Bonds pursuant to the Indenture.

Title Insurance.

Proceeds of any policy of title insurance received by the City, the Authority or the Trustee in respect of the Leased Property will be applied and disbursed by the City, the Authority or the Trustee as follows:

(a) If the City determines that the title defect giving rise to such proceeds has not materially affected the operation of the Leased Property and will not result in an abatement of Rental Payments payable by the City under the Lease Agreement, such proceeds will be remitted to the City and used for any lawful purpose thereof; or

(b) If any portion of the Leased Property has been affected by such title defect, and if the City determines that such title defect will result in an abatement of Rental Payments payable by the City under the Lease Agreement, then the City, the Authority or the Trustee, upon written direction of the City, will immediately deposit such proceeds in the Redemption Fund and such proceeds will be applied to the redemption of Bonds in the manner provided in the Indenture.

Compliance with Indenture.

The Trustee will not execute or deliver any Bonds in any manner other than in accordance with the provisions of the Indenture, and neither of the City or the Authority will suffer or permit any default by them to occur under the Indenture, but will faithfully comply with, keep, observe and perform all the agreements, conditions, covenants and terms of the Indenture required to be complied with, kept, observed and performed by them.

Compliance with Lease Agreement and Site Lease.

The City and the Authority will faithfully comply with, keep, observe and perform all the agreements, conditions, covenants and terms contained in the Lease Agreement and Site Lease required to be complied with, kept, observed and performed by them and, together with the Trustee, will enforce the Lease Agreement and Site Lease against the other party thereto in accordance with their respective terms.

Observance of Laws and Regulations.

The Trustee, the City and the Authority will faithfully comply with, keep, observe and perform all valid and lawful obligations or regulations now or hereafter imposed on them by contract, or prescribed by any law of the United States of America or of the State of California, or by any officer, board or commission having jurisdiction or control, as a condition of the continued enjoyment of each and every franchise, right or privilege now owned or hereafter acquired by them, including their right to exist and carry on their respective businesses, to the end that such franchises, rights and privileges will be maintained and preserved and will not become abandoned, forfeited or in any manner impaired.

Other Liens.

The City will keep the Leased Property and all parts thereof free from judgments and materialmen's and mechanics' liens and free from all claims, demands, encumbrances and other liens of whatever nature or character, other than Permitted Encumbrances (with respect to the Leased Property, as such term is defined in the Lease Agreement, and free from any claim or liability which materially impairs the City in conducting its business or utilizing the Leased Property, and the Trustee at its option (after first giving the City ten days' written notice to comply therewith and failure of the City to take any necessary steps to defend against or to so comply within such ten-day period) may defend against any and all actions or proceedings in which the validity of the Indenture is or might be questioned, or may pay or compromise any claim or demand asserted in any such actions or proceedings; *provided, however*, that, in defending against any such actions or proceedings or in paying or compromising any such claims or demands, the Trustee will not in any event be deemed to have waived or released the City from liability for or on account of any of its agreements and covenants contained in the Indenture, or from its liability under the Indenture to defend the validity of the Indenture and to perform such agreements and covenants. The Trustee will have no liability with respect to any determination made in good faith to proceed or decline to defend, pay or compromise any such claim or demand.

So long as any Bonds are Outstanding, neither the City nor the Authority will create or suffer to be created any pledge of or lien on the Revenues other than as provided or permitted under the Indenture.

Prosecution and Defense of Suits.

The City will promptly take such action from time to time as may be necessary or proper, in its reasonable discretion, to remedy or cure any known cloud upon or defect in the title to the Leased Property or any portion thereof, whether now existing or hereafter developing, and will prosecute all actions, suits or other proceedings as may be appropriate for such purpose.

Accounting Records and Statements.

The Trustee will keep proper accounting records in which complete and correct entries will be made of all transactions made by it relating to the receipt, deposit and disbursement of the Revenues, and such accounting records will be available for inspection by the City or the Authority at reasonable hours, under reasonable conditions and with reasonable notice. The Trustee will deliver a monthly accounting to the City; *provided* that the Trustee will not be obligated to report

as to any fund or account that (a) has a balance of zero and (b) has not had any activity since the last reporting date.

The Trustee will furnish the City periodic cash transaction statements which include detail for all investment transactions effected by the Trustee or brokers selected by the City. Upon the City's election, such statements will be delivered via the Trustee's online service and upon electing such service, paper statements will be provided only upon request. The City waives the right to receive brokerage confirmations of security transactions effected by the Trustee as they occur, to the extent permitted by law. The City further understands that trade confirmations for securities transactions effected by the Trustee will be available upon request and at no additional cost and other trade confirmations may be obtained from the applicable broker.

Recordation and Filing.

The Authority will file, record, register, renew, refile and rerecord all such documents, including financing statements (or continuation statements in connection therewith), as may be required by law in order to maintain the Lease Agreement, Site Lease, Assignment Agreement and the Indenture at all times as a security interest in the Revenues, all in such manner, at such times and in such places as may be required and to the extent permitted by law in order to perfect, preserve and protect fully the security of the Owners and the rights and security interests of the Trustee, and the Authority will do whatever else may be necessary or be reasonably required in order to perfect and continue the liens of the Lease Agreement, Site Lease, Assignment Agreement and the Indenture.

Further Assurances.

Whenever and so often as requested to do so by the Trustee or any Owner, the City and the Authority will promptly execute and deliver or cause to be executed and delivered all such other and further assurances, documents or instruments and promptly do or cause to be done all such other and further things as may be necessary or reasonably required in order to further and more fully vest in the Trustee and the Owners all advantages, benefits, interests, powers, privileges and rights conferred or intended to be conferred upon them by the Indenture, the Assignment Agreement, Lease Agreement or Site Lease.

Tax Covenants; Rebate Fund.

(a) In addition to the accounts created pursuant to the Indenture, the Trustee will establish and maintain a fund separate from any other fund or account established and maintained under the Indenture designated as the Rebate Fund. There will be deposited in the Rebate Fund such amounts as are required to be deposited therein pursuant to the Tax Certificate. The Trustee may rely conclusively upon the City's determinations, calculations and certifications required by this Section. The Trustee will have no responsibility to independently make any calculation or determination or to review the City's calculations under the Indenture. All money at any time deposited in the Rebate Fund will be held by the Trustee in trust, to the extent required to satisfy the Rebate Requirement (as defined in the Tax Certificate), for payment to the United States of America. Notwithstanding the provisions of the Indenture relating to the pledge of Revenues, the allocation of money in the Revenue Fund, the investments of money in any fund or

account, the application of funds upon an Event of Default and the defeasance of Outstanding Bonds, all amounts required to be deposited into or on deposit in the Rebate Fund will be governed exclusively by “ARTICLE VI — COVENANTS — Tax Covenants; Rebate Fund” of the Indenture and by the Tax Certificate (which is incorporated in the Indenture by reference). The Trustee will be deemed conclusively to have complied with such provisions if it follows the written directions of the Authority, and will have no liability or responsibility to enforce compliance by the Authority with the terms of the Tax Certificate.

(b) Any funds remaining in the Rebate Fund with respect to a Series of Bonds after redemption and payment of all such Series of Bonds and all other amounts due under the Indenture or under the Lease Agreement relating to such Series of Bonds, or provision made therefor satisfactory to the Trustee, including accrued interest and payment of any applicable fees and expenses of the Trustee and satisfaction of the Rebate Requirement (as defined in the Tax Certificate), will be withdrawn by the Trustee and remitted to or upon the written direction of the Authority.

(c) The Authority will not use or permit the use of any proceeds of the Bonds or any funds of the Authority, directly or indirectly, to acquire any securities or obligations, and will not take or permit to be taken any other action or actions, which would cause any of the Bonds to be an “arbitrage bond” within the meaning of Section 148 of the Code, “private activity bond” within the meaning of Section 141(a) of the Code, or “federally guaranteed” within the meaning of Section 149(b) of the Code and any such applicable requirements promulgated from time to time thereunder and under Section 103(c) of the Internal Revenue Code of 1954, as amended. The Authority will observe and not violate the requirements of Section 148 of the Code and any such applicable regulations. The Authority will comply with all requirements of Sections 148 and 149(b) of the Code to the extent applicable to the Bonds. In the event that at any time the Authority is of the opinion that for purposes of this Section it is necessary to restrict or to limit the yield on the investment of any moneys held by the Trustee under the Indenture, the Authority will so instruct the Trustee under the Indenture in writing, and the Trustee will take such action as may be necessary in accordance with such instructions.

(d) The Authority and the Trustee (as directed by the Authority) specifically covenant to comply with the provisions and procedures of the Tax Certificate; provided that the Trustee will not be bound by this covenant if an Event of Default has occurred and is continuing.

(e) The Authority will not use or permit the use of any proceeds of Tax-Exempt Bonds or any funds of the Authority, directly or indirectly, in any manner, and will not take or omit to take any action that would cause any of the Tax-Exempt Bonds to be treated as an obligation not described in Section 103(a) of the Code.

(f) Notwithstanding any provisions of this Section, if the Authority will provide to the Trustee an Opinion of Counsel that any specified action required under “ARTICLE VI — COVENANTS — Tax Covenants; Rebate Fund” of the Indenture or the Tax Certificate is no longer required or that some further or different action is required to maintain the exclusion from federal income tax of interest on Tax-Exempt Bonds, the Trustee and the Authority may conclusively rely on such opinion in complying with the requirements of this Section, and, notwithstanding the provisions of “ARTICLE IX — AMENDMENT OF OR SUPPLEMENT TO

INDENTURE” of the Indenture, the covenants under the Indenture will be deemed to be modified to that extent.

The foregoing provisions of this Section will not be applicable to any Series of Bonds or the proceeds thereof that the Authority determines upon the issuance thereof are to be taxable bonds, the interest on which is not Tax-Exempt.

Continuing Disclosure.

The City covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate. Notwithstanding any other provision of the Indenture, failure of the City to comply with the Continuing Disclosure Certificate will not be considered an Event of Default; however, the Trustee may (and, at the request of the Underwriter or the Owners of at least 25% aggregate principal amount of Outstanding Bonds, will) or any Owner or Beneficial Owner of 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 Section; *provided*, that the Trustee will only be required to take an action under this Section to the extent funds have been provided to it or it has been otherwise indemnified to its reasonable satisfaction from any cost, liability, expense or additional charges of the Trustee whatsoever, including, without limitation, fees and expenses of its attorneys.

Events of Default.

The following events will be Events of Default:

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

(b) default in the due and punctual payment of any installment of interest on any Bond when and as such interest installment will become due and payable;

(c) default by the City in the observance of any of the covenants, agreements or conditions on its part in the Indenture contained, if such default will have continued for a period of 30 days after written notice thereof, specifying such default and requiring the same to be remedied, will have been given to the City and the Authority by the Trustee, or to the City, the Authority and the Trustee by the Owners of not less than 25% in aggregate principal amount of the Bonds at the time Outstanding; *provided, however*, that if such default can be remedied but not within such 30-day period and if the City has taken all action reasonably possible to remedy such default within such 30-day period, such default will not become an Event of Default for so long as the City will diligently proceed to remedy the same in accordance with and subject to any directions or limitations of time reasonably established by the Trustee; or

(d) an event of default will have occurred and be continuing under the Lease Agreement.

Action on Default.

In each and every case during the continuance of an Event of Default, the Trustee or the Owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding (subject to the provisions of “ARTICLE VII — DEFAULT AND LIMITATIONS OF LIABILITY — Limitation on Suits” of the Indenture) will be entitled, upon notice in writing to the City and the Authority to exercise any of the remedies granted to the City under the Lease Agreement, to the Authority under the Lease Agreement, and in addition, to take whatever action at law or in equity may appear necessary or desirable to enforce its rights as assignee pursuant to the Assignment Agreement or to protect and enforce any of the rights vested in the Trustee or the Owners by the Indenture or by the Bonds, either at law or in equity or in bankruptcy or otherwise, whether for the specific enforcement of any covenant or agreement or for the enforcement of any other legal or equitable right, including any one or more of the remedies set forth under “ARTICLE VIII — THE TRUSTEE — Other Remedies of the Trustee” of the Indenture. Provided, however, the Bonds will not be subject to acceleration.

Other Remedies of the Trustee.

The Trustee will have the right:

- (a) by mandamus or other action or proceeding or suit at law or in equity to enforce its rights against the City, the Authority or any director, officer or employee thereof, and to compel the City or the Authority or any such director, officer or employee to perform or carry out its or his or her duties under law and the agreements and covenants required to be performed by it or him or her contained in the Indenture;
- (b) by suit in equity to enjoin any acts or things which are unlawful or violate the rights of the Trustee; or
- (c) by suit in equity upon the happening of any default under the Indenture to require the City and the Authority to account as the trustee of an express trust.

Non-Waiver.

A waiver of any default or breach of duty or contract by the Trustee will not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract. No delay or omission by the Trustee to exercise any right or remedy accruing upon any default or breach of duty or contract will impair any such right or remedy or will be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Trustee by law or by this Article may be enforced and exercised from time to time and as often the Trustee will deem expedient.

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

Remedies Not Exclusive.

No remedy in the Indenture conferred upon or reserved to the Trustee is intended to be exclusive of any other remedy, and each such remedy will be cumulative and will be in addition to every other remedy given under the Indenture or now or hereafter existing at law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by any law. The assertion or employment of any right or remedy under the Indenture, or otherwise, will not prevent the concurrent assertion or employment of any other appropriate right or remedy.

No Liability by the Authority to the Owners.

Except as expressly provided in the Indenture, the Authority will have no obligation or liability to the Owners with respect to the payment when due of the Base Payments by the City, or with respect to the performance by the City of the other agreements and covenants required to be performed by it contained in the Lease Agreement or in the Indenture, or with respect to the performance by the Trustee of any right or obligation required to be performed by it contained in the Indenture.

No Liability by the City to the Owners.

Except for the payment when due of the Base Payments and the performance of the other agreements and covenants required to be performed by it contained in the Lease Agreement or in the Indenture, the City will not have any obligation or liability to the Owners with respect to the Indenture or the preparation, execution, delivery or transfer of the Bonds or the disbursement of the Revenues by the Trustee to the Owners, or with respect to the performance by the Trustee of any right or obligation required to be performed by it contained in the Indenture.

No Liability by the Trustee to the Owners.

Except as expressly provided in the Indenture, the Trustee will not have any obligation or liability to the Owners with respect to the payment when due of the Base Payments by the City, or with respect to the performance by the City or the Authority of the other agreements and covenants required to be performed by them, respectively contained in the Lease Agreement or Site Lease or in the Indenture.

Application of Amounts After Default.

Notwithstanding anything to the contrary contained in the Indenture, after a default by the City, all funds and accounts held by the Trustee and all payments received by the Trustee with respect to the rental of the Leased Property after a default by the City pursuant to the Lease Agreement, and all damages or other payments received by the Trustee for the enforcement of any rights and powers of the Trustee under the Lease Agreement, will be deposited into the Revenue Fund and as soon as practicable thereafter applied:

(a) to the payment of all amounts due the Trustee in all of its capacities under the Indenture and the Escrow Agreement of the Indenture; and

(b) to the payment of all amounts then due as interest with respect to the Bonds, and thereafter to the payment of all amounts due as principal with respect to the Bonds, in respect of which or for the benefit of which, money has been collected (other than Bonds which have matured or otherwise become payable prior to such Event of Default and money for the payment of which is held by the Trustee), ratably without preference or priority of any kind, according to the amounts due and payable with respect to such Bonds.

Trustee May Enforce Claims Without Possession of Bonds.

All rights of action and claims under the Indenture or the Bonds may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such proceeding instituted by the Trustee will be brought in its own name as trustee of an express trust, and any recovery of judgment will, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, be for the ratable benefit of the Owners of the Bonds in respect of which such judgment has been recovered.

Limitation on Suits.

No Owner of any Bond will have any right to institute any proceeding, judicial or otherwise, with respect to the Indenture, or for the appointment of a receiver or trustee, or for any other remedy under the Indenture, unless such Owner has previously given written notice to the Trustee of a continuing Event of Default; the Owners of not less than 25% in principal amount of the Outstanding Bonds will have made written request to the Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee under the Indenture; such Owner or Owners have afforded to the Trustee indemnity reasonably satisfactory to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request; the Trustee for 60 days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceedings; and 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 principal amount of the Outstanding Bonds; it being understood and intended that no one or more Owners of Bonds will have any right in any manner whatever by virtue of, or by availing of, any provision of the Indenture to affect, disturb or prejudice the rights of any other Owner of Bonds, or to obtain or seek to obtain priority or preference over any other Owner or to enforce any right under the Indenture, except in the manner provided in the Indenture and for the equal and ratable benefit of all the Owners of Bonds (it being understood that the Trustee does not have any affirmative duty to ascertain whether or not such actions or forbearances are unduly prejudicial to such Owners). Nothing in the Indenture contained will, however, affect or impair the right of any Owner to enforce the payment of the principal of or the redemption price of and the interest of any Bond at and after the maturity or earlier redemption.

Employment of the Trustee.

The City and the Authority appoint and employ the Trustee to receive, deposit and disburse the Rental Payments, to authenticate, deliver and transfer the Bonds and to perform the other functions contained in the Indenture; all in the manner provided in the Indenture and subject to the conditions and terms of the Indenture. By executing and delivering the Indenture, the Trustee

accepts the appointment and employment referred to above and accepts the rights and obligations of the Trustee provided in the Indenture, subject to the conditions and terms of the Indenture. The Trustee undertakes to perform such duties and only such duties as are specifically set forth in the Indenture, and no implied covenants or obligations will be read into the Indenture against the Trustee. In case an Event of Default has occurred and is continuing, the Trustee will exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

Duties, Removal and Resignation of the Trustee.

The City and the Authority may, by an instrument in writing and upon 30 days written notice remove the Trustee initially a party to the Indenture and any successor thereto unless an Event of Default will have occurred and then be continuing, and will remove the Trustee initially a party to the Indenture and any successor thereto if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Owners of a majority in aggregate principal amount of the Bonds at the time Outstanding (or their attorneys duly authorized in writing), but any such successor Trustee will be a bank with trust powers or trust company doing business and having a corporate trust office in California or New York, having (or if such bank or trust company is a member of a bank holding company system, its bank holding company has) a combined capital (exclusive of borrowed capital) and surplus of at least fifty million dollars (\$50,000,000) and subject to supervision or examination by federal or state authorities. If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of this Section the combined capital and surplus of such bank or trust company will be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

The Trustee may at any time resign by giving written notice of such resignation to the City and the Authority and by mailing notice, first class, postage prepaid, of such resignation to the Owners at their addresses appearing on the books required to be kept by the Trustee pursuant to the provisions of the Indenture. Upon receiving such notice of resignation, the City and the Authority will promptly appoint a successor Trustee by an instrument in writing; *provided, however*, that in the event the City and the Authority do not appoint a successor Trustee within 30 days following receipt of such notice of resignation, the resigning Trustee may, at the expense of the City, petition the appropriate court having jurisdiction to appoint a successor Trustee. Any resignation or removal of a Trustee and appointment of a successor Trustee will become effective only upon acceptance of appointment by the successor Trustee.

Compensation and Indemnification of the Trustee.

The City will from time to time, subject to any written agreement then in effect with the Trustee, pay the Trustee compensation for all its services rendered under the Indenture as such compensation is mutually agreed upon in writing and reimburse the Trustee for all its advances and expenditures under the Indenture, including but not limited to payments, advances to and fees and expenses of accountants, agents, appraisers, consultants or other experts, and counsel of its selection; *provided, however*, that the Trustee will not have any lien for such compensation or reimbursement against any moneys held by it in any of the funds or accounts established under the

Indenture or under the Lease Agreement (except that such compensation or reimbursement may be made from the Cost of Issuance Fund held by the City to the extent provided in the Indenture). The Trustee may take whatever legal actions are lawfully available to it directly against the City or the Authority.

Except as otherwise expressly provided in the Indenture, no provision of the Indenture will require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties under the Indenture or in the exercise of any of its rights or powers under the Indenture.

The City covenants and agrees to indemnify and save the Trustee and its officers, directors, agents and employees, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise and performance of its powers and duties under the Indenture, including the costs of expenses of defending against any and all claims, liabilities, losses and expenses, including, without limitation, any claim arising out the Indenture (including this Section) and defending itself against any claim (whether asserted by the City, the Authority, any Owner or any other person), but excluding any and all losses, expenses and liabilities which are due to the negligence or willful misconduct of the Trustee, its officers, directors, agents or employees. Such indemnity will survive the discharge of the Indenture or the resignation or removal of the Trustee.

Protection of the Trustee.

The Trustee will be protected and will incur no liability in acting or proceeding in good faith upon any affidavit, bond, certificate, consent, opinion, notice, request, requisition, resolution, direction, instruction, statement, voucher, waiver or other paper or document which it will in good faith believe to be genuine and to have been adopted, executed or delivered by the proper party or pursuant to any of the provisions of the Indenture, and the Trustee will be under no duty to make any investigation or inquiry as to any statements contained or matters referred to in any such instrument, but may accept and rely upon the same as conclusive evidence of the truth and accuracy of such statements. The Trustee will not be bound to recognize any person as an Owner of any Bond or to take any action at the request of any such person unless such Bond will be deposited with the Trustee or satisfactory evidence of the ownership of such Bond will be furnished to the Trustee. The Trustee will be under no obligation to exercise any of the rights or powers vested in it by the Indenture at the request or direction of any of the Owners of the Bonds pursuant to the Indenture, unless such Owners will have offered to the Trustee indemnity reasonably satisfactory to the Trustee, against any and all the costs, claims, expenses and liabilities which might be incurred by it in compliance with such request or direction. The Trustee may consult with counsel of its selection with regard to legal questions, and the opinion of such counsel will be full and complete authorization and protection in respect to any action taken or suffered by it under the Indenture in good faith in accordance therewith.

The Trustee will not be responsible for the sufficiency or adequacy of the Bonds, the Lease Agreement, the Site Lease, or of the assignment made to it by the Assignment Agreement, or for statements made in the preliminary or final official statement relating to the Bonds or of the title to or value of the Leased Property.

The Trustee will not be required to take notice or be deemed to have notice of any default or event of default under the Indenture or an Event of Default under the Indenture, except failure of any of the payments to be made to the Trustee required to be made under the Indenture unless a responsible officer of the Trustee will be specifically notified in writing of such default or Event of Default by the City, the Authority or by the Owners of not less than 25% in aggregate principal amount of the Bonds then Outstanding or has actual knowledge thereof.

Whenever in the administration of its rights and obligations under the Indenture the Trustee will deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Indenture, such matter (unless other evidence in respect thereof be specifically prescribed in the Indenture) may be deemed to be conclusively proved and established by a Certificate of the City, and such certificate will be full warrant to the Trustee for any action taken or suffered under the provisions of the Indenture upon the faith thereof, but the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable.

The Trustee may buy, sell, own, hold and deal in any of the Bonds and may join in any action which any Owner may be entitled to take with like effect as if the Trustee were not a party to the Indenture. The Trustee, either as principal or agent, may also engage in or be interested in any financial or other transaction with the City or the Authority, and may act as agent, depository or trustee for any committee or body of Owners or of owners of obligations of the Authority or the City as freely as if it were not the Trustee under the Indenture.

The Trustee may, to the extent reasonably necessary, execute any of the trusts or powers of the Indenture and perform any rights and obligations required of it under the Indenture by or through agents, attorneys or receivers, and will be entitled to advice of counsel concerning all matters of trust and its rights and obligations under the Indenture, and the Trustee will not be answerable for the default or misconduct of any such agent, attorney or receiver selected by it with reasonable care. The Trustee will not be liable for any error of judgment made by it in good faith unless it will be proved that the Trustee was negligent in ascertaining the pertinent facts.

The Trustee will not be answerable for the exercise of any trusts or powers under the Indenture or for anything whatsoever in connection with the funds established under the Indenture, except only for its own willful misconduct or negligence.

The Trustee will not be liable with respect to any action taken or omitted to be taken by it in accordance with the direction of the Owners of not less than a majority (or other percentage provided for in the Indenture) in aggregate principal amount of the Bonds at the time Outstanding relating to the exercise of any right or remedy available to the Trustee under the Indenture.

The Trustee makes no representation or warranty, express or implied as to the title, value, design, compliance with specifications or legal requirements, quality, durability, operation, condition, merchantability or fitness for any particular purpose or fitness for the use contemplated by the City of the Leased Property. In no event will the Trustee be liable for incidental, indirect, special, punitive or consequential damages in connection with or arising from the Lease Agreement, the Site Lease or the Indenture for the existence, furnishing or use of the Property.

Every provision of the Indenture, the Lease Agreement, the Site Lease and the Assignment Agreement relating to the conduct or liability of the Trustee will be subject to the provisions of the Indenture, including without limitation, “ARTICLE VIII — THE TRUSTEE” of the Indenture.

In acting as Trustee under the Indenture, the Trustee acts solely in its capacity as Trustee for the Owners and not in its individual or personal capacity, and all persons, including without limitation, the Owners, the City and the Authority, having any claim against the Trustee will look only to the funds and accounts held by the Trustee under the Indenture for payment, except as otherwise specifically provided in the Indenture. Under no circumstances will the Trustee be liable in its individual capacity for the obligations evidenced by the Bonds.

The recitals of facts, covenants and agreements in the Indenture and in the Bonds will be taken as statements, covenants and agreements of the City or the Authority, as the case may be, and the Trustee assumes no responsibility for the correctness of the same.

Amendment or Supplement.

The Indenture and the rights and obligations of the City, the Authority, the Owners and the Trustee under the Indenture may be amended or supplemented at any time by an amendment of the Indenture or supplement to the Indenture which will become legal, valid and binding when the written consents of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding, exclusive of Bonds disqualified as provided in “ARTICLE IX — AMENDMENT OR SUPPLEMENT TO INDENTURE — Disqualified Bonds” of the Indenture, are filed with the Trustee. No such amendment or supplement will (1) extend the Principal Payment Date of any Bond or reduce the rate of interest represented thereby or extend the time of payment of such interest or reduce the amount of principal represented thereby or reduce the amount of any Mandatory Sinking Account Payment without the prior written consent of the Owner of each Bond so affected, or (2) reduce the percentage of Owners whose consent is required for the execution of any amendment of the Indenture or supplement to the Indenture without the prior written consent of the Owners of all Bonds then Outstanding, or (3) modify any of the rights or obligations of the Trustee without its prior written consent thereto, or (4) amend this Section without the prior written consent of the Owners of all Bonds then Outstanding.

Notice of the proposed execution will be prepared by the City. The Indenture and the rights and obligations of the City, the Authority, the Owners and the Trustee under the Indenture may also be amended or supplemented at any time by an amendment of the Indenture or supplement to the Indenture which will become legal, valid and binding upon execution, but without the written consents of any Owners, but only to the extent permitted by law and after receipt of an unqualified approving Opinion of Counsel and only for any one or more of the following purposes:

(a) to add to the agreements, conditions, covenants and terms required to be observed or performed in the Indenture by the City or the Authority, or to surrender any right or power reserved in the Indenture to or conferred in the Indenture on the City or the Authority, and which in either case will not materially adversely affect the interests of the Owners; or

(b) to provide for additional or substitute Leased Property as may be requested from time to time by the City in accordance with the Lease Agreement; or

(c) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained in the Indenture or in regard to questions arising under the Indenture which the City or the Authority may deem desirable or necessary and not inconsistent with the Indenture, and which will not materially adversely affect the interests of the Owners; or

(d) to provide for the execution and delivery of Additional Bonds in accordance with the Indenture; or

(e) for any other reason, *provided* such amendment or supplement does not materially adversely affect the interests of the Owners, *provided further* that the City, the Authority and the Trustee may rely in entering into any such amendment or supplement upon an Opinion of Counsel stating that the requirements of this subsection (e) have been met with respect to such amendment or supplement.

Disqualified Bonds.

Bonds actually known by the Trustee to be owned or held by or for the account of the City (but excluding Bonds held in any pension or retirement fund of the City) will not be deemed Outstanding for the purpose of any consent or other action or any calculation of Outstanding Bonds provided under “ARTICLE IX — AMENDMENT OR SUPPLEMENT TO INDENTURE” of the Indenture, and will not be entitled to consent to or take any other action provided under “ARTICLE IX — AMENDMENT OR SUPPLEMENT TO INDENTURE” of the Indenture, and the Trustee may adopt appropriate regulations to require each Owner, before his consent provided for in the Indenture will be deemed effective, to reveal if the Bonds as to which such consent is given are disqualified as provided in this Section.

Endorsement or Replacement of Bonds After Amendment or Supplement.

After the effective date of any action taken as provided above, the Trustee may determine that the Bonds may bear a notation by endorsement in form approved by the Trustee as to such action, and in that case upon demand of the Owner of any Outstanding Bond and presentation of such Bond for such purpose at the Designated Corporate Trust Office of the Trustee a suitable notation as to such action will be made on such Bond. If the Trustee receives an Opinion of Counsel advising that new Bonds modified to conform to such action are necessary, modified Bonds will be prepared, and in that case upon demand of the Owner of any Outstanding Bonds such new Bonds will be exchanged at the Designated Corporate Trust Office of the Trustee, without cost to each Owner for Bonds then Outstanding upon surrender of such Outstanding Bonds.

Amendment by Mutual Consent.

The provisions of “ARTICLE IX — AMENDMENT OR SUPPLEMENT TO INDENTURE” of the Indenture, will not prevent any Owner from accepting any amendment as to the particular Bonds owned by such person, *provided* that due notation thereof is made on such Bonds.

Opinion of Counsel.

In executing any amendment or supplement to the Indenture, the Trustee may conclusively rely upon an Opinion of Counsel to the effect that all conditions precedent for the execution of an amendment or supplement to the Indenture have been satisfied.

Discharge of Bonds and Indenture.

(a) If the Trustee will pay or cause to be paid or there will otherwise be paid to the Owners of all Outstanding Bonds the interest and principal represented thereby at the times and in the manner stipulated in the Indenture and therein, then such Owners will cease to be entitled to the pledge of and lien on the Revenues as provided in the Indenture, and all agreements and covenants of the City, the Authority and the Trustee to such Owners under the Indenture will thereupon cease, terminate and become void and will be discharged and satisfied.

(b) Any Outstanding Bonds will, prior to the maturity or redemption date thereof, be deemed to have been paid within the meaning and with the effect expressed in this Section if (i) in case said Bonds are to be redeemed on any date prior to their maturity, the City will have given to the Trustee in form satisfactory to the Trustee irrevocable instructions to mail, in accordance with the provisions of “ARTICLE IV — REDEMPTION OF SERIES 2020A BONDS” of the Indenture, notice of redemption of such Bonds on said redemption date, (ii) there will have been deposited with the Trustee either moneys in an amount which will be sufficient, or Defeasance Securities which are not callable or subject to redemption prior to their respective maturity dates, the principal of and the interest on which when due, and without any reinvestment thereof, will provide moneys which, together with the moneys, if any, deposited with or held by the Trustee at the same time, will be sufficient (as verified by a report of an independent certified public accountant or other independent financial consultant), to pay when due the principal or redemption price (if applicable) of, and interest due and to become due on, said Bonds on and prior to the redemption date or maturity date thereof, as the case may be, and (iii) in the event any of said Bonds are not to be redeemed within the next succeeding 60 days, the City will have given the Trustee in form satisfactory to the Trustee irrevocable instructions to mail, as soon as practicable in the same manner as a notice of redemption is mailed pursuant to “ARTICLE IV — REDEMPTION OF SERIES 2020A BONDS” of the Indenture, a notice to the Owners of such Bonds and to the securities depositories and information services specified in “— Notice of Redemption” of the Indenture, that the deposit required by (ii) above has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with this Section and stating such maturity or redemption dates upon which moneys are to be available for the payment of the principal or redemption price (if applicable) of said Bonds. Neither the securities nor moneys deposited with the Trustee pursuant to this Section nor principal or interest payments on any such securities will be withdrawn or used for any purpose other than, and will be held in trust for, the payment of the principal or redemption price (if applicable) of, and interest on said Bonds; *provided* that Defeasance Securities deposited with the Trustee pursuant to this Section may be sold upon the written request of the City and the proceeds concurrently reinvested in other Defeasance Securities which satisfy the conditions of (ii) above *provided* that the Trustee receives an Opinion of Counsel to the effect that such sale and reinvestment does not adversely affect the exclusion of interest on the Bonds from federal income taxes, and *provided further* that any cash received from such principal or interest payments on such obligations deposited with the Trustee,

if not then needed for such purpose, will, to the extent practicable, and at the direction of the City, be reinvested in Defeasance Securities maturing at times and in amounts, together with the other moneys and payments with respect to securities then held by the Trustee pursuant to this Section, sufficient to pay when due the principal or redemption price (if applicable) of, and interest to become due with respect to said Bonds on and prior to such redemption date or maturity date thereof, as the case may be, and interest earned from such reinvestments will, upon receipt by the Trustee of a Written Request of the City, be paid over to the City, as received by the Trustee, free and clear of any trust, lien or pledge. Nothing in this Section will preclude redemptions pursuant to “— Terms of Redemption” of the Indenture.

Any release under this Section will be without prejudice to the right of the Trustee to be paid reasonable compensation for all services rendered by it under the Indenture and all its reasonable expenses, charges and other disbursements and those of its attorneys, agents and employees, incurred on and about the administration of trusts by the Indenture created and the performance of its powers and duties under the Indenture; *provided however*, that the Trustee will have no right, title or interest in, or lien on, any moneys or securities deposited pursuant to “ARTICLE X — DEFEASANCE” of the Indenture.

(c) After the payment or deemed payment of all the interest and principal of all Outstanding Bonds as provided in this Section, the Trustee will execute and deliver to the Authority and the City all such instruments as may be necessary or desirable to evidence the discharge and satisfaction of the Indenture, and the Trustee will pay over or deliver to the City all moneys or securities held by it pursuant to the Indenture which are not required for the payment of the principal of, premium, if any, and interest on, such Bonds. Notwithstanding the discharge and satisfaction of the Indenture, Owners of Bonds will thereafter be entitled to payments due under the Bonds pursuant to the Lease Agreement, but only from amounts deposited pursuant to “ARTICLE X — DEFEASANCE — Discharge of Bonds and Indenture” of the Indenture and from no other source.

Unclaimed Moneys.

Anything contained in the Indenture to the contrary notwithstanding, any moneys held by the Trustee in trust for the payment and discharge of the principal of, premium, if any, and interest on, any of the Bonds which remain unclaimed for two years after the date when the payments on such Bonds have become payable, if such moneys were held by the Trustee at such date, or for two years after the date of deposit of such moneys if deposited with the Trustee after the date when the principal of, premium, if any, and interest on, such Bonds have become payable, will be repaid by the Trustee to the City as its absolute property free from trust, and the Trustee will thereupon be released and discharged with respect thereto and the Owners will look only to the City for the payment of the principal of, premium, if any, and interest on, such Bonds; *provided, however*, that before being required to make any such payment to the City, the Trustee will mail a notice to the Owner that such unclaimed funds will be returned to the City within 30 days.

Acquisition of Bonds by City.

All Bonds acquired by the City, whether by purchase or gift or otherwise, will be surrendered to the Trustee for cancellation.

Funds.

Any fund required to be established and maintained in the Indenture by the City or the Trustee may be established and maintained in the accounting records of the City or the Trustee either as an account or a fund, and may, for the purposes of such accounting records, any audits thereof and any reports or statements with respect thereto, be treated either as an account or a fund; but all such records with respect to all such funds will at all times be maintained in accordance with sound accounting practice and with due regard for the protection of the security of the Bonds and the rights of the Owners. The Trustee may establish such funds and accounts as it deems necessary to perform its obligations under the Indenture.

The City and the Trustee may commingle any of the moneys held by it under the Indenture for investment purposes only; *provided, however*, that the City and the Trustee will account separately for the moneys in each fund or account established pursuant to the Indenture.

Investments.

Any moneys held by the City in the funds and accounts established under the Indenture will be invested only in Permitted Investments. Any moneys held by the Trustee in the funds and accounts established under the Indenture will be invested by the Trustee upon the written direction of the Finance Director only in Permitted Investments. In the absence of such direction, moneys will be uninvested. The Trustee will not be liable or responsible for any loss, tax, fee or other charge suffered in connection with any such investment, reinvestment or liquidation of investment made by it under the terms of and in accordance with this Section. The Trustee may sell or present for redemption any obligations so purchased whenever it will be necessary in order to provide moneys to meet any payment of the funds so invested, and the Trustee will not be liable or responsible for any losses resulting from any such investment sold or presented for redemption. Any interest or profits on such investments in any funds and accounts (other than the Rebate Fund, the Construction Fund, and the Surplus Subaccount) established under the Indenture will be deposited in the Revenue Fund. All investment earnings on the Construction Fund and the Surplus Subaccount will be retained therein. For purposes of determining the amount on deposit in any fund or account under the Indenture, all investments will be valued annually at the amortized cost thereof (exclusive of accrued but unpaid interest, but inclusive of commissions). Any Permitted Investments that are registrable securities will be registered in the name of the Trustee, as trustee under the Indenture.

APPENDIX C
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2019

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City of Gilroy
California
Year Ended June 30, 2019

Comprehensive Annual
Financial Report



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Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2019

Prepared By
Finance Department





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CITY OF GILROY, CALIFORNIA
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2019
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INTRODUCTORY SECTION





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**CITY
ADMINISTRATOR'S
OFFICE**
**7351 Rosanna Street
Gilroy, CA 95020**
Telephone (408) 846-0202
Facsimile (408) 846-0500
<http://www.ci.gilroy.ca.us>

December 26, 2019

To the Honorable Mayor, Members of the City Council and Citizens of Gilroy:

The City of Gilroy's (City) Charter requires that the City publish a complete set of audited financial statements for each fiscal year. This report is published to fulfill that requirement for the fiscal year ended June 30, 2019. This Comprehensive Annual Financial Report (CAFR) is submitted for your information and review. The information contained herein has been provided to allow the reader to gain an understanding of Gilroy's financial activities. Management assumes full responsibility for the completeness and reliability of the information contained in this report. The Management Discussion and Analysis (MD&A) is included to assist the reader in its review of the City's financial statements. It provides a roadmap for the financial statements and related notes.

To provide a reasonable basis for making these representations, management of the City has established a comprehensive framework of internal controls that is designed to both protect the government's assets from loss, theft or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with U.S. Generally Accepted Accounting Principles (GAAP). Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute assurance that the financial statements will be free from material misstatements. Management is committed to maintaining the City's internal controls to adequately safeguard assets; and to provide reasonable assurances of proper recording of financial transactions.

White Nelson Diehl Evans LLP, Certified Public Accountants, have issued an unmodified ("clean") opinion on Gilroy's financial statements for the year ended June 30, 2019. The independent auditor's report is located at the front of the financial section of this report. The MD&A immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with it.

Profile of the government

The City is the southernmost city in Santa Clara County, and is located approximately 25 miles south of San Jose and approximately 75 miles south of San Francisco. Gilroy sits at the crossing of U.S. Highway 101 and State Highway 152. The City was first incorporated in 1870 and became a charter city on January 8, 1960. As of May 2019 the City had a population estimate of 55,928.

Situated between the Diablo and Santa Cruz mountains in the Santa Clara Valley, the City experiences mild temperatures, while missing most of the coastal fog. The agricultural growing season ranges from 300 to 350 days a year. Over the past few decades, the City has been transitioning from an agricultural economy into a light industrial- and services-based economy.

The City operates under the Council-Administrator form of government. The seven City Council members, including the Mayor, are elected-at-large to four year terms in alternate slates of three every two years, with the Mayor being elected every four years. The City Council appoints the City Administrator who heads the executive branch of the government, implements City Council directives and policies, and manages the administrative and operational functions through the department directors. The City Administrator appoints the department directors with the exception of the City Clerk and the City Attorney, who are appointed by the City Council.

The budget of the City is a detailed operating and capital improvement plan that identifies estimated costs and activities as related to estimated revenues. The City Administrator submits to the City Council a proposed biennial budget for all funds and the Council then proceeds to make any changes to the proposed budget it deems necessary. Before adopting the proposed budget the Council holds a public hearing. After the conclusion of the public hearing the Council may further make revisions to the proposed budget. Thereafter the Council adopts the budget with revisions, if any.

The City provides municipal services including police and fire protection, community and economic development, recreation activities, parks and street maintenance, water and sewer utilities and general City administration. Natural gas and electricity are provided by Pacific Gas and Electric Company. Water service is provided by the City. Wastewater is collected and treated by the South County Regional Wastewater Authority. Recycling and solid waste disposal services are provided in the City by Recology South Valley.

Economic Setting

Gilroy's economy has been dominated by agriculture and its related industries (food processing, etc.) since the 1800s. However, the growing influence of Silicon Valley and regional population growth have resulted in significant changes in the local economy during the past twenty years. The economic boom in Silicon Valley which began in the early 1990s had profound impacts on the local economy, resulting in significant increases in home prices and land values as well as significant decreases in local unemployment.

Today, Gilroy's economy is diversified into non-agricultural commercial and industrial activities such as light manufacturing, wholesale operations, automobile sales, and large retail centers.

The Gilroy Outlets, Auto Mall area, and retail developments east of Highway 101 have put the City on the map as a regional retail destination, and helped strengthen the City's tax revenues. Manufacturing and wholesale/distribution operations take advantage of Gilroy's proximity to Silicon Valley and easy access to Highway 152, leading to Interstate 5 and the Central Valley.

Development and Construction Activity

Prior to the 2008 economic recession, local real estate development and construction industries experienced a high demand for new residential, commercial, and industrial development. Although limited by the City's Residential Development Ordinance (RDO), new housing construction saw a surge of activity, as RDO allocations approved in earlier years were built out. Housing developments in the northwest quad, north-central Gilroy, and Eagle Ridge area brought new households to the City, many residents of which commute to work in the north county area. Construction activity was also high in the southeast industrial area.

Fiscal Year 2019 (FY 19) Financial Results

The City ended FY 19 with operating income. The primary expenditures with favorable FY 19 results included personnel and departmental expenditures, consistent with FY 18 savings. The City had some capital projects that were not completed in FY 19 and the expenditures will be carried forward to FY 20.

In total, general fund revenue for FY 19 was higher than budgeted, primarily due to more property, sales and utility user taxes than anticipated.

Revitalization and Capital Improvements

Commercial development in certain corridors in Gilroy has added millions of square feet of retail and professional services space to the city. Downtown revitalization efforts have helped attract new businesses to the area, has retained existing businesses, and creating a core area of antique stores, specialty shops, and restaurants. Restored historic buildings also add to the downtown's character, including the Old City Hall and Train Depot. However, some vacant storefronts persist and the City is focusing additional efforts at revitalizing these spaces. Within the past decade major projects including the Downtown Streetscape, the Camino Arroyo Bridge, the New Gilroy Library, and the Aquatics Center at Christopher High School have been added as significant assets to the community. The new Gilroy Library was completed in the spring of 2012 under budget and ahead of schedule.

The City's capital improvement plan (CIP) provides a 5-year window of projects to be completed within the CIP horizon. The financial health of the capital improvement funds have improved over the last few years as a result of new development.

Long-term financial planning and major initiatives

The City's general fund balance as of June 30, 2019 was \$27.8 million. In June 2017, City Council adopted a general fund reserve policy of retaining a general fund reserve equal to 20% of annual general fund expenditures, or approximately \$11 million at budget adoption for FY 18. The policy also adopted a separate economic stability reserve that is used only for limited purposes, at 10% of general fund expenditures, or approximately \$5.5 million.

The City continues to experience the effects of a healthy economy as evidenced by the increase in sales, property, and transient occupancy tax receipts. The City has a long history of being conservative in its spending in order to maintain a balanced budget – for and on behalf of the community – and will continue to be financially prudent.

Award and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Gilroy for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2018. This was the fifth consecutive year that the government achieved this prestigious award. In order to be awarded a Certificate of Achievement, the government had to publish an easily readable and efficiently organized CAFR that satisfied both generally accepted accounting principles and applicable program requirements.

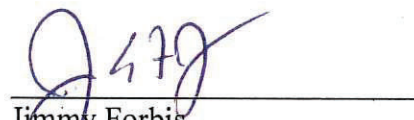
A Certificate of Achievement for Excellence in Financial Reporting is valid for a period of one year only. However, we believe that our current CAFR continues to meet the Certificate of Achievement for Excellence in Financial Reporting Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report would not have been possible without the skill, diligence, and commitment of the entire staff of the Finance Department, and specifically Finance Manager Rosemary Guerrero. We wish to thank all government departments for their assistance in providing the data necessary to prepare this report. Credit also is due to the Mayor and the City Council for their continuing support for maintaining the highest standards of professionalism in the management of Gilroy's finances and prioritizing the goal of financial sustainability.

Respectfully submitted,



Gabriel Gonzalez
City Administrator



Jimmy Forbis
Finance Director

City of Gilroy
Elected Officials & City Staff
As of Fiscal Year End - June 30, 2019

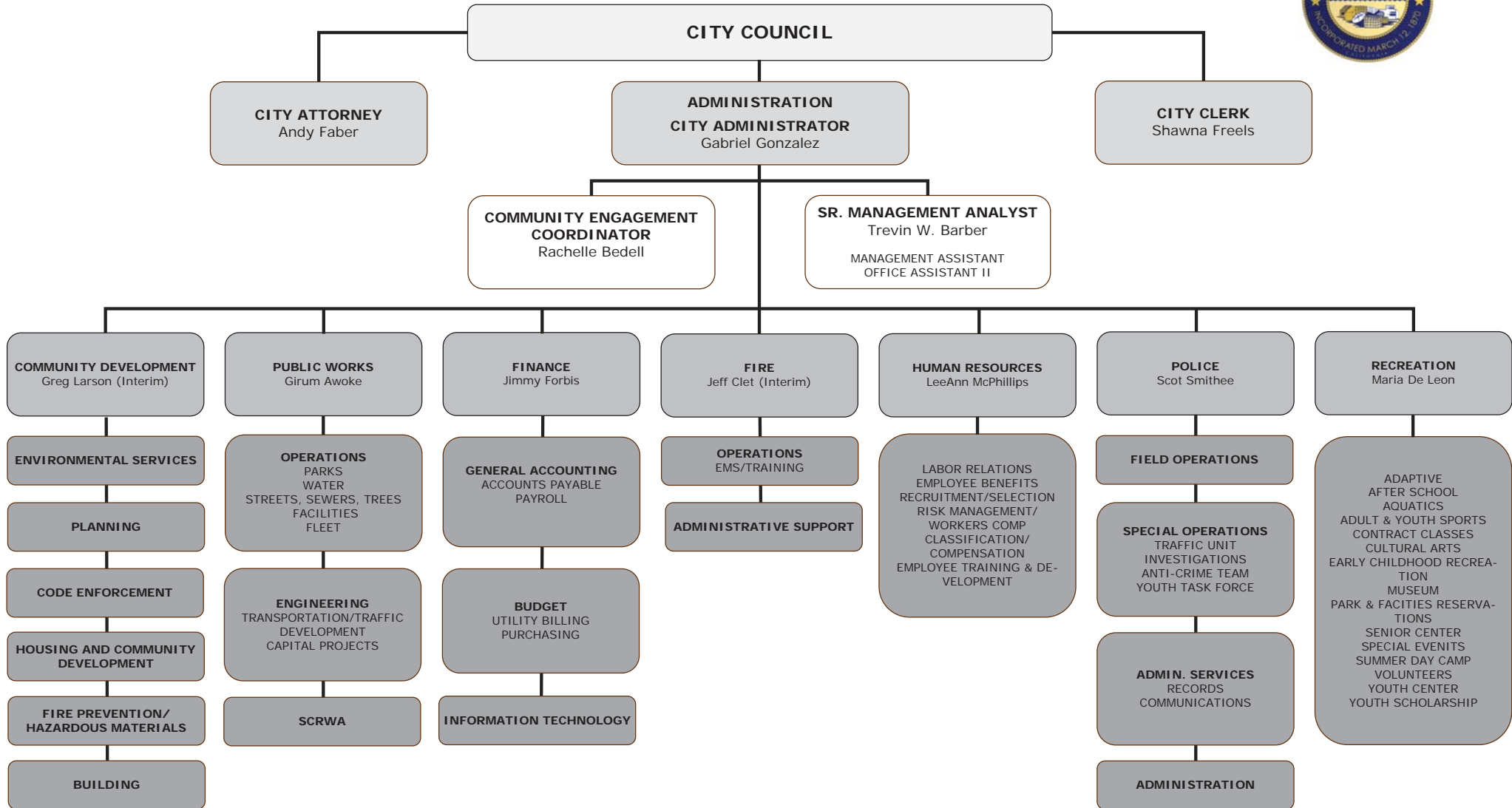
ELECTED OFFICIALS

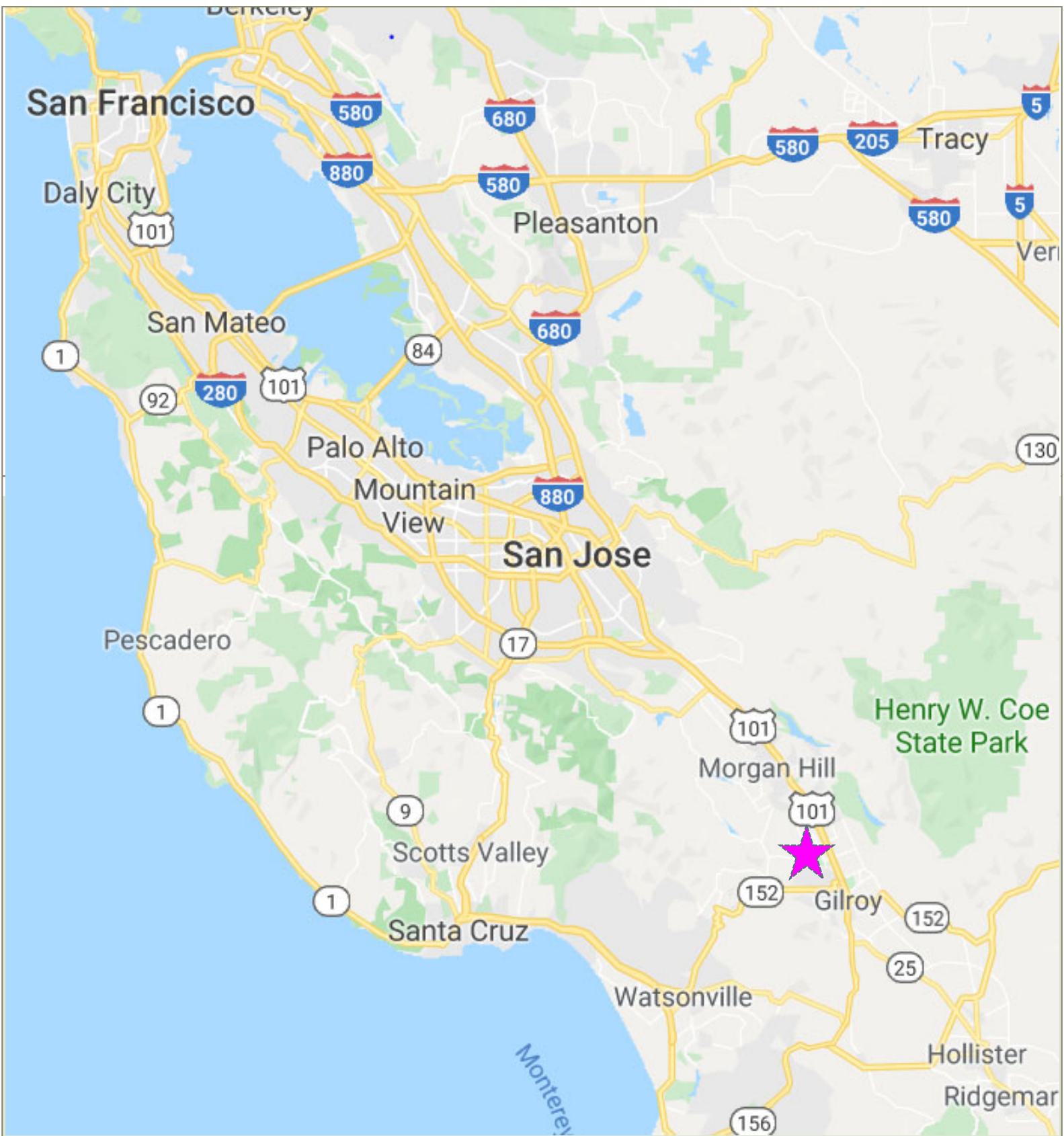
Roland Velasco	Mayor
Marie Blankley	Mayor Pro Tempore
Dion Bracco	Council Member
Carol Marques	Council Member
Peter Leroe-Muñoz	Council Member
Cat Tucker	Council Member
Fred Tovar	Council Member

CITY STAFF

Gabriel Gonzalez	City Administrator
Shawna Freels	City Clerk
Greg Larson (Interim)	Community Development Director
Jimmy Forbis	Finance Director
Jeff Clet (Interim)	Fire Chief
LeeAnn McPhillips	Human Resources Director/Risk Manager
Scot Smithee	Police Chief
Girum Awoke	Public Works Director
Maria DeLeon	Recreation Director

ADMINISTRATIVE ORGANIZATION







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For its Comprehensive Annual
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for the Fiscal Year Ended

June 30, 2018

Christopher P. Morill

Executive Director/CEO

FINANCIAL SECTION





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INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and
Members of the City Council
of the City of Gilroy
Gilroy, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Gilroy (the City), as of and for the year ended June 30, 2019, and the related notes to the basic financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 auditors consider 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.

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedules of changes in the net pension liability and related ratios - miscellaneous and safety plans, the schedules of contributions - miscellaneous and safety defined benefit pension plans, the schedules of changes in the total OPEB liability and related ratios and the budgetary comparison schedule, identified as Required Supplementary Information (RSI) in the accompanying 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 RSI 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 the audit of the basic financial statements. We do not express an opinion or provide any assurance on the RSI because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, supplementary schedules, additional schedules and statistical section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Matters (Continued)

Other Information (Continued)

The additional schedules, as listed in the table of contents, 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.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 26, 2019, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

White Nelson Dick Evans LLP

Irvine, California
December 26, 2019



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MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the financial performance of the City of Gilroy provides an overview of the City's financial activities for the fiscal year ended June 30, 2019 (FY 19). Please read it in conjunction with the financial statements identified in the accompanying table of contents.

Using the Accompanying Financial Statements

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Also included in the accompanying report are fund financial statements. For governmental activities, the fund financial statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

Notes to the Basic Financial Statements

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

FINANCIAL HIGHLIGHTS

- The City's overall net position increased from FY 18 primarily due to revenue growth in taxes (property and sales). As of June 30, 2019 the City's governmental funds reported a combined ending fund balance of \$82.5 million, an increase of \$3.0 million.
- The FY 19 original adopted general fund budget revenue amount of \$54.5 million was lower than the actual amount of \$56.5 million. The increase was due to higher than anticipated sales and property tax revenue.
- General fund revenue was higher than budgeted for certain revenue types. Property tax was approximately \$1.3 million more than anticipated and sales tax was \$1.5 million more than anticipated. Transient occupancy tax growth was stagnant and utility users' tax was \$0.4 million more than anticipated.
- The FY 19 amended general fund budget expenditure amount of \$56.0 million was higher than the actual amount of \$53.4 million due to departmental savings, including personnel savings resulting from vacant positions and one-time expenditures that were not completed in FY 19. In addition, the City maintained its conservative spending practices during the fiscal year.
- The general fund reserve as of June 30, 2019 increased by \$2.2 million at \$27.8 million which is 52% of actual FY 19 expenditures.
- Total City's long-term debt decreased by \$2.5 million, due to principal reduction payments.

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual report consists of four parts – *management’s discussion and analysis* (this section), the *basic financial statements*, *required supplementary information*, and a section that presents *combining statements* for nonmajor governmental funds, internal service funds and fiduciary funds. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are *government-wide financial statements* that provide both long-term and short-term information about the City’s overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the City government, reporting the City’s operations in more detail than the government-wide statements.
 - The *governmental funds* statements tell how general government services like public safety were financed in the short term as well as what remains for future spending.
 - *Proprietary funds* statements offer short-term and long-term financial information about the activities the government operates like businesses, such as the water and sewer system.
 - *Fiduciary funds* statements provide information about the fiduciary relationships – like the agency funds of the City – in which the City acts solely as agent or trustee for the benefit of others, to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that provides additional financial and budgetary information.

Figure A-1 summarizes the major features of the City’s financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the statements.

Figure A-1
Major Features of the City’s Government-wide and Fund Financial Statements

	Government-wide <u>Statements</u>	Fund Statements		
		<u>Governmental Funds</u>	<u>Proprietary Funds</u>	<u>Fiduciary Funds</u>
Scope	Entire City government (except fiduciary funds)	The activities of the City that are not proprietary or fiduciary	Activities the City operates similar to private businesses	Instances in which the City is the trustee or agent for someone else’s resources
Required financial statements	<ul style="list-style-type: none"> • Statement of net position • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net position • Statement of revenues, expenses and changes net position • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary assets and liabilities
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets, deferred outflows of resources and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities and deferred inflows of resources that come due during the year or soon thereafter; no capital assets or long-term debt included	All assets, deferred outflows of resources and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the City’s fiduciary funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid

Reporting the City as a Whole

The accompanying **government-wide financial statements** include two statements that present financial data for the City as a whole. One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include *all* assets, deferred outflows of resources and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net position and changes in them. You can think of the City's net position – the difference between assets, deferred outflows of resources and liabilities – as one way to measure the City's financial health, or *financial position*. Over time, *increases and decreases* in the City's net position are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the City's property tax base and the condition of the City's roads, to assess the *overall health* of the City.

In the Statement of Net Position and the Statement of Activities, we divide the City into two kinds of activities:

- Governmental activities - Most of the City's basic services are reported here. Sales taxes, property taxes, and other revenues finance most of these activities.
- Business-type activities - The City charges a fee to customers to help it cover all or most of the cost of the services accounted for in these funds.

Reporting the City's Major Funds

The **fund financial statements** provide detailed information about the City's most significant funds – not the City as a whole. Some funds are required to be established by State law or by bond covenants. However, City Council establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting administrative responsibilities for using certain taxes, grants, or other money (such as grants received). The City's two kinds of funds – *governmental* and *proprietary* – use different accounting approaches.

- *Governmental funds* - Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *current financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship or differences between *governmental activities* (reported in the Statement of Net Position and the Statement of Activities) and *governmental funds* in reconciliations following the fund financial statements.

- *Proprietary funds* - When the City charges customers for the services it provides - whether to outside customers or to other units of the City - these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows for proprietary funds. We use internal service funds (the other component of proprietary funds) to report activities that provide supplies and services for the City's other programs and activities.

Reporting the City's Fiduciary Responsibilities

The City is an agent for certain assets held for, and under the control of, other organizations and individuals. All of the City's fiduciary activities are reported in a separate Statement of Fiduciary Assets and Liabilities. We exclude these activities from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

A summary of the government-wide *statement of net position* (in thousands) follows:

	Governmental Activities			Business-type Activities		
	2019	2018	Change	2019	2018	Change
Current and other assets	\$ 113,379	\$ 108,535	\$ 4,844	\$ 114,496	\$ 115,758	\$ (1,261)
Capital assets	219,370	224,782	(5,412)	91,135	87,337	3,798
Total assets	332,749	333,317	(568)	205,631	203,094	2,537
Deferred Outflows of Resources:						
Deferred pension plans	16,233	20,278	(4,046)	541	694	292
Deferred refunding	-	-	-	186	249	(507)
Total Deferred Outflows	16,233	20,278	(4,046)	727	942	(215)
Long-term liabilities outstanding	163,192	165,662	(2,470)	10,955	13,293	(2,337)
Other liabilities	12,707	11,239	1,468	4,108	4,851	(743)
Total liabilities	175,899	176,901	(1,002)	15,063	18,144	(3,081)
Deferred Inflows of Resources:						
Deferred pension plans	4,684	5,087	(403)	107	180	(73)
Net position:						
Net investment in capital investments	156,470	159,070	(2,600)	91,135	87,337	3,798
Restricted	49,689	48,731	958	-	-	-
Unrestricted	(37,760)	(36,193)	(1,566)	100,053	98,376	1,678
Total net position	\$ 168,399	\$ 171,608	\$ (3,209)	\$ 191,188	\$ 185,712	\$ 5,476

A summary of the government-wide *statement of activities* follows:

Changes in Net Position
(In thousands)

	Governmental Activities			Business-type Activities		
	2019	2018	Change	2019	2018	Change
Revenues						
Program revenues:						
Charges for services	\$ 12,594	\$ 11,648	\$ 946	\$ 25,199	\$ 23,838	\$ 1,361
Operating contributions and grants	13,146	19,390	(6,243)	-	-	-
Capital contributions	6,538	10,319	(3,781)	4,161	2,330	1,830
General revenues:						
Property taxes	14,476	13,161	1,315	-	-	-
Sales taxes	20,186	18,827	1,359	-	-	-
Other taxes	8,536	8,629	(93)	-	-	-
Other general revenues	2,760	1,792	969	1,298	466	832
Total revenues	<u>78,237</u>	<u>83,766</u>	<u>(5,529)</u>	<u>30,658</u>	<u>26,635</u>	<u>4,023</u>
Program expenses						
General government	7,696	7,315	381	-	-	-
Public safety	37,837	35,592	2,246	-	-	-
Community services	9,527	9,655	(128)	-	-	-
Community development	22,518	19,211	3,307	-	-	-
Interest expense and other charges	3,227	3,148	79	-	-	-
Sewer	-	-	-	11,718	10,749	969
Water	-	-	-	11,777	9,938	1,839
Total expenses	<u>80,806</u>	<u>74,921</u>	<u>5,885</u>	<u>23,495</u>	<u>20,687</u>	<u>2,808</u>
Excess (deficiency) before special items and transfers	(2,569)	8,845	(11,414)	7,163	5,948	1,215
Special items - share of joint venture net income (loss)	-	-	-	(2,327)	(789)	(1,538)
Transfers	(640)	1,242	(1,882)	640	(1,242)	1,882
Increase (decrease) in net position	(3,209)	10,087	(13,296)	5,476	3,917	1,559
Beginning net position	171,608	161,521	10,087	185,712	181,795	3,917
Ending net position	<u>\$ 168,398</u>	<u>\$ 171,608</u>	<u>\$ (3,209)</u>	<u>\$ 191,188</u>	<u>\$ 185,712</u>	<u>\$ 5,476</u>

The increase or decrease in net position can provide an indication as to whether the overall financial position of the City improved or deteriorated during the year. The net position of the City's governmental activities improved between years primarily due to increased cash due to the City's healthy economic environment. See below for a discussion of the change in capital assets.

The net position of the City's business activities increased between years. The City's investment in joint venture increased between years. See below for a discussion of the change in capital assets.

Charges for services for governmental activities increased between years primarily due to an increase in plan check and inspection fees from FY 18. The operating contributions and grants for governmental activities decreased between years due to lower collection of development impact fees. Capital contributions for business-type activities increased between years due to the investment and completion of significant sewer improvement projects.

MAJOR FUNDS

As noted earlier, the City uses fund accounting to provide proper financial management of the City's resources and to demonstrate compliance with finance-related legal requirements.

Major Governmental Funds. The General Fund is the chief operating fund of the City. In the financial statements for the year ended June 30, 2011, the City began combining its Sidewalk Repair, Library Reserve, Golf Course and Community Recreation special revenue funds with the City's General Fund for financial statement presentation as required under GASB 54. At the end of FY 19, the total fund balance of the general fund (as presented in the aforementioned manner) was \$27.8 million.

Revenues increased between the years ended June 30, 2018 and June 30, 2019 primarily as a result of increased tax revenue as the City continues to experience a healthy economy as sales and property taxes are at an all-time high.

The **Public Facilities Impact Capital Projects Fund** has a total fund deficit of \$3.2 million. In the year ended June 30, 2006 several impact funds were consolidated into this fund. In February 2008, this fund borrowed \$13.7 million from several funds for the purchase of Gilroy Gardens. See Note 3, in the *Notes to the Basic Financial Statements* for additional information.

Major Enterprise Funds. Unrestricted net position of the **Sewer Fund** at the end of the year amounted to \$80.0 million and those for the **Water Fund** amounted to \$20.1 million.

GENERAL FUND

The final budgeted operating expenditures of the General Fund were \$54.5 million. The actual operating expenditures of the General Fund were \$56.5 million, approximately \$1.6 million more than the final budget. The difference is primarily due to one-time expenditures and use of unrestricted fund balance. Some budgetary savings were realized due to various budgeted expenditures not made in the year ended June 30, 2019 that will be carried forward to the year ended June 30, 2020.

In June 2017, the City Council adopted a new general fund reserve policy that consisted of (i) an unrestricted General Fund Reserve of 20% of general fund expenditures and (ii) an Economic Stability Reserve of 10% of general fund expenditures that is intended to help the City weather a severe economic crisis. The following table summarizes the adopted general fund reserve policy:

<u>General Fund Reserve</u>	<u>Description of Use</u>	<u>Amount</u>
Unrestricted	Unbudgeted costs or revenue shortfall	Minimum of 20% of expenditures
Economic Stability	Specific triggers in severe economic downturn	Minimum of 10% of expenditures

The Economic Stability Reserve shall only be used in extraordinary circumstances, upon satisfaction of one of the following “economic triggers” and with the majority vote of the City Council:

- State take-away of significant revenue
- Large drop in property taxes (decrease in assessed valuations)
- Major business closures (sales tax and/or utility users’ tax impact)
- Dramatic drop in development from projections
- Large unexpected drop in sales taxes (or other primary revenues - utility users’ tax, franchise fees or transient occupancy tax) due to severe recession
- The economic triggers cause the General Fund Reserve to fall below a predetermined percentage of expenditures (e.g. 20%).

When the Economic Stability Reserve is used, the City is obligated to replenish the reserve by the end of the next biennial budget to 10% of the general fund expenditures for the given year.

CAPITAL ASSETS

Capital Assets (net of depreciation)
(In thousands)

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Land	\$ 21,335	\$ 21,335	\$ -	\$ -	\$ 21,335	\$ 21,335
Buildings and improvements	80,884	83,054	-	-	80,884	83,054
Furniture and equipment	2,856	3,068	21	24	2,877	3,092
Vehicles	4,344	3,511	-	-	4,344	3,511
IT Equipment and software	427	549	-	-	427	549
Utility system	-	-	85,318	86,592	85,318	86,592
Infrastructure	104,885	109,071	-	-	104,885	109,071
Construction in progress	4,638	4,194	5,795	721	10,433	4,915
Total	<u>\$ 219,370</u>	<u>\$ 224,782</u>	<u>\$ 91,135</u>	<u>\$ 87,337</u>	<u>\$ 310,505</u>	<u>\$ 312,119</u>

The major changes to capital assets during the year ended June 30, 2019 were as follows:

- Buildings and improvements for governmental activities decreased primarily as a result of depreciation.
- Furniture and equipment for governmental activities decreased as a result of depreciation purchases.
- Vehicles for governmental activities increased due to several major vehicle purchases.
- IT equipment and software for governmental activities decreased as a result of depreciation.
- Infrastructure for governmental activities decreased due to depreciation and assets reaching end of life, partially offset by additions in medians, storm drains, streetlights, pavement, sidewalk, and curb and gutter.

- Construction in progress for governmental activities increased due to numerous projects that have started and will be completed in FY 20.
- Utility system capital assets for business-type activities decreased as a result of depreciation and assets reaching end of life.
- Construction in progress for business-type activities increased due to the transfer of completed assets to the utility system.

Additional information on the City’s capital assets can be found in the *Notes 1i and 4 to the Basic Financial Statements*.

LONG-TERM DEBT

As of June 30, 2019, the City’s governmental activities had bonded debt outstanding of \$65.5 million. Of this amount, \$27.9 million represents general obligation bonds secured solely by specified revenue sources. The remaining debt of \$37.5 million represents refunding revenue bonds.

	Outstanding Debt Governmental Activities	
	2019	2018
General obligation bonds	\$ 27,983,538	\$ 28,745,000
Refunding revenue bonds	37,515,000	39,250,000
Total	<u>\$ 65,498,538</u>	<u>\$ 67,995,000</u>

The City issued Certificates of Participation 2003 Series, in the amount of \$45,900,000 to fund several capital projects. These debt instruments were refinanced in August 2009 with bond anticipation notes (BANs). In 2010 the City refinanced its 2009 BANs with 50% fixed-rate, long-term lease revenue bonds (LRBs) (with a final maturity in 2033) and 50% three-year short-term BANs. These BANs were scheduled to mature on November 1, 2013 and were refinanced in August 2013 with LRBs. See Notes 11 in the *Notes to the Basic Financial Statements* for a further discussion.

The City issued \$10.5 million principal amount of General Obligation Bonds 2009 Series to finance the acquisition, construction and improvement of facilities to be used as a public library within the City. In FY 11, the City issued an additional \$23.5 million principal amount of General Obligation Bonds 2010 Series for the library. The bonds were refunded on June 26, 2019 with proceeds from the 2019 General Obligation Refunding Bonds, Series A. See Note 11 in the *Notes to the Basic Financial Statements* for additional information.

The City’s long-term business-type debt includes Wastewater Revenue Bonds of \$9,230,000. See Note 11 for additional information.

Additional information on the City’s long-term debt can be found in the *Notes to the Basic Financial Statements*.

Budgetary Highlights

See the Required Supplementary Information in the City's financial statements for a comparison of the City's budgeted revenues and expenditures to actual revenues and expenditures. When preparing its budget, the City projects its revenues using realistic, but conservative methods so as to budget its expenditure appropriations in a prudent manner.

As the City had adequate reserves as of June 30, 2019, funds from the unrestricted fund balance or accumulated annual savings were used to continue to build the City's capital outlay reserves for future projects.

In addition, the City continued economic incentive transfers from the general fund to the impact funds, to make these funds whole for the previously granted incentives.

Economic Factors and Fiscal Year 19 Budgets

In FY 19 the City continued to experience a healthy economy as evidenced by the increase in sales tax and property tax receipts. The City continues to operate within its means, with upturns in revenues over the past few years. The City has always taken a conservative approach in its spending in order to maintain a balanced budget – for and on behalf of the community – and will continue to be financially prudent during the current biennial budget.

The City regularly reviews its revenues and expenditures to keep a pulse on its current fiscal health and to ensure the adequate protection of the City's financial resources.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Director's Office, at the City of Gilroy, 7351 Rosanna Street, Gilroy, California 95020.

BASIC FINANCIAL STATEMENTS



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CITY OF GILROY

STATEMENT OF NET POSITION

June 30, 2019

	Primary Government			Discrete Component Unit
	Governmental Activities	Business-type Activities	Total	South County Regional Wastewater Authority
ASSETS:				
Cash and investments (Note 2)	\$ 99,708,000	\$ 38,959,018	\$ 138,667,018	\$ 8,171,993
Cash and investments with fiscal agent (Note 2)	2,703,024	2,621,046	5,324,070	-
Accounts receivable	317,636	2,569,596	2,887,232	42,166
Due from other governments	5,259,583	-	5,259,583	1,136,775
Prepaid items	42,339	5,500	47,839	1,640
Interest receivable	1,461,596	-	1,461,596	-
Loans receivable	3,073,187	-	3,073,187	-
Due from primary government	-	-	-	1,522,161
Due from component unit	-	984,524	984,524	-
Inventory	107,218	318,167	425,385	-
Land held for resale	706,754	-	706,754	-
Capital assets, not depreciated (Note 4)	25,972,985	5,795,301	31,768,286	27,187,805
Capital assets, depreciated, net (Note 4)	193,396,878	85,339,631	278,736,509	71,014,841
Investment in joint venture (Note 5)	-	69,038,625	69,038,625	-
TOTAL ASSETS	332,749,200	205,631,408	538,380,608	109,077,381
DEFERRED OUTFLOWS OF RESOURCES:				
Deferred amount on refunding	-	186,381	186,381	-
Deferred amounts on pensions	15,708,671	540,814	16,249,485	-
Deferred amounts on OPEB	524,000	-	524,000	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	16,232,671	727,195	16,959,866	-
LIABILITIES:				
Accounts payable and other liabilities	4,844,434	1,647,938	6,492,372	1,911,544
Deposits payable	-	76,560	76,560	-
Interest payable	642,664	192,292	834,956	-
Unearned revenue	1,725,533	-	1,725,533	-
Retentions payable	49,097	-	49,097	-
Due to primary government	-	-	-	984,524
Due to component unit	1,499,513	22,648	1,522,161	-
Long-term liabilities (Notes 11 through 13 and 15):				
Due within one year	3,945,542	2,168,700	6,114,242	-
Due in more than one year	69,671,529	7,946,325	77,617,854	-
OPEB liability - due in more than one year	14,934,000	-	14,934,000	-
Pension liability - due in more than one year	78,586,863	3,008,863	81,595,726	-
TOTAL LIABILITIES	175,899,175	15,063,326	190,962,501	2,896,068
DEFERRED INFLOWS OF RESOURCES:				
Deferred amounts on pensions	2,969,114	107,086	3,076,200	-
Deferred amounts on OPEB	1,715,000	-	1,715,000	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	4,684,114	107,086	4,791,200	-
NET POSITION:				
Net investment in capital assets	156,469,628	91,134,932	247,604,560	98,202,646
Restricted for:				
Public safety	508,917	-	508,917	-
Community services	1,725,410	-	1,725,410	-
Community development	45,230,191	-	45,230,191	-
Debt service	2,224,286	-	2,224,286	-
Unrestricted	(37,759,850)	100,053,259	62,293,409	7,978,667
TOTAL NET POSITION	\$ 168,398,582	\$ 191,188,191	\$ 359,586,773	\$ 106,181,313

See accompanying notes to the basic financial statements.

CITY OF GILROY

STATEMENT OF ACTIVITIES

For the year ended June 30, 2019

Functions/programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 7,696,445	\$ 3,726,486	\$ 168,247	\$ -
Public safety	37,837,438	1,234,017	574,998	-
Community development	22,518,209	6,624,477	12,387,124	6,538,076
Community services	9,526,627	1,009,235	15,905	-
Interest expense and other charges	3,226,849	-	-	-
Total governmental activities	80,805,568	12,594,215	13,146,274	6,538,076
Business-type activities:				
Sewer	14,044,716	12,904,657	-	3,191,220
Water	11,777,220	12,294,119	-	969,290
Total business-type activities	25,821,936	25,198,776	-	4,160,510
Total	\$ 106,627,504	\$ 37,792,991	\$ 13,146,274	\$ 10,698,586
Discrete Component Unit:				
South County Regional Wastewater Authority	\$ 13,335,271	\$ 9,329,329	\$ -	\$ 4,759,930

General revenues:

Taxes:

Property taxes

Sales taxes

Transient occupancy taxes

Franchise taxes

Document transfer tax

Utility tax

Investment income

State motor vehicle in lieu

Other

Transfers

Total general revenues and transfers

Change in net position

Net Position At Beginning of Year

Net Position At End of Year

Net (Expense) Revenue and
Changes in Net Position

Primary Government			Discrete Component Unit
Governmental Activities	Business-type Activities	Total	South County Regional Wastewater Authority
\$ (3,801,712)	\$ -	\$ (3,801,712)	\$ -
(36,028,423)	-	(36,028,423)	-
3,031,468	-	3,031,468	-
(8,501,487)	-	(8,501,487)	-
(3,226,849)	-	(3,226,849)	-
(48,527,003)	-	(48,527,003)	-
-	2,051,161	2,051,161	-
-	1,486,189	1,486,189	-
-	3,537,350	3,537,350	-
(48,527,003)	3,537,350	(44,989,653)	-
-	-	-	(753,988)
14,476,481	-	14,476,481	-
20,186,105	-	20,186,105	-
1,771,882	-	1,771,882	-
1,669,817	-	1,669,817	-
372,284	-	372,284	-
4,721,529	-	4,721,529	-
2,567,147	1,298,215	3,865,362	-
26,695	-	26,695	-
166,316	-	166,316	-
(640,347)	640,347	-	-
45,317,909	1,938,562	47,256,471	-
(3,209,094)	5,475,912	2,266,818	753,988
171,607,676	185,712,279	357,319,955	105,427,325
<u>\$ 168,398,582</u>	<u>\$ 191,188,191</u>	<u>\$ 359,586,773</u>	<u>\$ 106,181,313</u>

CITY OF GILROY
BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2019

	General Fund	Capital Projects Fund Public Facilities Impact
ASSETS		
Cash and investments	\$ 26,506,179	\$ 4,523,142
Cash and investments with fiscal agent	-	-
Accounts receivable	60,662	-
Due from other governments	4,683,605	-
Prepaid items	16,337	-
Due from other funds (Note 3)	1,433,558	-
Interfund loans receivable (Note 3)	-	-
Interest receivable	-	-
Loans receivable	-	-
Inventory of materials	59,663	-
Land held for resale	-	-
	\$ 32,760,004	\$ 4,523,142
TOTAL ASSETS		
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES		
LIABILITIES:		
Accounts payable	\$ 965,759	\$ 14
Accrued liabilities	2,272,242	1,623
Due to other funds (Note 3)	-	-
Due to joint venture	-	-
Retentions payable	-	-
Unearned revenue	1,725,533	-
Interfund loans payable (Note 3)	-	7,703,516
	4,963,534	7,705,153
TOTAL LIABILITIES		
DEFERRED INFLOWS OF RESOURCES:		
Unavailable revenue	36,600	-
FUND BALANCES (DEFICIT) (NOTE 16):		
Nonspendable	76,000	-
Restricted	-	-
Assigned	-	-
Unassigned	27,683,870	(3,182,011)
	27,759,870	(3,182,011)
TOTAL FUND BALANCES (DEFICIT)		
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES		
	\$ 32,760,004	\$ 4,523,142

See accompanying notes to the basic financial statements.

Other Governmental Funds	Total Governmental Funds
\$ 50,477,448	\$ 81,506,769
2,704,691	2,704,691
225,884	286,546
575,978	5,259,583
1,000	17,337
-	1,433,558
3,132,460	3,132,460
1,461,596	1,461,596
3,073,187	3,073,187
-	59,663
706,754	706,754
<u>\$ 62,358,998</u>	<u>\$ 99,642,144</u>

\$ 679,723	\$ 1,645,496
62,327	2,336,192
1,433,558	1,433,558
1,499,513	1,499,513
49,097	49,097
-	1,725,533
-	7,703,516
<u>3,724,218</u>	<u>16,392,905</u>

<u>729,094</u>	<u>765,694</u>
----------------	----------------

1,000	77,000
57,445,219	57,445,219
1,483,818	1,483,818
<u>(1,024,351)</u>	<u>23,477,508</u>

<u>57,905,686</u>	<u>82,483,545</u>
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<u>\$ 62,358,998</u>	<u>\$ 99,642,144</u>
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CITY OF
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CITY OF GILROY

RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION

June 30, 2019

Fund balances - total governmental funds		\$ 82,483,545
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet:		
Capital assets	\$ 436,855,343	
Accumulated depreciation	<u>(222,609,532)</u>	214,245,811
Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term liabilities is not accrued in governmental funds, but rather is recognized as an expenditures when due. All liabilities, both current and long-term, are reported in the Statement of Net Position. Balances as of June 30, 2019 are:		
Bonds payable	(65,498,538)	
Premium on bonds payable	(1,582,182)	
Loan payable	(948,011)	
Compensated absences	(1,621,601)	
Accrued interest	<u>(642,664)</u>	(70,292,996)
Pension related debt and other post-employment benefit debt applicable to the City governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Deferred outflows of resources and deferred inflows of resources related to pensions and OPEB are only reported in the Statement of Net Position as the changes in these amounts effects only the government-wide statements for governmental activities.		
Deferred outflows of resources for pensions	15,708,671	
Deferred outflows of resources for OPEB	524,000	
Deferred inflows of resources for pensions	(2,969,114)	
Deferred inflows of resources for OPEB	(1,715,000)	
Pension liability	(78,586,863)	
OPEB liability	<u>(14,934,000)</u>	(81,972,306)
Unavailable revenue balances relating to certain receivables are reported as deferred inflows of resources in the Statement of Net Position since revenue recognition is not based upon measurable and available criteria.		
		765,694
Internal service funds are used by management to charge the costs of certain activities, such as equipment management, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Position.		
		<u>23,168,834</u>
Net position of governmental activities		<u>\$ 168,398,582</u>

CITY OF GILROY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

For the year ended June 30, 2019

	General Fund	Capital Projects Fund Public Facilities Impact
REVENUES:		
Taxes	\$ 43,224,793	\$ -
Licenses and permits	3,487,338	-
Intergovernmental	181,015	-
Charges for services	7,151,331	3,291,141
Fines	239,873	-
Investment income	739,568	139,507
Miscellaneous	1,502,637	-
TOTAL REVENUES	56,526,555	3,430,648
EXPENDITURES:		
Current:		
General government	5,760,831	-
Public safety	33,075,083	-
Community services	7,831,193	-
Community development	6,702,442	400,821
Debt service:		
Principal	-	-
Interest and other charges	-	132,492
Bond issuance costs	-	-
TOTAL EXPENDITURES	53,369,549	533,313
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	3,157,006	2,897,335
OTHER FINANCING SOURCES (USES):		
Transfers in (Note 3)	229,788	40,763
Transfers out (Note 3)	(1,228,964)	(3,531,775)
Payment to refunded bond escrow agent	-	-
Refunding debt issuance	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(999,176)	(3,491,012)
NET CHANGE IN FUND BALANCES	2,157,830	(593,677)
FUND BALANCES (DEFICIT) AT BEGINNING OF YEAR	25,602,040	(2,588,334)
FUND BALANCES (DEFICIT) AT END OF YEAR	\$ 27,759,870	\$ (3,182,011)

Other Governmental Funds	Total Governmental Funds
\$ 8,259,062	\$ 51,483,855
-	3,487,338
3,732,469	3,913,484
1,059,356	11,501,828
-	239,873
368,468	1,247,543
487,822	1,990,459
<u>13,907,177</u>	<u>73,864,380</u>
-	5,760,831
987,338	34,062,421
-	7,831,193
8,318,220	15,421,483
2,654,708	2,654,708
3,316,064	3,448,556
112,903	112,903
<u>15,389,233</u>	<u>69,292,095</u>
<u>(1,482,056)</u>	<u>4,572,285</u>
3,965,524	4,236,075
(1,115,683)	(5,876,422)
(8,565,000)	(8,565,000)
8,633,538	8,633,538
<u>2,918,379</u>	<u>(1,571,809)</u>
1,436,323	3,000,476
<u>56,469,363</u>	<u>79,483,069</u>
<u>\$ 57,905,686</u>	<u>\$ 82,483,545</u>

See accompanying notes to the basic financial statements.

CITY OF GILROY

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES

For the year ended June 30, 2019

Net change in fund balances - total governmental funds		\$ 3,000,476
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital expense in the current period.		
Donation of capital assets	\$ 3,889,055	
Capital outlay	1,372,031	
Depreciation expense	<u>(11,330,513)</u>	(6,069,427)
Governmental funds report the effect of , premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.		132,985
Repayment of bond and loan principal is an expenditure in the governmental funds and issuance of debt is a revenue in the governmental funds, but the repayment reduces the long-term liabilities and the issuance increases long-term liabilities in the Statement of Net Position.		
Repayment of bond and loan principal	2,654,708	
Payment to refunded bond escrow agent	8,565,000	
Refunded debt issuance	<u>(8,633,538)</u>	2,586,170
OPEB expense reported in the governmental funds includes the premiums paid. In the Statement of Activities, OPEB expense includes the change in the net OPEB liability, and related change in OPEB amounts for deferred outflows of resources and deferred inflows of resources.		(398,000)
Accrued interest expense related to the long-term liabilities. This amount is the difference between the amount of interest paid and the amount of interest incurred on long-term liabilities.		201,625
To record the net change in compensated absences in the Statement of Activities.		117,103
Pension expense reported in the governmental funds includes the annual required contributions. In the Statement of Activities, pension expense includes the change in the net pension liability, and related change in pension amounts for deferred outflows of resources and deferred inflows of resources.		(2,893,927)
Revenues that are measurable but not available are recorded as unavailable revenue under the modified accrual basis of accounting.		35,478
Internal service funds are used by management to charge the costs of certain activities, such as equipment management, to individual funds. The net revenue of these internal service funds are included in governmental activities in the Statement of Activities.		<u>78,423</u>
Change in net position of governmental activities		<u>\$ (3,209,094)</u>

CITY OF GILROY

STATEMENT OF NET POSITION
PROPRIETARY FUNDS

June 30, 2019

	Business-Type Activities			Governmental
	Sewer	Water	Total Enterprise Funds	Internal Service Funds
ASSETS:				
CURRENT ASSETS:				
Cash and investments	\$ 17,687,792	\$ 21,271,226	\$ 38,959,018	\$ 18,199,564
Cash and investments with fiscal agent	2,621,046	-	2,621,046	-
Accounts receivable	1,276,562	1,293,034	2,569,596	31,090
Inventory of materials	-	318,167	318,167	47,555
Prepaid items	2,037	3,463	5,500	25,002
Due from joint venture	984,524	-	984,524	-
TOTAL CURRENT ASSETS	22,571,961	22,885,890	45,457,851	18,303,211
NONCURRENT ASSETS:				
Interfund loans receivable (Note 3)	-	-	-	4,571,056
Capital assets:				
Capital assets, not depreciated	-	5,795,301	5,795,301	4,404
Capital assets, depreciated, net	34,111,322	51,228,309	85,339,631	5,119,648
Investment in joint venture (Note 5)	69,038,625	-	69,038,625	-
TOTAL NONCURRENT ASSETS	103,149,947	57,023,610	160,173,557	9,695,108
TOTAL ASSETS	125,721,908	79,909,500	205,631,408	27,998,319
DEFERRED OUTFLOWS OF RESOURCES:				
Deferred amount on refunding	186,381	-	186,381	-
Deferred amount on pension plans	292,481	248,333	540,814	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	478,862	248,333	727,195	-
LIABILITIES:				
CURRENT LIABILITIES:				
Accounts payable	190,399	1,457,539	1,647,938	717,217
Accrued liabilities	-	-	-	145,529
Deposits payable	50	76,510	76,560	-
Interest payable	192,292	-	192,292	-
Due to joint venture	22,648	-	22,648	-
Bond payable, current portion	2,150,000	-	2,150,000	-
Compensated absences, current portion	8,400	10,300	18,700	10,200
Claims payable, current portion	-	-	-	982,000
TOTAL CURRENT LIABILITIES	2,563,789	1,544,349	4,108,138	1,854,946
NONCURRENT LIABILITIES:				
Bond payable	7,778,275	-	7,778,275	-
Compensated absences	75,482	92,568	168,050	91,716
Pension liability	1,627,242	1,381,621	3,008,863	-
Claims payable	-	-	-	2,882,823
TOTAL NONCURRENT LIABILITIES	9,480,999	1,474,189	10,955,188	2,974,539
TOTAL LIABILITIES	12,044,788	3,018,538	15,063,326	4,829,485
DEFERRED INFLOWS OF RESOURCES:				
Deferred amounts on pension plans	57,914	49,172	107,086	-
NET POSITION:				
Net investment in capital assets	34,111,322	57,023,610	91,134,932	5,124,052
Unrestricted	79,986,746	20,066,513	100,053,259	18,044,782
TOTAL NET POSITION	\$ 114,098,068	\$ 77,090,123	\$ 191,188,191	\$ 23,168,834

CITY OF GILROY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 PROPRIETARY FUNDS

For the year ended June 30, 2019

	Business-Type Activities			Governmental
	Sewer	Water	Total Enterprise Funds	Internal Service Funds
OPERATING REVENUES:				
Charges for services	\$ 12,904,657	\$ 12,260,246	\$ 25,164,903	\$ 23,751,465
TOTAL OPERATING REVENUES	12,904,657	12,260,246	25,164,903	23,751,465
OPERATING EXPENSES:				
Operations	8,339,489	9,034,293	17,373,782	22,043,687
Depreciation	1,703,303	1,348,663	3,051,966	669,474
Billing	668,982	668,760	1,337,742	-
Administration	706,101	725,504	1,431,605	287,851
Claims and judgments	-	-	-	1,709,624
Insurance premiums	-	-	-	1,195,086
TOTAL OPERATING EXPENSES	11,417,875	11,777,220	23,195,095	25,905,722
OPERATING INCOME (LOSS)	1,486,782	483,026	1,969,808	(2,154,257)
NONOPERATING REVENUES (EXPENSES):				
Investment income	593,929	704,286	1,298,215	447,908
Interest expense	(299,389)	-	(299,389)	-
Share of joint venture net loss	(2,327,452)	-	(2,327,452)	-
Miscellaneous	-	33,873	33,873	784,100
Gain on disposal of capital assets	-	-	-	672
TOTAL NONOPERATING REVENUES (EXPENSES)	(2,032,912)	738,159	(1,294,753)	1,232,680
INCOME (LOSS) BEFORE TRANSFERS AND CAPITAL CONTRIBUTIONS	(546,130)	1,221,185	675,055	(921,577)
TRANSFERS AND CAPITAL CONTRIBUTIONS:				
Transfers in (Note 3)	694,146	-	694,146	1,000,000
Transfers out (Note 3)	-	(53,799)	(53,799)	-
Capital contribution from sewer development	2,574,460	-	2,574,460	-
Capital contributions	616,760	969,290	1,586,050	-
TOTAL TRANSFERS AND CAPITAL CONTRIBUTIONS	3,885,366	915,491	4,800,857	1,000,000
CHANGE IN NET POSITION	3,339,236	2,136,676	5,475,912	78,423
NET POSITION AT BEGINNING OF YEAR	110,758,832	74,953,447	185,712,279	23,090,411
NET POSITION AT END OF YEAR	\$ 114,098,068	\$ 77,090,123	\$ 191,188,191	\$ 23,168,834

CITY OF GILROY

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS

For the year ended June 30, 2019

	Business-Type Activities			Governmental
	Sewer	Water	Total Enterprise Funds	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash from services for charges	\$ 12,895,296	\$ 12,294,459	\$ 25,189,755	\$ -
Cash received from user departments	-	-	-	24,554,184
Cash payments to suppliers of goods and services	(7,183,539)	(7,737,357)	(14,920,896)	(22,633,212)
Cash payments to employees for services	(2,419,301)	(2,332,456)	(4,751,757)	(1,752,412)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>3,292,456</u>	<u>2,224,646</u>	<u>5,517,102</u>	<u>168,560</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Cash received from other funds	694,146	-	694,146	1,318,205
Cash paid to other funds	-	(53,799)	(53,799)	-
Cash payments to joint venture	(4,195,183)	-	(4,195,183)	-
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>(3,501,037)</u>	<u>(53,799)</u>	<u>(3,554,836)</u>	<u>1,318,205</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Proceeds from sale of capital assets	-	-	-	672
Acquisition of capital assets	(105,584)	(5,158,654)	(5,264,238)	(1,326,667)
Capital contributions	2,574,460	-	2,574,460	-
Principal paid	(2,045,000)	-	(2,045,000)	-
Interest paid	(512,625)	-	(512,625)	-
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(88,749)</u>	<u>(5,158,654)</u>	<u>(5,247,403)</u>	<u>(1,325,995)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Investment income	<u>593,929</u>	<u>704,286</u>	<u>1,298,215</u>	<u>447,908</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	296,599	(2,283,521)	(1,986,922)	608,678
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>20,012,239</u>	<u>23,554,747</u>	<u>43,566,986</u>	<u>17,590,886</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 20,308,838</u>	<u>\$ 21,271,226</u>	<u>\$ 41,580,064</u>	<u>\$ 18,199,564</u>
CASH AND CASH EQUIVALENTS:				
Current Assets:				
Cash and investments	\$ 17,687,792	\$ 21,271,226	\$ 38,959,018	\$ 18,199,564
Cash and investments with fiscal agent	<u>2,621,046</u>	<u>-</u>	<u>2,621,046</u>	<u>-</u>
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 20,308,838</u>	<u>\$ 21,271,226</u>	<u>\$ 41,580,064</u>	<u>\$ 18,199,564</u>

(Continued)

CITY OF GILROY

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 (CONTINUED)

For the year ended June 30, 2019

	Business-Type Activities			Governmental
	Sewer	Water	Total Enterprise Funds	Internal Service Funds
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating income (loss)	\$ 1,486,782	\$ 483,026	\$ 1,969,808	\$ (2,154,257)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	1,703,303	1,348,663	3,051,966	669,474
Miscellaneous nonoperating income	-	33,873	33,873	784,100
Changes in operating assets, deferred outflows of resources, liabilities and deferred inflows of resources:				
(Increase) decrease in accounts receivable	(9,361)	(32,386)	(41,747)	13,426
(Increase) decrease in inventory of materials	-	32,726	32,726	5,193
(Increase) decrease in prepaid items	(2,037)	(3,463)	(5,500)	256
(Increase) decrease in deferred outflows of resources on pension plans	82,579	70,114	152,693	-
Increase (decrease) in accounts payable	41,252	328,424	369,676	(9,929)
Increase (decrease) in accrued liabilities	-	-	-	17,724
Increase (decrease) in deposits payable	-	(18,140)	(18,140)	-
(Increase) decrease in deferred inflows of resources	(39,459)	(33,503)	(72,962)	-
Increase (decrease) in compensated absences	2,134	(7,837)	(5,703)	4,468
Increase (decrease) in pension liability	27,263	23,149	50,412	-
Increase (decrease) in claims payable	-	-	-	838,105
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 3,292,456</u>	<u>\$ 2,224,646</u>	<u>\$ 5,517,102</u>	<u>\$ 168,560</u>
NONCASH FINANCING, CAPITAL OR INVESTING ACTIVITIES:				
Capital assets	<u>\$ 616,760</u>	<u>\$ 969,920</u>	<u>\$ 1,586,680</u>	<u>\$ -</u>

CITY OF GILROY

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS

June 30, 2019

	Total Agency Funds
	<u> </u>
ASSETS:	
Cash and investments	\$ 4,268,075
Cash and investments with fiscal agent	295,479
Accounts receivable	7,027
Due from county	<u>545</u>
TOTAL ASSETS	<u><u>\$ 4,571,126</u></u>
LIABILITIES:	
Accounts payable	\$ 89,996
Due to bondholders	1,040,243
Unearned revenue	54,089
Deposits payable	<u>3,386,798</u>
TOTAL LIABILITIES	<u><u>\$ 4,571,126</u></u>

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Gilroy, California (the City), have been prepared in accordance with Generally Accepted Accounting Principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

a. Reporting Entity

The City of Gilroy was incorporated in 1870 under the general laws of the State of California and became a charter city on January 8, 1960. The City operates under the Council-Administrator form of government. As required by accounting principles generally accepted in the United States of America, these financial statements present the City and its component units, entities for which the City is considered to be financially accountable. The City is considered to be financially accountable for an organization if the City appoints a voting majority of that organization's governing body and the organization is able to provide specific financial benefits to or impose specific financial burdens on the City. The City is also considered to be financially accountable if an organization is fiscally dependent (i.e., it is unable to adopt its budget, levy taxes, set rates or charges or issue bonded debt without approval from the City). In certain cases, other organizations are included as component units if the nature and significance of their relationship with the City are such that their exclusion would cause the City's financial statements to be misleading or incomplete.

The Gilroy Public Facilities Financing Authority is considered to be a blended component unit of the reporting entity of the City because its sole purpose is to finance and construct the City's public facilities. Blended component units, although legally separate entities, are in substance, part of the City's operations and so data from these units are reported with interfund data of the primary government. The Gilroy Public Facilities Financing Authority does not issue separate component unit financial statements.

b. Discretely Presented Component Unit

The South County Regional Wastewater Authority (Authority) was created on July 1, 1992 by the City of Gilroy and City of Morgan Hill (Member Agencies). The purpose of the Authority is to plan and implement regional solutions to the wastewater treatment and management problems resulting from the generation of wastewater within the service areas of the Member Agencies. To achieve this purpose, the Authority constructs, maintains and operates facilities for sewage treatment and wastewater reclamation. The City of Gilroy has a 58.1% ownership interest in the Authority. The City of Morgan Hill has a 41.9% ownership interest in the Authority.

The Authority is governed by a Board of Directors, which consists of three members from the Gilroy City Council and two members from the Morgan Hill City Council.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b. Discretely Presented Component Unit (Continued)

The Authority's budget and member contribution requirements are approved by the Board of Directors of the Authority. The City's management provides accounting services, engineering services and administrative support to the Authority, and day-to-day operations associated with the Authority have been contracted directly by the Authority to a private provider of services for wastewater management and operations. The Authority is presented in a separate column to emphasize that it is legally separate from the City and provides a financial benefit to the City. Debt issued by the Authority requires approval by the City, and the City approves the budget of the Authority.

Complete financial statements of the component unit can be obtained from the City's administrative offices.

c. Description of Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information about the reporting government as a whole, except for its fiduciary activities. All fiduciary activities are reported only in the fund financial statements. Governmental activities, which normally are supported by taxes, intergovernmental revenues and other nonexchange transactions, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from discretely presented component units for which the primary government is financially accountable.

d. Basis of Presentation

Government-wide Financial Statements

While separate government-wide financial statements are presented, they are interrelated. The governmental activities column incorporates data from the governmental funds and internal service funds, while the business-type activities incorporate data from the government's enterprise funds. Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded in the government-wide financial statements.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. Basis of Presentation (Continued)

Fund Financial Statements

The underlying accounting system of the City is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, 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.

The fund financial statements provide information about the government's funds, including its fiduciary funds and blended component units. Separate financial statements for the government's governmental, proprietary and fiduciary funds are presented after the Government-wide Financial Statements. These statements display information about major funds individually and other governmental funds (nonmajor funds) in the aggregate for governmental and enterprise funds. Fiduciary statements, even though excluded from the government-wide financial statements represent agency funds.

The City reports the following major governmental funds:

General Fund - The General Fund is used to account for resources traditionally associated with governments which are not required by law or sound financial management to be accounted for in another fund.

Public Facilities Impact Capital Projects Fund - This fund has been established to track expenditures related to the construction of facilities for public use.

The City reports the following major proprietary funds:

Sewer Fund - This fund is used to account for sewage stations and collection systems provided by the City to the public.

Water Fund - This fund is used to account for water services provided by the City to the public.

Additionally, the government reports the following fund types:

Special Revenue Funds - These funds account for revenue sources that are restricted for specific purposes (other than those resources to be expended solely for the construction of major capital facilities).

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. Basis of Presentation (Continued)

Fund Financial Statements (Continued)

Debt Service Funds - These funds account for resources accumulated for the payment of principal and interest (other than that for proprietary fund debt).

Capital Projects Funds - These funds account for resources intended to be used primarily for major capital facilities (other than those financed by revenues of proprietary funds).

Internal Service Funds - These funds have been established to finance and account for goods and services provided by one City department to other City departments or agencies. Such goods and services include: workers' compensation, general liability, data processing equipment and services, facility services, fleet services, fringe benefits, equipment maintenance and equipment repair.

Agency Funds - These funds have been established to account for assets received and held by the City while acting in the capacity of an agent or custodian. Cash and deposits are maintained for activities associated with various associations and third party projects.

During the course of operations, the government has activity between funds for various purposes. Any residual balances outstanding at year-end are reported as due from/due to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between funds included in the governmental activities are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between funds included as business-type activities are eliminated so that only the net amount is included in internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In the fund financial statements, these amounts are reported at gross amount as transfer in/out. While reported in the fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in the governmental activities column are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as is the proprietary fund financial statements. Under the economic resources measurement focus, all assets, deferred outflows of resources, liabilities and deferred inflows of resources (whether current or noncurrent) associated with their activity are included on their statements of net position. Operating statements present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Revenue from property taxes is recognized in the fiscal year which the taxes are levied. Grants and similar items are recognized as revenues as soon as the eligibility requirements imposed by the provider have been satisfied. Special assessments are recorded as revenue when earned. Unbilled receivables are recorded as revenues when services are provided.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the current financial resources measurement focus, only current assets, deferred outflows of resources, current liabilities and deferred inflows of resources are generally included on their balance sheets. The reported fund balance is considered to be a measure of “available spendable resources.” Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in fund balance. Accordingly, they are said to present a summary of sources and uses of “available spendable resources” during a period. Noncurrent portions of long-term receivables due to governmental funds are reported on their balance sheets in spite of their spending measurement focus.

Revenues are recognized as soon as they become measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, except for principal and interest on general long-term liabilities, claims and judgments and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisition of capital leases are reported as other financing sources.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e. Measurement Focus and Basis of Accounting (Continued)

Property taxes, sales tax, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue (within 60 days of year-end). Amounts owed to the City, which are not available, are recorded as receivables and deferred inflows of resources.

Special assessments are recorded as revenues when they become available as current assets. Annual assessments due in future years are reflected as receivables and deferred inflows of resources. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City's Fiduciary Funds consist of agency funds which have no measurement focus, but utilize the accrual basis for reporting assets and liabilities.

f. New Accounting Pronouncements

Current Year Standards

GASB 83 - *Certain Asset Retirement Obligations*, effective for periods beginning after June 15, 2018, and did not impact the City.

GASB 88 - *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, effective for periods beginning after June 15, 2018, and did not significantly impact the City.

GASB 89 - *Accounting for Interest Cost Incurred before the End of a Construction Period*, effective for periods beginning after December 15, 2019 was early implemented by the City in fiscal year 2018-19. This statement requires that interest cost 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 an enterprise fund. Accounting changes adopted to conform to this provision for this statement should be applied prospectively. There was no material impact on the City's financial statements resulting from the implementation of GASB 89.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f. New Accounting Pronouncements (Continued)

Pending Accounting Standards

GASB has issued the following statements, which may impact the City's financial reporting requirements in the future:

- GASB 84 - *Fiduciary Activities*, effective for periods beginning after December 15, 2018.
- GASB 87 - *Leases*, effective for periods beginning after December 15, 2019.
- GASB 90 - *Majority Equity Interests - an amendment of GASB Statements No. 14 and No. 61*, effective for periods beginning after December 15, 2018.
- GASB 91 - *Conduit Debt Obligations*, effective for periods beginning after December 15, 2020.

g. Appropriations Limit

Under Article XIII B of the California Constitution (the Gann Spending Limitation Initiative), the City is restricted as to the amount of annual appropriations from the 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, revised fee schedules or other refund arrangements. For the fiscal year ended June 30, 2019, proceeds of taxes did not exceed appropriations.

h. Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded, is employed in the governmental funds. Encumbrances at year-end are reported as restricted, committed, assigned, or unassigned fund balance depending on the resources that have been identified to fund the applicable encumbrance.

At June 30, 2019, encumbrances outstanding amounted to \$935,008 for the General Fund and \$4,867,406 for other governmental funds.

i. Pooled Cash and Investments

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i. Pooled Cash and Investments (Continued)

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

j. Capital Assets

Capital assets are recorded at cost where historical records are available and at an estimated historical cost where no historical records exist. Contributed capital assets are valued at acquisition value at the date of the contribution. Generally, capital asset purchases in excess of \$10,000 are capitalized if they have an expected useful life of more than one year. Capital assets include all public domain (infrastructure) assets consisting of certain improvements including roads, streets, sidewalks, medians and storm drains.

The following schedule summarizes capital asset useful lives:

Buildings	40 years
Utility lines	50 years
Machinery and equipment	5 - 25 years
Furniture and fixtures	10 - 20 years
Vehicles	8 years
Infrastructure	5 - 50 years
Water wells and pumps	70 years

Depreciation has been provided using the straight-line method over the estimated useful life of the asset in the government-wide financial statements and in the fund financial statements of the proprietary funds.

k. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position and the governmental funds balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The City has the following items that qualify for reporting in this category:

- Deferred amount on refunding reported in the government-wide statement of net position and the proprietary funds financial statements. A deferred amount on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k. Deferred Outflows/Inflows of Resources (Continued)

- Deferred outflow related to pensions and OPEB equal to employer contributions made after the measurement date of the net pension and OPEB liability.
- Deferred outflow related to pensions for differences between expected and actual experience. This amount is amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the plans.
- Deferred outflow from pensions resulting from changes in assumptions. This amount is amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the plans.
- Deferred outflow related to pensions resulting from the difference in projected and actual earnings on investments of the pension plan fiduciary net position. These amounts are amortized over five years.

In addition to liabilities, the statement of net position and the governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. The City has the following items that qualify for reporting in this category:

- Deferred inflow from unavailable revenues, which is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources, which are interest and grants. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.
- Deferred inflow from pensions resulting from changes in assumptions. This amount is amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the plans.
- Deferred inflow related to pensions for differences between expected and actual experience. This amount is amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the plans.
- Deferred inflow from pensions and OPEB resulting from changes in assumptions. These amounts are amortized over a closed period equal to the average expecting remaining service lives of all employees that are provided with OPEB and pensions through the plans.

l. Net Position Flow Assumptions

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

It is the City's practice to consider restricted - net position to have been depleted before unrestricted - net position is applied.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

m. Compensated Absences

All full-time employees accumulate vacation benefits in varying annual amounts. Sick leave benefits accrue at the rate of one day per month for all full-time employees (except fire shift employees who accrue 12 hours of sick leave per month) regardless of their length of service to the City. Upon termination or retirement, employees are paid for all unused vacation time and overtime. No cash payment is made for unused sick leave upon termination or retirement.

In accordance with GASB Statement No. 16, a liability is recorded for unused vacation and similar compensatory leave balances since the employees' entitlement to these balances are attributable to services already rendered and it is probable that virtually all of these balances will be liquidated by either paid time off or payments upon termination or retirement.

If material, a proprietary fund liability is accrued for all leave benefits relating to the operations of the proprietary funds. A current liability is accrued in the governmental funds for material leave benefits due on demand to governmental fund employees that have terminated prior to year-end. All other amounts are recorded in the government-wide financial statements. These noncurrent amounts will be recorded as fund expenditures in the year in which they are paid or become due.

n. Claims and Judgments

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

o. Inventories

Inventories are stated at cost using the first-in, first-out (FIFO) method. Inventories recorded in governmental funds are recorded as an expenditure when used (consumption method). Inventory balances represent expendable supplies held for consumption. Reported expenditures reflecting the purchase of supplies have been restated to reflect the consumption method of recognizing inventory-related expenditures. Nonspendable fund balance has been reported in the governmental funds' fund financial statements to show that inventories do not constitute "available spendable resources," even though they are a component of fund balance.

p. Cash Equivalents

For purposes of the statement of cash flows, cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash or so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Cash equivalents have an original maturity date of three months or less from the date of purchase.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

q. Program Revenues

Amounts reported as program revenues include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

r. Proprietary Funds Operating and Nonoperating Revenues and Expenses

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

s. Net Position

In the government-wide financial statements and proprietary fund financial statements, net position are reported in three categories: net investment in capital assets, restricted net position and unrestricted net position. Restricted net position represents net position restricted by enabling legislation (such as citizens, public interest groups or the courts which can compel a government to honor) and includes unspent proceeds of bonds issued to acquire or construct capital assets. The City's other net position is considered unrestricted.

t. Notes and Loans Receivable

The accompanying financial statements reflect the recording of certain loans receivable that represent loans made to various parties for homebuyer and rehabilitation loan programs. Where reasonably estimable, an allowance for doubtful accounts has been recorded to reflect management's best estimate of probable losses associated with nonrepayment. An estimate of any additional potential losses associated with nonrepayment cannot be reasonably estimated at this time.

u. Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City's California Public Employees' Retirement System (CalPERS) plans (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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

v. Budgets and Budgetary Data

The City Administrator submits to the City Council a proposed budget for all funds. Council then proceeds to make any changes to the proposed budget it deems necessary. Before adopting the proposed budget, Council holds a public hearing for any interested party desiring to be heard. Notice must be given 10 days prior to the hearing and must be published in the City’s official newspaper. After the conclusion of the public hearing, Council may further make revisions to the proposed budget. Thereafter, Council adopts the budget with revisions, if any.

City Council approval is required for all revisions to the adopted budget that require additional appropriations or new funding. City Administrator approval is required for all transfers within the adopted budget. Operational appropriations lapse at fiscal year-end unless City Council takes formal action to carry forward appropriations into the following fiscal year.

The level on which expenditures may not legally exceed appropriations is the fund level. The City’s basis of budgeting is based on generally accepted accounting principles.

w. Use of Estimates

The preparation of financial statements requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements, as well as the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

2. CASH AND INVESTMENTS

Cash and Investments

Cash and investments as of June 30, 2019 are classified in the accompanying financial statements follows:

Statement of Net Position:

Primary Government

Cash and investments	\$ 138,667,018
Cash and investments with fiscal agent	5,324,070

Statement of Fiduciary Assets and Liabilities:

Cash and investments	4,268,075
Cash and investments with fiscal agent	295,479

Total cash and investments	\$ 148,554,642
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Component Unit:

Cash and investments	\$ 8,171,993
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CITY OF GILROY, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2019

2. CASH AND INVESTMENTS (CONTINUED)

Cash and investments held by the City at June 30, 2019 consisted of the following:

Primary Government:	
Cash on hand	\$ 4,417
Deposits with financial institutions	3,204,230
Investments	<u>145,345,991</u>
Total cash and investments	<u>\$ 148,554,638</u>
Component Unit:	
Deposits with financial institutions	\$ 1,057,514
Investments	<u>7,114,479</u>
Total cash and investments	<u>\$ 8,171,993</u>

Investments Authorized by the California Government Code and the City's Investment Policy

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

Investment Types Authorized by State Law	Authorized by Investment Policy	Maximum Maturity*	Maximum Percentage of Portfolio*	Maximum Investment in One Issuer*
Local Agency Bonds	No	5 years	None	None
U.S. Treasury Obligations	Yes	5 years	None	None
U.S. Government Sponsored Agency Securities	Yes	5 years	None	None
Banker's Acceptances	Yes	180 days	15%	30%
Commercial Paper	Yes	270 days	10%	10%
Negotiable Certificates of Deposit	Yes	5 years	15%	None
Repurchase Agreements	No	1 year	None	None
Reverse Repurchase Agreements	No	92 days	20% base value	None
Medium-Term Notes	No	5 years	30%	None
Mutual Funds	Yes	N/A	5%	10%
Money Market Mutual Funds	Yes	N/A	5%	10%
Mortgage Pass-Through Securities	No	5 years	20%	None
County Pooled Investment Funds	No	N/A	None	None
Local Agency Investment Fund (LAIF)	Yes	N/A	None	None
JPA Pools (other investment pools)	No	N/A	None	None

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

N/A - Not Applicable

CITY OF GILROY, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2019

2. CASH AND INVESTMENTS (CONTINUED)

Investments Authorized by Debt Agreements

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage Allowed	Maximum Investment in One Issuer
U.S. Treasury Obligations	None	None	None
U.S. Government Sponsored Agency Securities	None	None	None
Insured or Collateralized Interest Bearing Deposits	5 years	None	None
Banker’s Acceptances	180 days	None	None
Commercial Paper	270 days	None	None
U.S. Corporate Obligations*	N/A	None	None
Money Market Mutual Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
California Common Law Trust	N/A	None	None
Investment Agreements	30 years	None	None

* Must be rated A or better and have assets in excess of \$500,000,000.

N/A - Not Applicable

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

CITY OF GILROY, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2019

2. CASH AND INVESTMENTS (CONTINUED)

Disclosures Relating to Interest Rate Risk (Continued)

For purposes of the schedule shown below, any callable securities are assumed to be held to maturity.

Investment Type	Remaining Maturity (in Months)				Total
	12 Months or Less	13 - 24 Months	25 - 60 Months	More Than 60 Months	
Primary Government					
U.S. Government Sponsored					
Agency Securities	\$ -	\$ -	\$ 10,023,400	\$ -	\$ 10,023,400
LAIF	129,701,338	-	-	-	129,701,338
Investment agreement	-	-	2,621,000	1,775,400	4,396,400
Money market mutual fund	1,224,853	-	-	-	1,224,853
Total	<u>\$130,926,191</u>	<u>\$ -</u>	<u>\$12,644,400</u>	<u>\$ 1,775,400</u>	<u>\$145,345,991</u>
Component Unit					
U.S. Government Sponsored					
Agency Securities	\$ -	\$ -	\$ 1,000,000	\$ -	\$ 1,000,000
LAIF	6,114,479	-	-	-	6,114,479
Total	<u>\$ 6,114,479</u>	<u>\$ -</u>	<u>\$ 1,000,000</u>	<u>\$ -</u>	<u>\$ 7,114,479</u>

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the City's investment policy or debt agreements, and the actual rating by Standard & Poor's as of year-end for each investment type.

Investment Type	Minimum Legal Rating	Total as of June 30, 2019	Ratings as of Year-End		
			AAA	AA+	Not Rated
Primary Government					
U.S. Government Sponsored					
Agency Securities	N/A	\$ 10,023,400	\$ -	\$5,022,200	\$ 5,001,200
LAIF	N/A	129,701,338	-	-	129,701,338
Investment agreement	N/A	4,396,400	-	-	4,396,400
Money market mutual fund	A	1,224,853	1,224,853	-	-
Total		<u>\$145,345,991</u>	<u>\$1,224,853</u>	<u>\$5,022,200</u>	<u>\$139,098,938</u>
Component Unit					
U.S. Government Sponsored					
Agency Securities	N/A	\$ 1,000,000	\$ -	\$1,000,000	\$ -
LAIF	N/A	6,114,179	-	-	6,114,179
Total		<u>\$ 7,114,179</u>	<u>\$ -</u>	<u>\$1,000,000</u>	<u>\$ 6,114,179</u>

2. CASH AND INVESTMENTS (CONTINUED)

Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There are no investments in any one issuer (other than U.S. Treasury securities, mutual funds and external investment pools) that represent 5% or more of total City investments.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party.

The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

For investments identified herein as held by fiscal agent, the trustee selects the investment under the terms of the applicable trust agreement, acquires the investment and holds the investment on behalf of the reporting government.

Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. LAIF is not rated.

CITY OF GILROY, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2019

2. CASH AND INVESTMENTS (CONTINUED)

Fair Value Measurements

The City categorizes its fair value measurement within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the assets. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are quoted price of similar assets in active markets and Level 3 inputs are significant unobservable inputs.

The City has the following recurring fair value measurements as of June 30, 2019:

	Quoted Prices Level 1	Observable Inputs Level 2	Unobservable Inputs Level 3	Total
<u>Primary Government</u>				
U.S. Government Sponsored				
Agency Securities	\$ -	\$ 10,023,400	\$ -	\$ 10,023,400
Investment agreement	-	-	4,396,400	4,396,400
Total Leveled Investments	<u>\$ -</u>	<u>\$ 10,023,400</u>	<u>\$ 4,396,400</u>	14,419,800
LAIF*				129,701,338
Money market mutual fund*				<u>1,224,853</u>
Total Investment Portfolio				<u>\$145,345,991</u>

* Not subject to fair value measurement hierarchy.

	Quoted Prices Level 1	Observable Inputs Level 2	Unobservable Inputs Level 3	Total
<u>Component Unit</u>				
U.S. Government Sponsored				
Agency Securities	\$ -	\$ 1,000,000	\$ -	\$ 1,000,000
Total Leveled Investments	<u>\$ -</u>	<u>\$ 1,000,000</u>	<u>\$ -</u>	1,000,000
LAIF*				<u>6,114,179</u>
Total Investment Portfolio				<u>\$ 7,114,179</u>

CITY OF GILROY, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2019

3. INTERFUND RECEIVABLES, PAYABLES, LOANS AND TRANSFERS

Due From/To Other Funds

Interfund receivable and payable balances at June 30, 2019 were as follows:

<u>Due to Other Funds</u>	<u>Due from Other Funds</u>	<u>Amount</u>
General Fund	Other Governmental Funds	<u>\$ 1,433,558</u>

These short-term borrowings were made to cover cash deficits at June 30, 2019.

Loans From/To Other Funds

Interfund loans at June 30, 2019 were as follows:

<u>Due to Other Funds</u>	<u>Due from Other Funds</u>	<u>Amount</u>
Public Facilities Impact Capital Projects Fund	Other Governmental Funds Internal Service Funds	\$ 3,132,460 4,571,056 <u>\$ 7,703,516</u>

In February 2008, the City purchased the Gilroy Gardens Property (Property), which includes a horticultural education and theme park, for approximately \$13.7 million. At the same time, the City entered into a single tenant lease of the Property with the seller, Gilroy Gardens Family Theme Park, Inc. To fund the acquisition, the Public Facilities Fund (Fund 440) borrowed from certain funds. The borrowings are accounted for as interfund loans for a period of twenty years and are reflected as balance sheet activity in accordance with GAAP. In addition, the annual budget reflects the loan activity through revenue and expenditure transactions. The interfund loans bear interest at the City's annual average portfolio yield. The borrowing funds and their respective original loan amounts are as follows: Storm Drains Fund (Fund 420, \$1.2 million), the Sewer Development Fund (Fund 435, \$5.0 million), the Fleet Services Fund (Fund 600, \$4.3 million), the Equipment Outlay Fund (Fund 605, \$2.2 million) and the Water Fund (Fund 720, \$1.0 million). As of June 30, 2017, the Water Fund loan has been paid off.

CITY OF GILROY, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2019

3. INTERFUND RECEIVABLES, PAYABLES, LOANS AND TRANSFERS (CONTINUED)

Transfers From/To Other Funds

Interfund transfers in and out at June 30, 2019 were as follows:

Transfers From	Transfers To	Amount
General Fund (a)	Public Facilities Impact Capital Projects Fund Other Governmental Funds Internal Service Funds	\$ 40,763 188,201 1,000,000
Public Facilities Impact Capital Projects Fund (b)	Other Governmental Funds	3,531,775
Other Governmental Funds (c)	General Fund Other Governmental Funds Sewer Enterprise Fund	179,889 241,648 694,146
Water Enterprise Fund (d)	General Fund Other Governmental Funds	49,899 3,900
		\$ 5,930,221

(a) General fund support of certain capital projects, safety related grants, and fleet and facility services.

(b) Public facilities support of various debt instruments.

(c) Other governmental funds support of grant personnel costs and sewer development project costs.

(d) Enterprise fund transfers to the general fund to subsidize environmental costs.

CITY OF GILROY, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2019

4. CAPITAL ASSETS

Governmental Activities

Changes in capital assets for governmental activities for the fiscal year ended June 30, 2019 were as follows:

	Balance at July 1, 2018	Additions	Deletions/ Transfers	Balance at June 30, 2019
Capital assets, not depreciated:				
Land	\$ 21,334,900	\$ -	\$ -	\$ 21,334,900
Construction in progress	4,193,780	2,187,292	(1,742,987)	4,638,085
Total capital assets, not depreciated	<u>25,528,680</u>	<u>2,187,292</u>	<u>(1,742,987)</u>	<u>25,972,985</u>
Capital assets, being depreciated:				
Buildings and improvements	120,472,917	852,997	-	121,325,914
Equipment and furniture	10,482,779	220,296	-	10,703,075
I.T. equipment and software	2,834,166	36,939	-	2,871,105
Vehicles	11,637,227	1,275,652	(165,700)	12,747,179
Infrastructure	275,583,739	4,171,802	(414,240)	279,341,301
Total capital assets, being depreciated	<u>421,010,828</u>	<u>6,557,686</u>	<u>(579,940)</u>	<u>426,988,574</u>
Less accumulated depreciation for:				
Buildings and improvements	(37,418,632)	(3,022,803)	-	(40,441,435)
Equipment and furniture	(7,414,686)	(432,544)	-	(7,847,230)
I.T. equipment and software	(2,284,983)	(158,748)	-	(2,443,731)
Vehicles	(8,125,947)	(442,450)	165,700	(8,402,697)
Infrastructure	(166,513,163)	(7,943,440)	-	(174,456,603)
Total accumulated depreciation	<u>(221,757,411)</u>	<u>(11,999,985)</u>	<u>165,700</u>	<u>(233,591,696)</u>
Total capital assets, being depreciated, net	<u>199,253,417</u>	<u>(5,442,299)</u>	<u>(414,240)</u>	<u>193,396,878</u>
Total capital assets, net	<u>\$ 224,782,097</u>	<u>\$ (3,255,007)</u>	<u>\$ (2,157,227)</u>	<u>\$ 219,369,863</u>

CITY OF GILROY, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2019

4. CAPITAL ASSETS (CONTINUED)

Governmental Activities (Continued)

Depreciation expense was charged in the following functions in the Statement of Activities:

General government	\$ 889,836
Public safety	1,289,313
Community development	1,207,923
Community services	<u>7,943,439</u>
Subtotal	11,330,511
Internal Service Funds	<u>669,474</u>
Total	<u><u>\$ 11,999,985</u></u>

Business-type Activities

Changes in capital assets for business-type activities for the fiscal year ended June 30, 2019 were as follows:

	Balance at July 1, 2018	Additions	Deletions/ Transfers	Balance at June 30, 2019
Capital assets, not depreciated:				
Construction in progress	\$ 720,825	\$ 5,442,457	\$ (367,981)	\$ 5,795,301
Total capital assets, not depreciated	<u>720,825</u>	<u>5,442,457</u>	<u>(367,981)</u>	<u>5,795,301</u>
Capital assets, being depreciated:				
Buildings and improvements	427,852	-	-	427,852
Furniture, fixtures and equipment	212,630	-	-	212,630
Utility system	148,032,104	1,775,818	-	149,807,922
Total capital assets, being depreciated	<u>148,672,586</u>	<u>1,775,818</u>	<u>-</u>	<u>150,448,404</u>
Less accumulated depreciation for:				
Buildings and improvements	(427,853)	-	-	(427,853)
Furniture, fixtures and equipment	(188,684)	(2,737)	-	(191,421)
Utility system	(61,440,270)	(3,049,229)	-	(64,489,499)
Total accumulated depreciation	<u>(62,056,807)</u>	<u>(3,051,966)</u>	<u>-</u>	<u>(65,108,773)</u>
Total capital assets, being depreciated, net	<u>86,615,779</u>	<u>(1,276,148)</u>	<u>-</u>	<u>85,339,631</u>
Total capital assets, net	<u><u>\$ 87,336,604</u></u>	<u><u>\$ 4,166,309</u></u>	<u><u>\$ (367,981)</u></u>	<u><u>\$ 91,134,932</u></u>

CITY OF GILROY, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2019

4. CAPITAL ASSETS (CONTINUED)

Business-type Activities (Continued)

Depreciation expense was charged in the following functions in the Statement of Activities:

Sewer	\$ 1,703,303
Water	<u>1,348,663</u>
Total depreciation expense - governmental activities	<u>\$ 3,051,966</u>

Discrete Component Unit

Changes in capital assets for the discrete component unit for the fiscal year ended June 30, 2019 were as follows:

	Balance at July 1, 2018	Additions	Deletions/ Transfers	Balance at June 30, 2019
Capital assets, not being depreciated:				
Land	\$ 13,396,202	\$ -	\$ -	\$ 13,396,202
Construction in progress	9,427,801	4,552,700	(188,898)	13,791,603
Total capital assets, not being depreciated	<u>22,824,003</u>	<u>4,552,700</u>	<u>(188,898)</u>	<u>27,187,805</u>
Capital assets, being depreciated:				
Buildings and improvements	67,494,863	-	-	67,494,863
Land improvements	10,681,371	-	-	10,681,371
Infrastructure	35,521,900	96,148	-	35,618,048
Fleet (vehicles)	1,259,111	36,381	-	1,295,492
Office furniture and equipment	19,909,915	54,248	-	19,964,163
Total capital assets, being depreciated	<u>134,867,160</u>	<u>186,777</u>	<u>-</u>	<u>135,053,937</u>
Less accumulated depreciation for:				
Buildings and improvements	(36,325,227)	(1,599,465)	-	(37,924,692)
Land improvements	(5,336,895)	(190,342)	-	(5,527,237)
Infrastructure	(4,510,918)	(1,636,211)	-	(6,147,129)
Fleet (vehicles)	(1,031,605)	(41,760)	-	(1,073,365)
Office furniture and equipment	(12,370,861)	(995,812)	-	(13,366,673)
Total accumulated depreciation	<u>(59,575,506)</u>	<u>(4,463,590)</u>	<u>-</u>	<u>(64,039,096)</u>
Total capital assets, being depreciated, net	<u>75,291,654</u>	<u>(4,276,813)</u>	<u>-</u>	<u>71,014,841</u>
Total capital assets, net	<u>\$ 98,115,657</u>	<u>\$ 275,887</u>	<u>\$ (188,898)</u>	<u>\$ 98,202,646</u>

CITY OF GILROY, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2019

5. INVESTMENT IN JOINT VENTURE

The City of Gilroy and the City of Morgan Hill are members of a joint venture (South County Regional Wastewater Authority) that provides for the construction, ownership, maintenance and operation of a domestic sewer treatment plant. The agreement provides for the participants’ right to use the system. The participants are also obligated to share annual direct operating costs. The City of Gilroy maintains the accounting records for the joint venture. The City of Gilroy’s interest in joint venture assets is reflected on the statement of net position of the City’s sewer enterprise fund as an “investment in joint venture” in the amount of \$69,038,625 as required under the equity method of accounting for investments. The financial statements of the joint venture can be obtained from the City of Gilroy’s finance department.

6. DEFICIT FUND BALANCES/NET POSITION

As of June 30, 2019, deficit fund balances/net position were recorded in the following funds:

	<u>Fund Deficit</u>
Major Fund:	
Public Facilities Impact Capital Projects Fund	\$ (3,182,011)
Other Governmental Funds:	
Pavement Management Special Revenue Fund	(1,024,300)
Bank Interest Capital Projects Fund	(51)
Internal Service Funds:	
Fringe Benefits	(5,907)

The deficit in the Public Facilities Impact Capital Projects Fund will be reduced through future revenues.

The deficits in the Other Governmental Funds will be reduced through additional grant revenue.

7. COMPLIANCE WITH BUDGETARY LIMITATIONS

For the fiscal year ended June 30, 2019, the following funds reflected expenditures in excess of budgeted amounts:

	<u>Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Other Governmental Funds:			
Special Revenue Funds:			
Housing Trust	\$ 575,184	\$ 609,002	\$ (33,818)

8. *PROPERTY TAXES*

Property taxes in the State of California are administered for all local agencies at the County level, and consist of secured, unsecured and utility tax rolls. The following is a summary of major policies and practices relating to property taxes:

Property Valuations - are established by the Assessor of the County of Santa Clara for the secured and unsecured property tax rolls; the utility property tax roll is valued by the State Board of Equalization. Under the provisions of Article XIII A of the State Constitution (Proposition 13 adopted by the voters on June 6, 1978), properties are assessed at 100% of full value. From this base of assessment, subsequent annual increases in valuation are limited to a maximum of 2%. However, increases to full value are allowed for property improvements or upon change in ownership. Personal property is excluded from these limitations and is subject to annual reappraisal.

Tax Levies - are limited to 1% of full market value which results in a tax rate of \$1.00 per \$100 assessed valuation, under the provisions of Proposition 13. Tax rates for voter-approved indebtedness are excluded from this limitation.

Tax Levy Dates - are attached annually on March 1 preceding the fiscal year for which the taxes are levied. The fiscal year begins July 1 and ends June 30 of the following year. Taxes are levied on both real and unsecured personal property as it exists at that time. Liens against real estate, as well as the tax on personal property, are not relieved by subsequent renewal or change in ownership.

Tax Collections - are the responsibility of the County Tax Collector. Taxes and assessments on secured and utility rolls which constitute a lien against the property may be paid in two installments. The first is due on November 1 of the fiscal year and is delinquent if not paid by December 10, and the second is due on March 1 of the fiscal year and is delinquent if not paid by April 10. Unsecured personal property taxes do not constitute a lien against real property unless the taxes become delinquent. Payment must be made in one installment, which is delinquent if not paid by August 31 of the fiscal year. Significant penalties are imposed by the County for late payments.

Tax Levy Apportionments - Due to the nature of the City-wide maximum levy, it is not possible to identify general purpose tax rates for specific entities. Under State legislation adopted subsequent to the passage of Proposition 13, apportionments to local agencies are made by the County Auditor-Controller based primarily on the ratio that each agency represented of the total City-wide levy for the three years prior to fiscal year 1979.

Property Tax Administration Fees - The State of California fiscal year 1990-91 Budget Act authorized counties to collect an administrative fee for collection and distribution of property taxes. Property taxes are recorded as net of administrative fees withheld during the fiscal year.

9. *DEFERRED COMPENSATION*

The City maintains a deferred compensation plan under Section 457 of the Internal Revenue Code (IRC) for the benefit of its employees. The plan allows the employees to defer or postpone the taxation of a designated amount of earnings set aside for retirement.

CITY OF GILROY, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2019

9. DEFERRED COMPENSATION (CONTINUED)

The City has a fiduciary responsibility to safeguard the assets of the program and to ensure that the plan is properly maintained by the plan administrator. Generally speaking, assets are available to participants only upon termination of employment with the City, retirement, death or disability. The City has placed the plan assets into a trust for the exclusive benefit of plan participants and their beneficiaries. Accordingly, all plan assets have been excluded from the accompanying financial statements, except for those plan assets for which the City provides record keeping services.

10. DEFINED CONTRIBUTION PENSION PLAN

The City contributes to the Public Agency Retirement System (PARS), a defined contribution pension plan. Employees of the City not otherwise eligible for participation in PERS are eligible for participation in this plan. Under an adoption agreement dated February 1, 1992 as the effective date, the employer and the employee are required to contribute 1.3% (Plus Trust Administration fees) and 6.2% of each participant's compensation, respectively. For the year ended June 30, 2019, the employer and employees contributed \$104,921. Under this plan, normal retirement age is sixty years of age. Plan assets are invested in money market funds.

11. LONG-TERM LIABILITIES

The following is a summary of changes in the City's long-term liabilities for the fiscal year ended June 30, 2019:

	Balance July 1, 2018	Additions	Deletions	Balance June 30, 2019	Due Within One Year
Governmental Activities:					
Other debt:					
General Obligation Bonds:					
Library 2009 Series	\$ 8,815,000	\$ -	\$ (8,815,000)	\$ -	\$ -
Library 2010 Series	19,930,000	-	(580,000)	19,350,000	605,000
Refunding Lease Revenue Bonds:					
2010 Series	19,310,000	-	(860,000)	18,450,000	895,000
2013 Series	19,940,000	-	(875,000)	19,065,000	910,000
Unamortized premium	1,715,166	-	(132,984)	1,582,182	-
Loan payable	1,037,719	-	(89,708)	948,011	90,582
Direct borrowings and placements					
General Obligation Bonds:					
Library 2019 Series	-	8,633,538	-	8,633,538	290,960
Other long-term liabilities					
Compensated absences	1,836,152	3,453,549	(3,566,184)	1,723,517	172,000
Claims payable (Note 13)	3,026,718	2,547,729	(1,709,624)	3,864,823	982,000
Total	<u>\$ 75,610,755</u>	<u>\$ 14,634,816</u>	<u>\$ (16,628,500)</u>	<u>\$ 73,617,071</u>	<u>\$ 3,945,542</u>
Business-type Activities:					
Other debt:					
2010 Wastewater Revenue Bonds	\$ 11,275,000	\$ -	\$ (2,045,000)	\$ 9,230,000	\$ 2,150,000
Unamortized premium	931,034	-	(232,759)	698,275	-
Other long-term liabilities					
Compensated absences	192,453	374,205	(379,908)	186,750	18,700
Total	<u>\$ 12,398,487</u>	<u>\$ 374,205</u>	<u>\$ (2,657,667)</u>	<u>\$ 10,115,025</u>	<u>\$ 2,168,700</u>

CITY OF GILROY, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2019

11. LONG-TERM LIABILITIES (CONTINUED)

General Obligation Bonds (Gilroy Community Library Project) 2009 Series

On May 5, 2009, the City of Gilroy issued General Obligation Bonds 2009 Series, in the amount of \$10,500,000. The proceeds from the issue were used to finance the acquisition, construction and improvement of facilities for the public library within the City.

The bonds were refunded on June 26, 2019 with proceeds from the 2019 General Obligation Refunding Bonds, Series A.

General Obligation Bonds (Gilroy Community Library Project) 2019 Refunding Bonds, Series A

On June 26, 2019, the City of Gilroy issued General Obligation Refunding Bonds 2019 Series A through a private placement, in the amount of \$8,633,538. The proceeds from the issue were used to currently refund the General Obligation Bonds Series 2009. The City's refunding of the 2009 General Obligation Bonds resulted in an economic gain of (difference between the present value of the old and new debt) of \$1,447,576 and an aggregate savings in debt services between the refunding debt and the refunded debt of \$1,966,116.

Interest on the bonds is payable semiannually on February 1 and August 1 of each year commencing on February 1, 2011, and the Bonds mature on February 1, 2039. The bonds are payable solely from ad valorem property taxes levied by the City and collected by the County. The principal balance of outstanding bonds at June 30, 2019 is \$8,633,538.

The annual debt service requirements to maturity for the General Obligation Refunding Bonds, 2019 Series A are as follows:

General Obligation Refunding Bonds, 2019 Series A			
Fiscal Year Ending	Principal	Interest	Total
2020	\$ 290,960	\$ 160,872	\$ 451,832
2021	326,786	260,288	587,074
2022	337,143	250,094	587,237
2023	347,829	239,574	587,403
2024	358,853	228,722	587,575
2025 - 2029	1,972,250	968,396	2,940,646
2030 - 2034	2,305,249	640,596	2,945,845
2035 - 2039	2,694,468	257,445	2,951,913
Totals	<u>\$ 8,633,538</u>	<u>\$ 3,005,987</u>	<u>\$ 11,639,525</u>

CITY OF GILROY, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2019

11. LONG-TERM LIABILITIES (CONTINUED)

General Obligation Bonds (Gilroy Community Library Project) 2010 Series

On July 21, 2010, the City of Gilroy issued General Obligation Bonds 2010 Series, in the amount of \$23,500,000. The proceeds from the issue are being used to finance the acquisition, construction and improvement of facilities for the public library within the City.

Interest on the bonds is payable semiannually on February 1 and August 1 of each year commencing on February 1, 2011, and the Bonds mature on February 1, 2040. The bonds are payable solely from ad valorem property taxes levied by the City and collected by the County. The principal balance of outstanding bonds at June 30, 2019 is \$19,350,000.

The annual debt service requirements to maturity for the General Obligation Bonds, 2010 Series are as follows:

Library 2010 Series			
Fiscal Year Ending	Principal	Interest	Total
2020	\$ 605,000	\$ 817,563	\$ 1,422,563
2021	620,000	799,413	1,419,413
2022	650,000	768,413	1,418,413
2023	675,000	745,663	1,420,663
2024	700,000	722,038	1,422,038
2025 - 2029	3,935,000	3,160,038	7,095,038
2030 - 2034	4,835,000	2,258,750	7,093,750
2035 - 2039	5,970,000	1,129,538	7,099,538
2040	1,360,000	61,200	1,421,200
Totals	<u>\$ 19,350,000</u>	<u>\$ 10,462,616</u>	<u>\$ 29,812,616</u>

Refunding Lease Revenue Bonds (LRBs) 2010 Series

On July 27, 2010, the City of Gilroy refinanced its 2009 BANs and issued Refunding Revenue Bonds, in the amount of \$24,475,000. The proceeds from the issue were used to redeem the 2009 BANs.

Interest on the bonds is payable semiannually on May 1 and November 1 of each year commencing on May 1, 2011, and the Bonds mature on November 1, 2033. The principal balance of outstanding bonds at June 30, 2019 is \$18,450,000. The reserve requirement on the bonds was \$1,744,606, and the actual reserve was \$1,775,400.

CITY OF GILROY, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2019

11. LONG-TERM LIABILITIES (CONTINUED)

Refunding Lease Revenue Bonds (LRBs) 2010 Series (Continued)

The annual debt service requirements to maturity for the Refunding Lease Revenue Bonds 2010 Series are as follows:

PFA 2010 Series			
Fiscal Year Ending	Principal	Interest	Total
2020	\$ 895,000	\$ 847,206	\$ 1,742,206
2021	930,000	810,706	1,740,706
2022	965,000	775,219	1,740,219
2023	1,005,000	738,231	1,743,231
2024	1,045,000	697,231	1,742,231
2025 - 2029	5,950,000	2,764,309	8,714,309
2030 - 2034	7,660,000	1,047,375	8,707,375
Totals	<u>\$ 18,450,000</u>	<u>\$ 7,680,277</u>	<u>\$ 26,130,277</u>

Refunding Lease Revenue Bonds (LRBs) 2013 Series

On July 25, 2013, the City of Gilroy refinanced its Bond Anticipation Notes (BANs) Gilroy 2010 and issued Refunding Revenue Bonds, in the amount of \$23,120,000. The proceeds from the issue were used to redeem the 2010 BANs.

Interest on the bonds is payable semiannually on May 1 and November 1 of each year commencing on November 1, 2013, and the Bonds mature on November 1, 2033. The principal balance of outstanding bonds at June 30, 2019 is \$19,065,000.

The reserve requirement was \$920,222, and the actual reserve was \$927,183.

The annual debt service requirements to maturity for the Refunding Lease Revenue Bonds 2013 Series are as follows:

PFA 2013 Series			
Fiscal Year Ending	Principal	Interest	Total
2020	\$ 910,000	\$ 928,769	\$ 1,838,769
2021	945,000	891,669	1,836,669
2022	990,000	848,018	1,838,018
2023	1,035,000	805,156	1,840,156
2024	1,080,000	760,044	1,840,044
2025 - 2029	6,160,000	3,034,372	9,194,372
2030 - 2034	7,945,000	1,241,100	9,186,100
Totals	<u>\$ 19,065,000</u>	<u>\$ 8,509,128</u>	<u>\$ 27,574,128</u>

CITY OF GILROY, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2019

11. LONG-TERM LIABILITIES (CONTINUED)

Loan Payable

The City entered into a loan agreement with the California Energy Commission (CEC) to provide funds to install equipment for energy conservation. The original loan agreement was for the CEC to loan the City \$1,812,722 with interest paid at 1% with semiannual payments to be paid commencing December following the year the project is complete. The City borrowed \$1,201,155 with semiannual payments of interest and principal of \$49,931 with the first payment occurring on December 27, 2016.

The principal balance outstanding on the loan at June 30, 2019 is \$948,011.

The future estimated payments on the loan are as follows:

Loan Payable			
Fiscal Year Ending	Principal	Interest	Total
2020	\$ 90,582	\$ 9,280	\$ 99,862
2021	91,515	8,347	99,862
2022	92,433	7,429	99,862
2023	93,359	6,503	99,862
2024	94,281	5,581	99,862
2025 - 2029	485,841	13,468	499,309
Totals	\$ 948,011	\$ 50,608	\$ 998,619

Compensated Absences

The City's policies relating to compensated absences are described in Note 1(m) of the Notes to the Basic Financial Statements. At June 30, 2019, the liability outstanding for compensated absences associated with governmental activities was \$1,723,517 and \$186,750 associated with business-type activities. The compensated absences from the governmental activities are primarily liquidated from the general fund and from the business-type activities from the sewer and water enterprise funds.

2010 Wastewater Revenue Refunding Bonds

On March 1, 2010, the City issued revenue refunding bonds in the amount of \$23,375,000. The bonds were issued to refinance an existing installment payment obligation of the City. The City had originally structured the sewer revenue bonds through its joint venture with Morgan Hill (South County Regional Wastewater Authority or SCRWA). The structure consisted of a pledge of an installment sale from the City to SCRWA as the collateral for the revenue bonds issued by SCRWA.

11. LONG-TERM LIABILITIES (CONTINUED)

2010 Wastewater Revenue Refunding Bonds (Continued)

As part of the March 2010 refunding, the City issued the debt obligation, paid off the SCRWA bonds and now has the new obligation in the sewer fund. There is no longer any outstanding debt on SCRWA’s financial statements for Gilroy. The City’s sewer enterprise fund now maintains an obligation to generate net revenues to pay its outstanding obligation off over time without any responsibility or requirements from SCRWA.

The bonds are payable from the net revenues of the City’s Sewer Fund so pledged as security for the debt. Interest on the bonds is payable at rates ranging from 3.0% to 5.0%. Principal payments range from \$1,465,000 to \$2,440,000 payable on August 1 of each year beginning in 2011 and maturing in 2022. The principal balance of outstanding bonds at June 30, 2019 is \$9,230,000.

Covenants within the bonds require the City of Gilroy to, among other things, maintain insurance on the facility, establish wastewater rates, exclusive of sewer development fees, which are sufficient to pay the operating costs and debt service on the bonds and to provide revenues equal to at least 1.2 times the annual payments due.

The reserve requirement was \$2,621,000, and the actual reserve was \$2,621,000.

The annual debt service requirements (principal and interest) to maturity for the 2010 Wastewater Revenue Refunding Bonds are as follows:

2010 Wastewater			
Fiscal Year Ending	Principal	Interest	Total
2020	\$ 2,150,000	\$ 407,750	\$ 2,557,750
2021	2,260,000	297,500	2,557,500
2022	2,380,000	181,500	2,561,500
2023	2,440,000	61,000	2,501,000
Totals	<u>\$ 9,230,000</u>	<u>\$ 947,750</u>	<u>\$ 10,177,750</u>

12. OTHER POST-EMPLOYMENT HEALTHCARE PLAN

Plan Description

The City of Gilroy Retiree Healthcare Plan (Plan) is a single-employer defined benefit healthcare plan administered by the City. The plan provides healthcare benefits to eligible retirees and their dependents through the California Public Employee’s Retirement System healthcare program (PEMHCA) and a post-employment retention/recognition incentive benefit program (RRIB) which requires proof of medical coverage. Benefit provisions are established and may be amended through agreements and memorandums of understanding between the City, its management employees and unions representing City employees.

12. OTHER POST-EMPLOYMENT HEALTHCARE PLAN (CONTINUED)

Plan Description (Continued)

For all retirees under the plan, the City contributes the PEMHCA minimum on the unequal method for eligible retirees and surviving spouses. The PEMHCA minimum amount is \$133 in 2018 and \$136 in 2019. No dental, vision or life insurance benefits are provided.

The RRIB incentive benefit is for certain bargaining units' retirees that retired prior to July 1, 2014 (police and fire employees), July 1, 2015 (management employees) or November 1, 2015 (AFSCME, miscellaneous employees). Prior employees that retired and were fifty (50) or more years of age (police and fire employees) or fifty-five (55) or more years of age (AFSCME and management employees) and previously retired from City service with a minimum of fifteen (15) years of service with the City are eligible to receive this postretirement benefit until reaching the age of sixty-five (65). Additional tiers of years of service were added to the plan to qualify for benefits. This supplemental pension plan has been discontinued for new participants after the dates noted above. The City offers a Health Reimbursement Plan (PEMHCA) for new retirees after the dates noted above.

The employer contribution under RRIB provides a temporary monthly annuity (to age 65) up to \$300 per month based on service at retirement to eligible retirees. All classes of employees are covered, if eligible.

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75. The plan does not issue a separate report.

Employees Covered

At the measurement date of June 30, 2018, the following current and former employees were covered by the benefit terms under the plan:

Inactive currently receiving benefits	93
Inactive entitled to but not yet receiving benefits	110
Active employees	<u>243</u>
 Total	 <u><u>446</u></u>

Total OPEB Liability

The City's OPEB liability of \$14,934,000 was measured as of June 30, 2018 and was determined by an actuarial valuation as of June 30, 2017 rolled forward to 2018 using standard update procedures. The OPEB liability from the governmental activities is primarily liquidated from the general fund.

12. OTHER POST-EMPLOYMENT HEALTHCARE PLAN (CONTINUED)

Actuarial Assumptions and Other Inputs

The total OPEB liability as of June 30, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Valuation Date	June 30, 2017
Measurement Date	June 30, 2018
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	3.87% Bond Buyer 20 Index
Projected Salary Increase	3.00% per annum, in aggregate
Expected long term investment rate of return	not applicable
Healthcare Cost Trend Rates	Non-Medicare - 7.5% for 2019 decreasing to 4% in 2076 Medicare - 6.5% for 2019, decreasing to 4% in 2076
Pre-retirement Turnover	Derived from CalPERS pension plan
Mortality, Retirement, Disability, Termination	CalPERS 1997-2011 Experience Study
Mortality Improvement	Projected fully generational with Scale MP-2017
Medical Plan at Retirement	Current active and retirees - current election
Healthcare Participation at Retirement	Current Actives PEMCHA Minimum - 60% RRIB - 100% Current retirees: current election

The discount rate was based on a high-quality 20-year tax-exempt bond buyer index rate. The municipal bond rate utilized was 3.87%.

CITY OF GILROY, CALIFORNIA
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12. OTHER POST-EMPLOYMENT HEALTHCARE PLAN (CONTINUED)

Changes in total OPEB Liability

The change in total OPEB liability are as follows:

	<u>Total OPEB Liability</u>
Balance at June 30, 2017 (Measurement Date)	<u>\$ 14,781,000</u>
Changes in the Year:	
Service cost	723,000
Interest on the total OPEB liability	546,000
Differences between expected and actual experience	-
Changes in assumptions	(625,000)
Changes in benefit terms	-
Contribution - employer	-
Administrative expenses	-
Benefit payments	<u>(491,000)</u>
Net Changes	<u>153,000</u>
Balance at June 30, 2018 (Measurement Date)	<u><u>\$ 14,934,000</u></u>

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the City, calculated using the discount rate for the Plan, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	1% Decrease <u>(2.87%)</u>	Discount Rate <u>(3.87%)</u>	1% Increase <u>(4.87%)</u>
Total OPEB Liability	<u>\$ 17,272,000</u>	<u>\$ 14,934,000</u>	<u>\$ 13,051,000</u>

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12. OTHER POST-EMPLOYMENT HEALTHCARE PLAN (CONTINUED)

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate (Continued)

The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher) than the current healthcare cost trend rates:

	1% Decrease	Current Healthcare Cost Trend Rates	1% Increase
Total OPEB Liability	\$ 12,860,000	\$ 14,934,000	\$ 17,577,000

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the year ended June 30, 2019, the City recognized OPEB expense of \$922,000. 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
Employer contributions made subsequent to the measurement date	\$ 524,000	\$ -
Change in assumptions	-	(1,715,000)
Total	<u>\$ 524,000</u>	<u>\$ (1,715,000)</u>

\$524,000 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the OPEB liability in the year ending June 30, 2020. The change in assumptions was due to the change in discount rate of 3.87% from 3.58% for the June 30, 2018 measurement date and is amortized over the average expected remaining service lives.

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

Year Ending June 30,	Amount
2020	\$ (347,000)
2021	(347,000)
2022	(347,000)
2023	(347,000)
2024	(260,000)
Thereafter	(67,000)

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13. CLAIMS PAYABLE

The workers' compensation and general liability claims administrators have estimated liabilities for probable future payments relating to claims outstanding as of June 30, 2019 in the following amounts which are recorded in separate internal service funds:

Workers' compensation claims	\$ 3,254,870
General liability claims	<u>609,953</u>
 Total claims payable	 <u>\$ 3,864,823</u>

Although the eventual outcome of these claims is uncertain, in the opinion of management, the resolution of these matters is not expected to have a material adverse effect on the financial condition of the City, beyond the provision for losses reflected in the recorded claims payable liabilities.

Changes in claims payable for workers' compensation for the past three fiscal years are as follows:

Fiscal Year	Beginning Balance	Claims and Incurred and Changes in Estimates	Claims Payments	Ending Balance
2016-2017	\$ 2,778,674	\$ 1,304,738	\$ (1,091,907)	\$ 2,991,505
2017-2018	2,991,505	485,364	(588,389)	2,888,480
2018-2019	2,888,480	1,433,203	(1,066,813)	3,254,870

Changes in claims payable for general liability for the past three fiscal years are as follows:

Fiscal Year	Beginning Balance	Claims and Incurred and Changes in Estimates	Claims Payments	Ending Balance
2016-2017	\$ 190,366	\$ 217,751	\$ (181,143)	\$ 226,974
2017-2018	226,974	77,496	(166,232)	138,238
2018-2019	138,238	1,114,526	(642,811)	609,953

14. INSURANCE

Bodily injury, property damage and public officials' errors and omissions insurance is provided via participation in a joint powers authority. Effective July 1, 2015, the City is a member of the Municipal Pooling Authority (MPA), a joint powers authority established pursuant to California Government Code Sections 990.4-990.8 and 6500, et seq. The pool has 20 member cities. The City is insured by the MPA for up to \$29,000,000 per claim for liability coverage, including \$28,000,000 provided by an excess policy with the California Affiliated Risk Management Authority, after a deductible of \$50,000 which is paid by the City. Premiums paid by the participating members may be retrospectively increased or decreased to reflect the actual operating costs of MPA and the City's share of incurred losses. The City is contingently liable for assessments which may be made by MPA in the event that MPA has insufficient resources to pay unexpectedly large claims. Prior to July 1, 2015, the City was a member of the ABAG Plan Corp. (ABAG Plan) insurance pool, a nonprofit public benefit corporation organized under Section 5110, et seq. of the Corporations Code of California. ABAG Plan coverage applies to occurrences/claims prior to July 1, 2015. For claims prior to July 1, 2015, the City is insured by the ABAG Plan for up to \$25,000,000 per claim for liability coverage, including \$20,000,000 provided by excess policies, after a deductible of \$50,000 which is paid by the City. The City is operating under a five year withdrawal agreement with ABAG Plan due to unresolved claims that have not yet closed. It is expected that all the City's claims will close over the five year withdrawal agreement period. Based on annual actuarial valuations, the City will either pay an assessment or receive a refund depending upon the outcome of the remaining City claims.

The City is self-insured for the first \$500,000 of each workers' compensation claim. The City belongs to the Local Agency Workers' Compensation Excess (LAWCX) joint powers authority, established pursuant to California Government Code Sections 990.4-990.8 and 6500 et seq., for the purpose of workers' compensation excess coverage. LAWCX coverage is for individual workers' compensation claims in excess of \$500,000 up to \$5,000,000. In addition, additional excess coverage beyond \$5,000,000 is purchased via California State Association of Counties Excess Insurance Authority (CSAC EIA) bringing statutory coverage to \$50,000,000.

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

15. DEFINED BENEFIT PENSION PLANS (CalPERS)

a. General Information about the Pension Plans

Plan Descriptions

The City participates in the 2.5% at 55 (Miscellaneous Tier I), 2.0% at 62 (Miscellaneous Tier II PEPR), 3.0% at 50 (Police Safety Tier I), 2.0% at 50 (Police Safety Tier II), 2.7% at 57 (Police Safety Tier III PEPR), 3% at 55 (Fire Safety Tier I), 2% at 55 (Fire Safety Tier II) and 2% at 57 (Fire Safety Tier III PEPR) agent multiple-employer defined benefit plans. The City's defined benefit pension plans provide retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. The Plans are part of the Public Agency portion of the California Public Employees Retirement System (CalPERS), an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions as well as other requirements are established by state statutes within the Public Employees' Retirement Law.

The City selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through City ordinance. CalPERS issues a separate comprehensive annual financial report. Copies of CalPERS's annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

All full-time employees of the City are eligible to participate in the Plans. Part-time employees and temporary employees who work an average of 20 hours per week and over 1,000 hours per year are also eligible to participate. Upon 5 years of service, miscellaneous employees and public safety employees who retire at or after age 50 are entitled to receive an annual retirement benefit.

The benefit is payable monthly for life, in an amount that varies from each Tier, of the employees' single highest year's salary for each year of credited service. The Plans also provide death and disability benefits.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 to 62 with statutorily reduced benefits. For employees hired into a plan with the 1.5% at 65 formula, eligibility for service retirement is age 55 with at least five years of services. PEPR miscellaneous members become eligible for service retirement upon attainment of age 52 with at least five years of service. All members are eligible for nonduty disability benefits after five years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit or the Optional Settlement 2W Death Benefit.

CITY OF GILROY, CALIFORNIA
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June 30, 2019

15. DEFINED BENEFIT PENSION PLANS (CalPERS) (CONTINUED)

a. General Information about the Pension Plans (Continued)

Benefits Provided (Continued)

Safety members can receive a special death benefit if the member dies while actively employed and the death is job-related. Fire members may receive the alternate death benefit in lieu of the Basic Death Benefit or the 1957 Survivor Benefit if the member dies while actively employed and has at least 20 years of total CalPERS service. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plans' provisions and benefits in effect at the measurement date of June 30, 2018 are summarized as follows:

	Miscellaneous	
	Prior to January 1, 2013	On or After January 1, 2013
Hire date		
Benefit formula	2.5%@55	2.0%@62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 67	52 - 67
Monthly benefits, as a % of eligible compensation	2.0% to 2.5%	1.0% to 2.5%
Required employee contribution rates	8.00%	6.25%
Required employer contribution rates	10.359%	6.25%
Payment of unfunded liability	\$ 1,600,573	-

	Safety - Police		
	Prior to January 5, 2011	Prior to January 1, 2013	On or After January 1, 2013
Hire date			
Benefit formula	3.0%@50	2.0%@50	2.7%@57
Benefit vesting schedule	5 years of service	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50 - 55	50 - 55	50 - 57
Monthly benefits, as a % of eligible compensation	3.00%	2.00% to 2.70%	2.0% to 2.7%
Required employee contribution rates	9%	9%	12.00%
Required employer contribution rates	19.082%	19.082%	8.25%
Payment of unfunded liability	\$ 2,432,393	-	-

CITY OF GILROY, CALIFORNIA
Notes to Basic Financial Statements
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15. DEFINED BENEFIT PENSION PLANS (CalPERS) (CONTINUED)

a. General Information about the Pension Plans (Continued)

Benefits Provided (Continued)

	Safety - Fire		
	Prior to January 5, 2011	Prior to January 1, 2013	On or After January 1, 2013
Hire date			
Benefit formula	3.0%@55	2.0%@55	2.0%@57
Benefit vesting schedule	5 years of service	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50 - 55	50 - 55	50 - 57
Monthly benefits, as a % of eligible compensation	2.4% to 3.0%	1.426% to 2.0%	1.426% to 2.0%
Required employee contribution rates	9%	7%	8.25%
Required employer contribution rates	19.082%	19.082%	8.250%
Payment of unfunded liability	\$ 2,432,393	-	-

Employees Covered

At the measurement date of June 30, 2018, the following employees were covered by the benefit terms for all Plans:

	Miscellaneous	Safety
Inactive employees or beneficiaries currently receiving benefits	221	133
Inactive employees entitled to but not yet receiving benefits	156	40
Active employees	140	101
Total	<u>517</u>	<u>274</u>

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS's annual actuarial valuation process. 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. City contribution rates may change if plan contracts are amended. Payments made by the employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contributions requirements are classified as plan member contributions.

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15. DEFINED BENEFIT PENSION PLANS (CalPERS) (CONTINUED)

b. Net Pension Liability

The City’s net pension liability for each Plan is measured as the total pension liability, less the pension plan’s fiduciary net position. The net pension liability of each of the Plans is measured as of June 30, 2018, using an annual actuarial valuation as of June 30, 2017 rolled forward to June 30, 2018 using standard update procedures. The pension liability from the governmental activities are primarily liquidated from the general fund and from the business-type activities from the sewer and water enterprise funds. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

Actuarial Assumptions

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

	<u>Miscellaneous</u>	<u>Safety</u>
Valuation Date	June 30, 2017	June 30, 2017
Measurement Date	June 30, 2018	June 30, 2018
Actuarial Cost Method	Entry-Age Normal Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:		
Discount Rate	7.15%	7.15%
Inflation	2.50%	2.50%
Projected Salary Increase	(1)	(1)
Mortality Rate Table	(2)	(2)
Post-Retirement Benefit Income	(3)	(3)

- (1) Varies by entry age and service.
- (2) The mortality table used was developed based on CalPERS-specific data. The table includes 15 years of mortality improvements using the Society of Actuaries Scale of 90% of scale MP 2016. For more details on this table, please refer to the December 2017 experience study report (based on CalPERS demographic data from 1997 to 2015) that can be found on the CalPERS
- (3) Contract COLA up to 2.00% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.50% thereafter.

15. DEFINED BENEFIT PENSION PLANS (CalPERS) (CONTINUED)

b. Net Pension Liability (Continued)

Long-Term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

The expected real rates of return by asset class are as follows:

Asset Class (a)	Assumed Asset Allocation	Real Return Years 1 - 10 (a)	Real Return Years 11+ (b)
Global Equity	50.00%	4.80%	5.98%
Fixed Income	28.00%	1.00%	2.62%
Inflation assets	0.00%	0.77%	1.81%
Private Equity	8.00%	6.30%	7.23%
Real Estate	13.00%	3.75%	4.92%
Liquidity	1.00%	0.00%	-0.92%
Total	100.00%		

(a) In the CalPERS CAFR, Fixed Income is included in Global Debt Securities; 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 2.00% used for this period.

(c) An expected inflation of 2.92% used for this period.

15. DEFINED BENEFIT PENSION PLANS (CalPERS) (CONTINUED)

b. Net Pension Liability (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.15%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Subsequent Events

There were no subsequent events that would materially affect the results in this disclosure.

CITY OF GILROY, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2019

15. DEFINED BENEFIT PENSION PLANS (CalPERS) (CONTINUED)

c. Changes in the Net Pension Liability

The changes in the net pension liability for all of the Miscellaneous Plans are as follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balance at June 30, 2017 (Measurement Date)	\$104,416,002	\$ 74,227,735	\$ 30,188,267
Changes in the Year:			
Service cost	2,107,888	-	2,107,888
Interest on the total pension liability	7,397,421	-	7,397,421
Changes in benefit terms	-	-	-
Changes in assumptions	(870,201)	-	(870,201)
Differences between actual and expected experience	1,618,519	-	1,618,519
Net plan to plan resource movement		(182)	182
Contributions - employer	-	2,796,490	(2,796,490)
Contributions - employees	-	1,003,145	(1,003,145)
Net investment income	-	6,275,073	(6,275,073)
Benefit payments, including refunds of employee contributions	(5,515,662)	(5,515,662)	-
Administrative expense		(115,667)	115,667
Other miscellaneous expense	-	(219,654)	219,654
Net Changes	4,737,965	4,223,543	514,422
Balance at June 30, 2018 (Measurement Date)	\$109,153,967	\$ 78,451,278	\$ 30,702,689

CITY OF GILROY, CALIFORNIA
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15. DEFINED BENEFIT PENSION PLANS (CalPERS) (CONTINUED)

c. Changes in the Net Pension Liability (Continued)

The changes in the net pension liability for all of the Safety Plans are as follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balance at June 30, 2017 (Measurement Date)	<u>\$158,145,861</u>	<u>\$106,284,831</u>	<u>\$ 51,861,030</u>
Changes in the Year:			
Service cost	3,782,506	-	3,782,506
Interest on the total pension liability	11,090,179	-	11,090,179
Changes in benefit terms	-	-	-
Changes in assumptions	(633,599)	-	(633,599)
Differences between actual and expected experience	(600,354)	-	(600,354)
Net plan to plan resource movement		(263)	263
Contributions - employer	-	4,906,333	(4,906,333)
Contributions - employees	-	1,196,981	(1,196,981)
Net investment income	-	8,983,812	(8,983,812)
Benefit payments, including refunds of employee contributions	(7,391,540)	(7,391,540)	-
Administrative expenses		(165,621)	165,621
Other miscellaneous expense	-	(314,517)	314,517
Net Changes	<u>6,247,192</u>	<u>7,215,185</u>	<u>(967,993)</u>
Balance at June 30, 2018 (Measurement Date)	<u>\$164,393,053</u>	<u>\$113,500,016</u>	<u>\$ 50,893,037</u>

15. DEFINED BENEFIT PENSION PLANS (CalPERS) (CONTINUED)

c. Changes in the Net Pension Liability (Continued)

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

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

	<u>Miscellaneous</u>	<u>Safety</u>
1% Decrease	6.15%	6.15%
Net Pension Liability	\$ 44,345,783	\$ 73,445,735
Current Discount Rate	7.15%	7.15%
Net Pension Liability	\$ 30,702,689	\$ 50,893,037
1% Increase	8.15%	8.15%
Net Pension Liability	\$ 19,338,445	\$ 32,347,387

Pension Plans Fiduciary Net Position

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

d. Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

For the year ended June 30, 2019, the City recognized pension expense of \$4,582,938 and \$7,267,595 in the Miscellaneous and Safety Plans, respectively. At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Miscellaneous</u>	
	<u>Deferred</u>	<u>Deferred</u>
	<u>Outflows</u>	<u>Inflows</u>
	<u>of Resources</u>	<u>of Resources</u>
Pension contributions subsequent to measurement date	\$ 3,255,647	\$ -
Differences between expected and actual experience	1,019,068	(544,810)
Change in assumptions	1,111,613	(547,904)
Net differences between projected and actual earnings on plan investments	132,175	-
Total	<u>\$ 5,518,503</u>	<u>\$ (1,092,714)</u>

CITY OF GILROY, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2019

15. DEFINED BENEFIT PENSION PLANS (CalPERS) (CONTINUED)

d. Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

	Safety	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 5,571,528	\$ -
Differences between expected and actual experience	48,642	(1,236,669)
Change in assumptions	4,827,029	(746,817)
Net differences between projected and actual earnings on plan investments	283,783	-
Total	<u>\$ 10,730,982</u>	<u>\$ (1,983,486)</u>

\$3,255,647 reported in the Miscellaneous Plans and \$5,571,528 reported in the Safety Plans as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ending June 30,	Miscellaneous Amount	Safety Amount
2020	\$ 1,767,708	\$ 2,520,138
2021	388,666	1,777,430
2022	(775,273)	(831,213)
2023	(210,959)	(290,387)
2024	-	-
Thereafter	-	-

e. Payable to the Pension Plan

At June 30, 2019, the City had no outstanding amount of contributions to the pension plans required for the year ended June 30, 2019.

CITY OF GILROY, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2019

16. NET POSITION AND FUND BALANCES

Net Position

Net position is the excess of all the City's assets and deferred outflows of resources over all its liabilities and deferred inflows of resources, regardless of fund. Net position is divided into three captions. These captions apply only to net position, which is determined only at the government-wide level and proprietary funds are described below.

Net investment in capital assets - describes the portion of net position which is represented by the current net book value of the City's capital assets, less the outstanding balance of any debt issued to finance these assets and unspent bond proceeds from debt.

Restricted - describes the portion of net position which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws or other restrictions which the City cannot unilaterally alter.

Unrestricted - describes the portion of net position which is not restricted as to use.

Details of the three categories are as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Net investment in capital assets:		
Total capital assets,		
net of accumulated depreciation	\$ 219,369,863	\$ 91,134,932
Add: unspent bond proceeds	5,128,496	-
Less: premium on bonds	(1,582,182)	-
Less: state loan	(948,011)	-
Less: total capital related debt	<u>(65,498,538)</u>	<u>-</u>
Net investment in capital assets	<u>156,469,628</u>	<u>91,134,932</u>
Restricted for:		
Community services	1,725,410	-
Community development	45,230,191	-
Public safety	508,917	-
Debt services	<u>2,224,286</u>	<u>-</u>
Total restricted net position	<u>49,688,804</u>	<u>-</u>
Unrestricted	<u>(37,759,850)</u>	<u>100,053,259</u>
Total net position	<u><u>\$ 168,398,582</u></u>	<u><u>\$ 191,188,191</u></u>

16. NET POSITION AND FUND BALANCES (CONTINUED)

Fund Balances

As of June 30, 2019, fund balances of the governmental funds are classified as follows:

Nonspendable - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors or the laws or regulations of other governments. If the Council action limiting the use of funds is included in the same action (legislation) that created (enabled) the funding source, then it is restricted.

Committed - amounts that can be used only for specific purposes determined by a formal action of the City Council, who is the highest level of decision-making authority for the City. The City Council by adoption of a resolution, can commit fund balance prior to the end of the fiscal year. Commitments may be established, modified or rescinded only through resolutions approved by the City Council.

Assigned - amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. The City has not adopted a policy on the authority to assign amounts for specific purposes.

Unassigned - amounts that are the residual balance for the City's general fund and includes all spendable amounts not contained in other classifications. In other funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed or assigned.

CITY OF GILROY, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2019

16. NET POSITION AND FUND BALANCES (CONTINUED)

Fund Balances (Continued)

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned or unassigned fund balance are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the governing board has provided otherwise in its commitment or assignment actions.

	General Fund	Public Facilities Impact Capital Projects	Other Governmental Funds	Totals
Nonspendable:				
Inventory of materials	\$ 59,663	\$ -	\$ -	\$ 59,663
Prepaid items	16,337	-	1,000	17,337
Total nonspendable	76,000	-	1,000	77,000
Restricted for:				
Public safety	-	-	579,198	579,198
Community library	-	-	6,849,200	6,849,200
Street maintenance	-	-	5,744,524	5,744,524
Grant programs	-	-	2,225,485	2,225,485
Housing	-	-	3,321,561	3,321,561
Traffic impact	-	-	12,852,387	12,852,387
Sewer development	-	-	13,533,945	13,533,945
Water development	-	-	4,601,793	4,601,793
Storm drains	-	-	2,009,875	2,009,875
Community development	-	-	2,860,301	2,860,301
Debt service	-	-	2,866,950	2,866,950
Total restricted	-	-	57,445,219	57,445,219
Assigned to:				
Capital projects	-	-	1,483,818	1,483,818
Unassigned	27,683,870	(3,182,011)	(1,024,351)	23,477,508
Total fund balances	\$ 27,759,870	\$ (3,182,011)	\$ 57,905,686	\$ 82,483,545

16. NET POSITION AND FUND BALANCES (CONTINUED)

General Fund Balance Policy

The City's general fund reserve policy consists of an unrestricted General Fund Reserve of 25% of general fund expenditures and an Economic Stability Reserve of 15% of general fund expenditures. The Economic Stability Reserve would only be used in extraordinary circumstances, upon satisfaction of one of the following "economic triggers" and with the majority vote of the City Council: (i) state take-away of significant revenue; (ii) large drop in property taxes (decrease in assessed valuations), (iii) major business closures (sales tax and/or utility users' tax impact); (iv) dramatic drop in development from projections; (v) large unexpected drop in sales taxes (or other primary revenues - utility users' tax, franchise fees or transient occupancy tax) due to severe recession or (vi) the economic triggers cause the General Fund Reserve to fall below a predetermined percentage of expenditures (e.g. 20%). In the event the Economic Stability Reserve is used, the City is obligated to replenish the reserve by the end of the next biennial budget to 15% of the general fund expenditures for the given year.

17. COMMITMENTS AND CONTINGENCIES

The City is a defendant in various litigations in the normal course of the City's operations, the resolution of which, in the opinion of management, will not have a significant adverse effect on the City's financial position.

On July 28, 2019, the Gilroy Garlic Festival, held at Christmas Hill Park, was the site of a mass shooting. The gunman killed himself and three others and wounded 17 people. The City's response costs have been submitted to the California Governor's Office of Emergency Services (Cal OES) for reimbursement consideration. The City may incur additional financial impacts as a result of this tragedy. However, at this time the extent of those impacts is unknown.

18. DEBT WITHOUT GOVERNMENT COMMITMENT

Community Facilities District No. 2000-1, Highway 152, Special Tax Bonds

In December 2002, the City issued debt for and on behalf of Community Facilities District No. 2000-1 pursuant to Mello-Roos Community Facilities Act of 1982, \$7,185,000 of Special Tax Bonds to finance the costs associated with the construction of public facilities for interchange improvements at State Highway 152 and U.S. Highway 101 and for widening and improving of Highway 152. In September 2006, the City issued debt for and on behalf of the Community Facilities District No. 2000-1 pursuant to Mello-Roos Community Facilities Act of 1982, \$8,670,000 of Special Tax Bonds to finance the costs associated with the construction of public facilities for interchange improvements at State Highway 152 and U.S. Highway 101 and for the widening and improving of Highway 152.

18. DEBT WITHOUT GOVERNMENT COMMITMENT (CONTINUED)

Community Facilities District No. 2000-1, Highway 152, Special Tax Bonds (Continued)

These bonds (Series 2002 and 2001) were refunded in July 2018 with proceeds from the issuance in a private placement of Community Facilities District No. 2000-1 (Highway 152) Special Tax Refunded Bonds, Series 2018 in the aggregate principal amount of \$7,815,860. These bonds do not constitute a debt or obligation of the City because they are payable solely from and secured by assets and revenues of other parties. The City is in no way liable for repayment but is only acting as an agent for the property owners in collecting the assessments, forwarding the collections to bondholders, and initiating foreclosure proceedings, if appropriate. The outstanding principal balance as of June 30, 2019 was \$7,815,860.

19. SUBSEQUENT EVENTS

Events occurring after June 30, 2019 have been evaluated for possible adjustments to the financial statements or disclosure as of December 26, 2019, which is the date these financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF GILROY

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS
MISCELLANEOUS PLAN

Last Ten Fiscal Years*

Fiscal Year Ended	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Measurement Period	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Total Pension Liability:					
Service cost	\$ 2,107,888	\$ 2,119,709	\$ 1,974,107	\$ 1,914,477	\$ 1,886,470
Interest on total pension liability	7,397,421	7,057,333	6,992,371	6,720,915	6,378,166
Changes in benefits	-	-	-	-	-
Changes in assumptions	(870,201)	5,558,063	-	(1,563,145)	-
Differences between expected and actual experience	1,618,519	(2,724,046)	(878,722)	67,994	-
Benefit payments, including refunds of employee contributions	(5,515,662)	(4,810,256)	(4,335,513)	(4,140,599)	(3,800,609)
Net Change in Total Pension Liability	4,737,965	7,200,803	3,752,243	2,999,642	4,464,027
Total Pension Liability - Beginning of Year	104,416,002	97,215,199	93,462,956	90,463,314	85,999,287
Total Pension Liability - End of Year (a)	<u>\$ 109,153,967</u>	<u>\$ 104,416,002</u>	<u>\$ 97,215,199</u>	<u>\$ 93,462,956</u>	<u>\$ 90,463,314</u>
Plan Fiduciary Net Position:					
Contributions - employer	\$ 2,796,490	\$ 2,535,645	\$ 2,448,744	\$ 2,236,836	\$ 2,105,469
Contributions - employee	1,003,145	888,342	895,816	894,531	978,326
Net investment income	6,275,073	7,621,577	355,337	1,523,463	10,200,504
Benefit payments, including refunds of employee contributions	(5,515,662)	(4,810,256)	(4,335,513)	(4,140,599)	(3,800,609)
Plan to plan resource movement	(182)	-	-	-	-
Administrative and other expense	(335,321)	(100,535)	(41,912)	(77,393)	-
Net Change in Plan Fiduciary Net Position	4,223,543	6,134,773	(677,528)	436,838	9,483,690
Plan Fiduciary Net Position - Beginning of Year	74,227,735	68,092,962	68,770,490	68,333,652	58,849,962
Plan Fiduciary Net Position - End of Year (b)	<u>\$ 78,451,278</u>	<u>\$ 74,227,735</u>	<u>\$ 68,092,962</u>	<u>\$ 68,770,490</u>	<u>\$ 68,333,652</u>
Net Pension Liability - Ending (a)-(b)	<u>\$ 30,702,689</u>	<u>\$ 30,188,267</u>	<u>\$ 29,122,237</u>	<u>\$ 24,692,466</u>	<u>\$ 22,129,662</u>
Plan fiduciary net position as a percentage of the total pension liability	71.87%	71.09%	70.04%	73.58%	75.54%
Covered payroll	\$ 11,556,326	\$ 11,212,850	\$ 11,011,235	\$ 10,764,958	\$ 10,072,452
Net pension liability as percentage of covered payroll	265.68%	269.23%	264.48%	229.38%	219.70%

Notes to Schedule:

Benefit Changes:

There were no changes in benefits.

Changes in Assumptions:

From fiscal year June 30, 2015 to June 30, 2016:

GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.50% used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65% used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense.

From fiscal year June 30, 2016 to June 30, 2017:

There were no changes in assumptions.

From fiscal year June 30, 2017 to June 30, 2018:

The discount rate was reduced from 7.65% to 7.15%.

From fiscal year June 30, 2018 to June 30, 2019:

There were significant changes in assumptions.

* Fiscal year 2015 was the first year of implementation and therefore only five years are shown.

CITY OF GILROY

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS
SAFETY PLAN

Last Ten Fiscal Years*

Fiscal Year Ended	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Measurement Period	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Total Pension Liability:					
Service cost	\$ 3,782,506	\$ 3,795,030	\$ 3,436,724	\$ 3,251,786	\$ 3,441,840
Interest on total pension liability	11,090,179	10,658,420	10,258,316	9,778,748	9,235,218
Changes in benefits	-	-	-	-	-
Changes in assumptions	(633,599)	9,024,447	(557,694)	(2,444,546)	-
Differences between expected and actual experience	(600,354)	(1,138,485)	-	437,762	-
Benefit payments, including refunds of employee contributions	<u>(7,391,540)</u>	<u>(6,957,768)</u>	<u>(6,616,198)</u>	<u>(5,976,690)</u>	<u>(5,792,746)</u>
Net Change in Total Pension Liability	6,247,192	15,381,644	6,521,148	5,047,060	6,884,312
Total Pension Liability - Beginning of Year	<u>158,145,861</u>	<u>142,764,217</u>	<u>136,243,069</u>	<u>131,196,009</u>	<u>124,311,697</u>
Total Pension Liability - End of Year (a)	<u>\$ 164,393,053</u>	<u>\$ 158,145,861</u>	<u>\$ 142,764,217</u>	<u>\$ 136,243,069</u>	<u>\$ 131,196,009</u>
Plan Fiduciary Net Position:					
Contributions - employer	\$ 4,906,333	\$ 4,528,260	\$ 4,131,687	\$ 3,911,991	\$ 3,844,918
Contributions - employee	1,196,981	1,157,337	1,130,369	1,106,970	1,082,775
Net investment income	8,983,812	10,785,793	541,083	2,139,791	14,460,928
Benefit payments, including refunds of employee contributions	(7,391,540)	(6,957,768)	(6,616,198)	(5,976,690)	(5,792,746)
Plan to plan resource movement	(263)	-	-	-	-
Administrative and other expense	<u>(480,138)</u>	<u>(143,087)</u>	<u>(59,596)</u>	<u>(110,062)</u>	<u>-</u>
Net Change in Plan Fiduciary Net Position	7,215,185	9,370,535	(872,655)	1,072,000	13,595,875
Plan Fiduciary Net Position - Beginning of Year	<u>106,284,831</u>	<u>96,914,296</u>	<u>97,786,951</u>	<u>96,714,951</u>	<u>83,119,076</u>
Plan Fiduciary Net Position - End of Year (b)	<u>\$ 113,500,016</u>	<u>\$ 106,284,831</u>	<u>\$ 96,914,296</u>	<u>\$ 97,786,951</u>	<u>\$ 96,714,951</u>
Net Pension Liability - Ending (a)-(b)	<u>\$ 50,893,037</u>	<u>\$ 51,861,030</u>	<u>\$ 45,849,921</u>	<u>\$ 38,456,118</u>	<u>\$ 34,481,058</u>
Plan fiduciary net position as a percentage of the total pension liability	69.04%	67.21%	67.88%	71.77%	73.72%
Covered payroll	\$ 12,973,737	\$ 12,757,317	\$ 12,560,538	\$ 12,271,278	\$ 12,092,757
Net pension liability as percentage of covered payroll	392.28%	406.52%	365.03%	313.38%	285.14%

Notes to Schedule:

Benefit Changes:

There were no changes in benefits.

Changes in Assumptions:

From fiscal year June 30, 2015 to June 30, 2016:

GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.50% used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65% used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense.

From fiscal year June 30, 2016 to June 30, 2017:

There were no changes in assumptions.

From fiscal year June 30, 2017 to June 30, 2018:

The discount rate was reduced from 7.65% to 7.15%.

From fiscal year June 30, 2017 to June 30, 2019:

There were significant changes in assumptions.

* Fiscal year 2015 was the first year of implementation and therefore only five years are shown.

CITY OF GILROY

SCHEDULE OF CONTRIBUTIONS - MISCELLANEOUS DEFINED BENEFIT PENSION PLAN

Last Ten Fiscal Years*

Fiscal year ended	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Actuarially determined contribution	\$ 3,255,647	\$ 2,797,223	\$ 2,535,645	\$ 2,448,765	\$ 2,237,281
Contributions in relation to the actuarially determined contributions	<u>(3,255,647)</u>	<u>(2,797,223)</u>	<u>(2,535,645)</u>	<u>(2,448,765)</u>	<u>(2,237,281)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 12,814,101	\$ 11,556,326	\$ 11,212,850	\$ 11,011,235	\$ 10,764,958
Contributions as a percentage of payroll	25.41%	24.21%	22.61%	22.24%	20.78%

Notes to Schedule:

Valuation Date	6/30/2016	6/30/2015	6/30/2014	6/30/2013	6/30/2012
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Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry age	Entry age	Entry age	Entry age	Entry age
Amortization method	(1)	(1)	(1)	(1)	(1)
Asset valuation method	Market Value	Market Value	Market Value	Market Value	15 Year
					Smoothed
					Market Method
Inflation	2.75%	2.75%	2.75%	2.75%	2.75%
Salary increases	(2)	(2)	(2)	(2)	(2)
Investment rate of return	7.375% (3)	7.50% (3)	7.50% (3)	7.50% (3)	7.50% (3)
Retirement age	(4)	(4)	(4)	(4)	(4)
Mortality	(5)	(5)	(5)	(5)	(5)

- (1) Level percentage of payroll, closed.
- (2) Depending on age, service and type of employment.
- (3) Net of pension plan investment expense, including inflation.
- (4) 50 years for 2.5%@55 and 52 years (2.0%@62)**
- (5) Mortality assumptions are based on mortality rates resulting from the most recent CalPERS Experience Study adopted by the CalPERS Board.

* Fiscal year 2015 was the first year of implementation and therefore only five years are shown.

CITY OF GILROY

SCHEDULE OF CONTRIBUTIONS - SAFETY DEFINED BENEFIT PENSION PLAN

Last Ten Fiscal Years*

Fiscal year ended	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Actuarially determined contribution	\$ 5,571,528	\$ 4,906,314	\$ 4,528,260	\$ 4,131,626	\$ 3,913,165
Contributions in relation to the actuarially determined contributions	<u>(5,571,528)</u>	<u>(4,906,314)</u>	<u>(4,528,260)</u>	<u>(4,131,626)</u>	<u>(3,913,165)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 13,576,602	\$ 12,973,737	\$ 12,757,317	\$ 12,560,538	\$ 12,271,781
Contributions as a percentage of covered payroll	41.04%	37.82%	35.50%	32.89%	31.89%

Notes to Schedule:

Valuation Date	6/30/2016	6/30/2015	6/30/2014	6/30/2013	6/30/2012
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Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry age	Entry age	Entry age	Entry age	Entry age
Amortization method	(1)	(1)	(1)	(1)	(1)
Asset valuation method	Market Value	Market Value	Market Value	Market Value	15 Year
					Smoothed
					Market Method
Inflation	2.75%	2.75%	2.75%	2.75%	2.75%
Salary increases	(2)	(2)	(2)	(2)	(2)
Investment rate of return	7.375% (3)	7.50% (3)	7.50% (3)	7.50% (3)	7.50% (3)
Retirement age	(4)	(4)	(4)	(4)	(4)
Mortality	(5)	(5)	(5)	(5)	(5)

- (1) Level percentage of payroll, closed.
- (2) Depending on age, service and type of employment.
- (3) Net of pension plan investment expense, including inflation.
- (4) 50 years for the 3.0%@50, 2.0%@50, 2.7%@57, 3.0%@55, 2.0%@55 and 2.0%@57**
- (5) Mortality assumptions are based on mortality rates resulting from the most recent CalPERS Experience Study adopted by the CalPERS Board.

* Fiscal year 2015 was the first year of implementation and therefore only five years are shown.

CITY OF GILROY

SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS

Last Ten Fiscal Years*

Fiscal year end	<u>6/30/2019</u>	<u>6/30/2018</u>
Measurement date	<u>6/30/2018</u>	<u>6/30/2017</u>
Total OPEB Liability:		
Service cost	\$ 723,000	\$ 832,000
Interest on total OPEB liability	546,000	463,000
Changes in assumptions	(625,000)	(1,691,000)
Benefit payments, including refunds of	<u>(491,000)</u>	<u>(479,000)</u>
Net Change in Total OPEB Liability	153,000	(875,000)
Total OPEB Liability - Beginning of Year	<u>14,781,000</u>	<u>15,656,000</u>
Total OPEB Liability - Ending (a)-(b)	<u>\$ 14,934,000</u>	<u>\$ 14,781,000</u>
Covered employee payroll	\$ 27,610,000	\$ 26,626,000
Net OPEB liability as percentage of covered employee payroll	54.09%	55.51%

Notes to Schedule:

Benefit Changes:

There were no changes in benefits.

Changes in Assumptions:

The discount rate for the June 30, 2017 measurement date was increased to 3.58% from 2.85%.

The discount rate for the June 30, 2018 measurement date was increased to 3.87% from 3.58%.

The plan is not administered through a trust.

* Fiscal year 2018 was the first year of implementation and therefore only two years are shown.

CITY OF GILROY
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND

For the year ended June 30, 2019

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Property taxes	\$ 13,175,867	\$ 13,175,867	\$ 14,476,481	\$ 1,300,614
Document transfer tax	474,790	474,790	372,284	(102,506)
Sales tax	18,659,503	18,659,503	20,186,105	1,526,602
Utility taxes	4,332,645	4,332,645	4,721,529	388,884
Franchise taxes	1,599,275	1,599,275	1,669,817	70,542
Motor vehicle in lieu tax	23,000	23,000	26,695	3,695
Transient occupancy tax	1,812,861	1,812,861	1,771,882	(40,979)
Total taxes	40,077,941	40,077,941	43,224,793	3,146,852
Licenses and Permits:				
Business licenses	634,228	634,228	693,758	59,530
Hazardous material permits	219,500	219,500	324,720	105,220
Building permits	2,739,783	2,739,783	2,415,808	(323,975)
Other licenses and permits	64,950	64,950	53,052	(11,898)
Total licenses and permits	3,658,461	3,658,461	3,487,338	(171,123)
Intergovernmental:				
Grants	138,500	138,500	181,015	42,515
Total intergovernmental	138,500	138,500	181,015	42,515
Charges for Services:				
Administrative charges	2,602,880	2,602,880	2,668,544	65,664
Overhead to enterprise	467,158	467,158	480,964	13,806
Plan checks and inspections	3,363,215	3,363,215	2,417,571	(945,644)
Special planning services	783,655	783,655	224,169	(559,486)
Special police services	54,122	54,122	44,656	(9,466)
Special fire services	143,575	143,575	222,082	78,507
Community recreation	1,083,638	1,083,638	1,093,345	9,707
Total charges for services	8,498,243	8,498,243	7,151,331	(1,346,912)

(Continued)

CITY OF GILROY

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND
(Continued)

For the year ended June 30, 2019

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES (CONTINUED):				
Fines:				
Vehicle fines	\$ 166,580	\$ 166,580	\$ 118,543	\$ (48,037)
Parking fines	21,150	21,150	23,672	2,522
Abandoned vehicle	75,000	75,000	97,658	22,658
Total fines	<u>262,730</u>	<u>262,730</u>	<u>239,873</u>	<u>(22,857)</u>
Investment income	<u>162,100</u>	<u>162,100</u>	<u>739,568</u>	<u>577,468</u>
Miscellaneous:				
Police and fire	511,836	511,836	752,971	241,135
Community services	112,000	112,000	117,094	5,094
Building	2,000	2,000	2,411	411
Other	1,040,763	1,040,763	630,161	(410,602)
Total miscellaneous	<u>1,666,599</u>	<u>1,666,599</u>	<u>1,502,637</u>	<u>(163,962)</u>
TOTAL REVENUES	<u>54,464,574</u>	<u>54,464,574</u>	<u>56,526,555</u>	<u>2,061,981</u>

(Continued)

CITY OF GILROY

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND
(Continued)

For the year ended June 30, 2019

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES:				
General Government:				
City council	\$ 255,914	\$ 270,915	\$ 236,053	\$ 34,862
City administration	959,966	1,094,402	1,194,268	(99,866)
Emergency services	4,020	4,020	2,280	1,740
Finance	871,667	921,669	705,965	215,704
General administration	1,306,114	1,306,114	1,258,625	47,489
City attorney	435,000	435,000	790,119	(355,119)
Personnel	1,147,346	1,317,277	1,573,521	(256,244)
Total general government	4,980,027	5,349,397	5,760,831	(411,434)
Public Safety:				
Police administration	3,685,486	3,705,973	3,680,426	25,547
Police patrol operations	14,406,834	14,473,192	14,148,033	325,159
Police investigation	1,624,018	1,624,016	1,417,440	206,576
Communications	2,469,246	2,469,246	2,047,310	421,936
Police records	1,292,997	1,292,997	1,134,987	158,010
Fire administration	1,456,495	1,612,277	1,310,691	301,586
Fire operations	9,459,368	9,459,368	9,336,196	123,172
Total public safety	34,394,444	34,637,069	33,075,083	1,561,986
Community Services:				
Public information	536,431	536,431	526,797	9,634
Environmental programs	123,625	123,625	249,496	(125,871)
Street maintenance/forestry	1,142,488	1,170,245	1,230,347	(60,102)
Landscape maintenance	3,009,659	3,009,659	2,645,162	364,497
Community recreation	3,608,182	3,685,635	3,179,391	506,244
Total community services	8,420,385	8,525,595	7,831,193	694,402

(Continued)

CITY OF GILROY

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND
(Continued)

For the year ended June 30, 2019

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES (CONTINUED):				
Community Development:				
Public works and administration	\$ 11,854	\$ 11,854	\$ 25,454	\$ (13,600)
Engineering	991,858	1,979,099	1,722,548	256,551
Planning	1,664,173	2,389,905	1,808,294	581,611
B.L.E.S.	2,120,497	2,326,271	2,037,662	288,609
Chemical containment hazardous materials	547,347	525,242	619,446	(94,204)
Economic development	230,027	285,320	489,038	(203,718)
Total community development	<u>5,565,756</u>	<u>7,517,691</u>	<u>6,702,442</u>	<u>815,249</u>
TOTAL EXPENDITURES	<u>53,360,612</u>	<u>56,029,752</u>	<u>53,369,549</u>	<u>2,660,203</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>1,103,962</u>	<u>(1,565,178)</u>	<u>3,157,006</u>	<u>4,722,184</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	177,000	177,000	229,788	52,788
Transfers out	<u>(234,999)</u>	<u>(1,234,999)</u>	<u>(1,228,964)</u>	<u>6,035</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(57,999)</u>	<u>(1,057,999)</u>	<u>(999,176)</u>	<u>58,823</u>
NET CHANGE IN FUND BALANCE	1,045,963	(2,623,177)	2,157,830	4,781,007
FUND BALANCE AT BEGINNING OF YEAR	<u>25,602,040</u>	<u>25,602,040</u>	<u>25,602,040</u>	<u>-</u>
FUND BALANCE AT END OF YEAR	<u>\$ 26,648,003</u>	<u>\$ 22,978,863</u>	<u>\$ 27,759,870</u>	<u>\$ 4,781,007</u>

1. BUDGETS AND BUDGETARY DATA

The City Administrator submits to the City Council a proposed budget for all funds. Council then proceeds to make any changes to the proposed budget it deems necessary. Before adopting the proposed budget, Council holds a public hearing for any interested party desiring to be heard. Notice must be given 10 days prior to the hearing and must be published in the City's official newspaper. After the conclusion of the public hearing, Council may further make revisions to the proposed budget. Thereafter, Council adopts the budget with revisions, if any.

City Council approval is required for all revisions to the adopted budget that require additional appropriations or new funding. City Administrator approval is required for all transfers within the adopted budget. Operational appropriations lapse at fiscal year-end unless City Council takes formal action to carry forward appropriations into the following fiscal year.

The level on which expenditures may not legally exceed appropriations is the fund level.



CITY OF

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SUPPLEMENTARY SCHEDULES

CITY OF GILROY

CONSOLIDATING BALANCE SHEET BY SUB-FUND
GENERAL FUND

June 30, 2019

	General Fund	Sidewalk Repair	Library Reserve
ASSETS			
Cash and investments	\$ 25,292,036	\$ 1,103,434	\$ 9,422
Accounts receivable	(3,178)	-	-
Due from other governments	4,683,605	-	-
Due from other funds	1,433,558	-	-
Prepaid items	16,337	-	-
Inventory of materials	59,663	-	-
TOTAL ASSETS	<u>\$ 31,482,021</u>	<u>\$ 1,103,434</u>	<u>\$ 9,422</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	\$ 860,392	\$ -	\$ -
Accrued liabilities	2,078,442	-	-
Unearned revenue	1,528,475	-	-
TOTAL LIABILITIES	<u>4,467,309</u>	<u>-</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES:			
Unavailable revenue	36,600	-	-
FUND BALANCES (DEFICITS):			
Nonspendable	76,000	-	-
Unassigned	26,902,112	1,103,434	9,422
TOTAL FUND BALANCES (DEFICITS)	<u>26,978,112</u>	<u>1,103,434</u>	<u>9,422</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 31,482,021</u>	<u>\$ 1,103,434</u>	<u>\$ 9,422</u>

(1) Interfund borrowing within the group of funds that are consolidated together to form the general fund for purposes of the combined financial statements have been eliminated on this schedule.

Golf Course	Community Recreation	Eliminations (1)	Total General Fund
\$ (334,613)	\$ 435,900	\$ -	\$ 26,506,179
3,534	60,306	-	60,662
-	-	-	4,683,605
-	-	-	1,433,558
-	-	-	16,337
-	-	-	59,663
<u>\$ (331,079)</u>	<u>\$ 496,206</u>	<u>\$ -</u>	<u>\$ 32,760,004</u>
\$ -	\$ 105,367	\$ -	\$ 965,759
-	193,800	-	2,272,242
-	197,058	-	1,725,533
-	496,225	-	4,963,534
-	-	-	36,600
-	-	-	76,000
<u>(331,079)</u>	<u>(19)</u>	<u>-</u>	<u>27,683,870</u>
<u>(331,079)</u>	<u>(19)</u>	<u>-</u>	<u>27,759,870</u>
<u>\$ (331,079)</u>	<u>\$ 496,206</u>	<u>\$ -</u>	<u>\$ 32,760,004</u>

CITY OF GILROY

CONSOLIDATING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES BY SUB-FUND
GENERAL FUND

For the year ended June 30, 2019

	General Fund	Sidewalk Repair	Library Reserve
REVENUES:			
Taxes	\$ 43,224,793	\$ -	\$ -
Licenses and permits	3,487,338	-	-
Intergovernmental	181,015	-	-
Charges for services	6,094,691	-	-
Fines	239,873	-	-
Investment income	714,507	24,846	215
Miscellaneous	1,496,128	-	-
TOTAL REVENUES	55,438,345	24,846	215
EXPENDITURES:			
Current:			
General government	5,760,831	-	-
Public safety	33,075,083	-	-
Community services	4,651,802	-	-
Community development	6,445,343	257,099	-
TOTAL EXPENDITURES	49,933,059	257,099	-
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	5,505,286	(232,253)	215
OTHER FINANCING SOURCES (USES):			
Transfers in	229,788	250,000	-
Transfers out	(3,636,553)	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(3,406,765)	250,000	-
NET CHANGE IN FUND BALANCES	2,098,521	17,747	215
FUND BALANCES (DEFICIT) AT BEGINNING OF YEAR	24,879,591	1,085,687	9,207
FUND BALANCES (DEFICITS) AT END OF YEAR	\$ 26,978,112	\$ 1,103,434	\$ 9,422

(1) Transfers within the group of funds that are consolidated together to form the general fund for purposes of the combined financial statements have been eliminated on this schedule.

Golf Course	Community Recreation	Eliminations (1)	Total General Fund
\$ -	\$ -	\$ -	\$ 43,224,793
-	-	-	3,487,338
-	-	-	181,015
41,342	1,015,298	-	7,151,331
-	-	-	239,873
-	-	-	739,568
-	6,509	-	1,502,637
<u>41,342</u>	<u>1,021,807</u>	<u>-</u>	<u>56,526,555</u>
-	-	-	5,760,831
-	-	-	33,075,083
-	3,179,391	-	7,831,193
-	-	-	6,702,442
<u>-</u>	<u>3,179,391</u>	<u>-</u>	<u>53,369,549</u>
<u>41,342</u>	<u>(2,157,584)</u>	<u>-</u>	<u>3,157,006</u>
-	2,157,589	(2,407,589)	229,788
-	-	2,407,589	(1,228,964)
<u>-</u>	<u>2,157,589</u>	<u>-</u>	<u>(999,176)</u>
41,342	5	-	2,157,830
<u>(372,421)</u>	<u>(24)</u>	<u>-</u>	<u>25,602,040</u>
<u>\$ (331,079)</u>	<u>\$ (19)</u>	<u>\$ -</u>	<u>\$ 27,759,870</u>



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OTHER GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

These funds account for revenue sources that are restricted for specific purposes (other than those resources to be expended solely for the construction of major capital facilities).

DEBT SERVICE FUNDS

These funds account for resources accumulated for the payment of principal and interest (other than that for proprietary fund debt).

CAPITAL PROJECTS FUNDS

These funds account for resources intended to be used primarily for major capital facilities (other than those financed by revenues of proprietary funds).

CITY OF GILROY

COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS

June 30, 2019

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total Other Governmental Funds
ASSETS				
Cash and investments	\$ 10,439,141	\$ 1,874,662	\$ 38,163,645	\$ 50,477,448
Cash and investments with fiscal agent	-	2,704,691	-	2,704,691
Accounts receivable	225,884	-	-	225,884
Due from other governments	530,566	13,007	32,405	575,978
Prepaid items	1,000	-	-	1,000
Interest receivable	611,504	-	850,092	1,461,596
Loans receivable	3,073,187	-	-	3,073,187
Interfund loans receivable	-	-	3,132,460	3,132,460
Inventory of materials	-	-	-	-
Land held for resale	706,754	-	-	706,754
	<u>15,588,036</u>	<u>4,592,360</u>	<u>42,178,602</u>	<u>62,358,998</u>
TOTAL ASSETS				
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ 641,255	\$ -	\$ 38,468	\$ 679,723
Accrued liabilities	52,384	-	9,943	62,327
Due to other funds	583,425	-	850,133	1,433,558
Due to joint venture	-	-	1,499,513	1,499,513
Retentions payable	49,097	-	-	49,097
	<u>1,326,161</u>	<u>-</u>	<u>2,398,057</u>	<u>3,724,218</u>
TOTAL LIABILITIES				
DEFERRED INFLOWS OF RESOURCES:				
Unavailable revenue	729,094	-	-	729,094
FUND BALANCES:				
Nonspendable	1,000	-	-	1,000
Restricted	14,556,081	4,592,360	38,296,778	57,445,219
Assigned	-	-	1,483,818	1,483,818
Unassigned	(1,024,300)	-	(51)	(1,024,351)
	<u>13,532,781</u>	<u>4,592,360</u>	<u>39,780,545</u>	<u>57,905,686</u>
TOTAL FUND BALANCES				
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
	<u>\$ 15,588,036</u>	<u>\$ 4,592,360</u>	<u>\$ 42,178,602</u>	<u>\$ 62,358,998</u>

CITY OF GILROY

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
OTHER GOVERNMENTAL FUNDS

For the year ended June 30, 2019

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total Other Governmental Funds
REVENUES:				
Taxes	\$ 688,878	\$ 2,297,959	\$ 5,272,225	\$ 8,259,062
Intergovernmental	3,732,469	-	-	3,732,469
Charges for services	-	-	1,059,356	1,059,356
Investment income	258,267	110,201	-	368,468
Miscellaneous	486,975	-	847	487,822
	<u>5,166,589</u>	<u>2,408,160</u>	<u>6,332,428</u>	<u>13,907,177</u>
TOTAL REVENUES				
EXPENDITURES:				
Current:				
Public safety	987,338	-	-	987,338
Community development	3,047,306	-	5,270,914	8,318,220
Debt service:				
Principal	-	2,654,708	-	2,654,708
Interest and other charges	-	3,316,064	-	3,316,064
Bond issuance costs	-	112,903	-	112,903
	<u>4,034,644</u>	<u>6,083,675</u>	<u>5,270,914</u>	<u>15,389,233</u>
TOTAL EXPENDITURES				
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>1,131,945</u>	<u>(3,675,515)</u>	<u>1,061,514</u>	<u>(1,482,056)</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	249,651	3,631,637	84,236	3,965,524
Transfers out	(421,537)	-	(694,146)	(1,115,683)
Payment to refunded bond escrow agent	-	(8,565,000)	-	(8,565,000)
Refunding debt issuance	-	8,633,538	-	8,633,538
	<u>(171,886)</u>	<u>3,700,175</u>	<u>(609,910)</u>	<u>2,918,379</u>
TOTAL OTHER FINANCING SOURCES (USES)				
NET CHANGE IN FUND BALANCES	960,059	24,660	451,604	1,436,323
FUND BALANCES AT BEGINNING OF YEAR	<u>12,572,722</u>	<u>4,567,700</u>	<u>39,328,941</u>	<u>56,469,363</u>
FUND BALANCES AT END OF YEAR	<u>\$ 13,532,781</u>	<u>\$ 4,592,360</u>	<u>\$ 39,780,545</u>	<u>\$ 57,905,686</u>



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SPECIAL REVENUE FUNDS

These funds account for revenue sources that are restricted for specific purposes (other than those resources to be expended solely for the construction of major capital facilities).

Gas Tax - This fund is used to account for the City's share of state gasoline tax required to be used for construction and maintenance of the City's road network system.

Pavement Management - This fund is used to account for County Measure A and other transportation grants used to repair and rebuild various roads.

Public Safety Grants - This fund is used to account for state and federal grants used for public safety activities.

Prop 172 Sales Tax - This fund is used to account for funds received from state sales tax used for public safety activities.

Community Development Block Grant - This fund is used to account for Housing and Urban Development grants used to operate the Community Development Grant Program.

Rehabilitation Loans - This fund is used to account for loan proceeds used from the state for housing projects.

Housing Trust Fund - This fund is used to account for local funds used to address affordable housing and homelessness, for both capital projects and services provided to homebuyers regarding down payment assistance and administrative oversight.

Community Facilities District - This fund is used to account for funds from special landscape assessment districts used to maintain improvements of a public nature that provide benefits to the property owner.

Vehicle License Fee - This fund is used to account for vehicle license fees received from Santa Clara County to be used for pavement maintenance, operations, signals, signs and markings.

Los Arroyos Fund - This fund is used to account for funds received from South County Housing to support future homebuyers in the Los Arroyos neighborhood.

CalHome Funds - This fund is used to account funds received from South County Housing to support future homebuyers.

CITY OF GILROY

COMBINING BALANCE SHEET
OTHER GOVERNMENTAL SPECIAL REVENUE FUNDS

June 30, 2019

	Gas Tax	Pavement Management	Public Safety Grants	Prop 172 Sales Tax	Community Development Block Grant
ASSETS					
Cash and investments	\$ 5,689,529	\$ -	\$ 206,775	\$ 26,824	\$ 322,581
Accounts receivable	-	-	225,884	-	-
Due from other governments	95,614	-	254,969	67,334	110,921
Prepaid items	-	-	1,000	-	-
Interest receivable	-	-	-	-	334,084
Loans receivable	-	-	-	-	1,887,075
Land held for resale	-	-	-	-	-
TOTAL ASSETS	<u>\$ 5,785,143</u>	<u>\$ -</u>	<u>\$ 688,628</u>	<u>\$ 94,158</u>	<u>\$ 2,654,661</u>
LIABILITIES, DEFERRED INFLOWS INFLOWS OF RESOURCES AND FUND BALANCES					
LIABILITIES:					
Accounts payable	\$ 40,609	\$ 391,778	\$ 104,849	\$ 1,675	\$ 23,644
Accrued liabilities	10	-	44,968	-	5,180
Due to other funds	-	583,425	-	-	-
Retentions payable	-	49,097	-	-	-
TOTAL LIABILITIES	<u>40,619</u>	<u>1,024,300</u>	<u>149,817</u>	<u>1,675</u>	<u>28,824</u>
DEFERRED INFLOWS OF RESOURCES:					
Unavailable revenue	-	-	29,894	21,202	400,578
FUND BALANCES (DEFICIT):					
Nonspendable	-	-	1,000	-	-
Restricted	5,744,524	-	507,917	71,281	2,225,259
Unassigned	-	(1,024,300)	-	-	-
TOTAL FUND BALANCES (DEFICIT)	<u>5,744,524</u>	<u>(1,024,300)</u>	<u>508,917</u>	<u>71,281</u>	<u>2,225,259</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 5,785,143</u>	<u>\$ -</u>	<u>\$ 688,628</u>	<u>\$ 94,158</u>	<u>\$ 2,654,661</u>

Rehabilitation Loans	Housing Trust Fund	Community Facilities District	Vehicle License Fee	Los Arroyos Fund	CalHome Funds	Total Special Revenue Funds
\$ 226	\$ 989,826	\$ 1,054,209	\$ 1,632,847	\$ 355,990	\$ 160,334	\$ 10,439,141
-	-	-	-	-	-	225,884
-	-	1,728	-	-	-	530,566
-	-	-	-	-	-	1,000
-	277,420	-	-	-	-	611,504
-	1,186,112	-	-	-	-	3,073,187
-	706,754	-	-	-	-	706,754
<u>\$ 226</u>	<u>\$ 3,160,112</u>	<u>\$ 1,055,937</u>	<u>\$ 1,632,847</u>	<u>\$ 355,990</u>	<u>\$ 160,334</u>	<u>\$ 15,588,036</u>
\$ -	\$ 75,229	\$ 3,321	\$ 150	\$ -	\$ -	\$ 641,255
-	2,226	-	-	-	-	52,384
-	-	-	-	-	-	583,425
-	-	-	-	-	-	49,097
-	77,455	3,321	150	-	-	1,326,161
-	277,420	-	-	-	-	729,094
-	-	-	-	-	-	1,000
226	2,805,237	1,052,616	1,632,697	355,990	160,334	14,556,081
-	-	-	-	-	-	(1,024,300)
226	2,805,237	1,052,616	1,632,697	355,990	160,334	13,532,781
<u>\$ 226</u>	<u>\$ 3,160,112</u>	<u>\$ 1,055,937</u>	<u>\$ 1,632,847</u>	<u>\$ 355,990</u>	<u>\$ 160,334</u>	<u>\$ 15,588,036</u>

CITY OF GILROY

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
OTHER GOVERNMENTAL SPECIAL REVENUE FUNDS

For the year ended June 30, 2019

	Gas Tax	Pavement Management	Public Safety Grants	Prop 172 Sales Tax	Community Development Block Grant
REVENUES:					
Taxes	\$ -	\$ -	\$ -	\$ 245,623	\$ -
Intergovernmental	2,078,213	192,889	830,306	-	233,916
Investment income	117,287	-	10,678	368	23,638
Miscellaneous	-	-	(7,500)	-	11,913
	<u>2,195,500</u>	<u>192,889</u>	<u>833,484</u>	<u>245,991</u>	<u>269,467</u>
TOTAL REVENUES					
EXPENDITURES:					
Current:					
Public safety	-	-	757,900	229,438	-
Community development	783,783	963,798	-	-	363,386
	<u>783,783</u>	<u>963,798</u>	<u>757,900</u>	<u>229,438</u>	<u>363,386</u>
TOTAL EXPENDITURES					
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>1,411,717</u>	<u>(770,909)</u>	<u>75,584</u>	<u>16,553</u>	<u>(93,919)</u>
OTHER FINANCING SOURCES (USES):					
Transfers in	-	-	142,865	-	95,297
Transfers out	(107,362)	-	(148,747)	(16,553)	(148,875)
	<u>(107,362)</u>	<u>-</u>	<u>(5,882)</u>	<u>(16,553)</u>	<u>(53,578)</u>
TOTAL OTHER FINANCING SOURCES (USES)					
NET CHANGE IN FUND BALANCES	1,304,355	(770,909)	69,702	-	(147,497)
FUND BALANCES (DEFICIT) AT BEGINNING OF YEAR	<u>4,440,169</u>	<u>(253,391)</u>	<u>439,215</u>	<u>71,281</u>	<u>2,372,756</u>
FUND BALANCES (DEFICIT) AT END OF YEAR	<u>\$ 5,744,524</u>	<u>\$ (1,024,300)</u>	<u>\$ 508,917</u>	<u>\$ 71,281</u>	<u>\$ 2,225,259</u>

Rehabilitation Loans	Housing Trust Fund	Community Facilities District	Vehicle License Fee	Los Arroyos Fund	CalHome Funds	Total Special Revenue Funds
\$ -	\$ -	\$ 443,255	\$ -	\$ -	\$ -	\$ 688,878
-	-	-	342,538	6,434	48,173	3,732,469
5	28,513	19,549	36,325	9,475	12,429	258,267
-	434,003	-	-	-	48,559	486,975
<u>5</u>	<u>462,516</u>	<u>462,804</u>	<u>378,863</u>	<u>15,909</u>	<u>109,161</u>	<u>5,166,589</u>
-	-	-	-	-	-	987,338
-	609,002	162,572	120,196	7,871	36,698	3,047,306
-	609,002	162,572	120,196	7,871	36,698	4,034,644
<u>5</u>	<u>(146,486)</u>	<u>300,232</u>	<u>258,667</u>	<u>8,038</u>	<u>72,463</u>	<u>1,131,945</u>
-	11,489	-	-	-	-	249,651
-	-	-	-	-	-	(421,537)
-	11,489	-	-	-	-	(171,886)
5	(134,997)	300,232	258,667	8,038	72,463	960,059
<u>221</u>	<u>2,940,234</u>	<u>752,384</u>	<u>1,374,030</u>	<u>347,952</u>	<u>87,871</u>	<u>12,572,722</u>
<u>\$ 226</u>	<u>\$ 2,805,237</u>	<u>\$ 1,052,616</u>	<u>\$ 1,632,697</u>	<u>\$ 355,990</u>	<u>\$ 160,334</u>	<u>\$ 13,532,781</u>

CITY OF GILROY

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

GAS TAX SPECIAL REVENUE FUND

For the year ended June 30, 2019

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental	\$ 1,168,052	\$ 1,208,996	\$ 2,078,213	\$ 869,217
Investment income	17,237	17,237	117,287	100,050
Miscellaneous	-	-	-	-
TOTAL REVENUES	<u>1,185,289</u>	<u>1,226,233</u>	<u>2,195,500</u>	<u>969,267</u>
EXPENDITURES:				
Current:				
Community development	<u>1,437,042</u>	<u>5,154,850</u>	<u>783,783</u>	<u>4,371,067</u>
TOTAL EXPENDITURES	<u>1,437,042</u>	<u>5,154,850</u>	<u>783,783</u>	<u>4,371,067</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(251,753)</u>	<u>(3,928,617)</u>	<u>1,411,717</u>	<u>5,340,334</u>
OTHER FINANCING USES:				
Transfers out	<u>(107,362)</u>	<u>(107,362)</u>	<u>(107,362)</u>	<u>-</u>
TOTAL OTHER FINANCING USES	<u>(107,362)</u>	<u>(107,362)</u>	<u>(107,362)</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	(359,115)	(4,035,979)	1,304,355	5,340,334
FUND BALANCE AT BEGINNING OF YEAR	<u>4,440,169</u>	<u>4,440,169</u>	<u>4,440,169</u>	<u>-</u>
FUND BALANCE AT END OF YEAR	<u>\$ 4,081,054</u>	<u>\$ 404,190</u>	<u>\$ 5,744,524</u>	<u>\$ 5,340,334</u>

CITY OF GILROY

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

PAVEMENT MANAGEMENT SPECIAL REVENUE FUND

For the year ended June 30, 2019

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental	\$ -	\$ -	\$ 192,889	\$ 192,889
TOTAL REVENUES	-	-	192,889	192,889
EXPENDITURES:				
Current:				
Community development	-	963,799	963,798	1
TOTAL EXPENDITURES	-	963,799	963,798	1
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	-	(963,799)	(770,909)	192,890
FUND BALANCE (DEFICIT) AT BEGINNING OF YEAR	(253,391)	(253,391)	(253,391)	-
FUND BALANCE (DEFICIT) AT END OF YEAR	\$ (253,391)	\$ (1,217,190)	\$ (1,024,300)	\$ 192,890

CITY OF GILROY

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

PUBLIC SAFETY GRANTS SPECIAL REVENUE FUND

For the year ended June 30, 2019

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental	\$ 251,800	\$ 301,800	\$ 830,306	\$ 528,506
Investment income	2,560	2,560	10,678	8,118
Miscellaneous	-	-	(7,500)	(7,500)
TOTAL REVENUES	<u>254,360</u>	<u>304,360</u>	<u>833,484</u>	<u>529,124</u>
EXPENDITURES:				
Current:				
Public safety	<u>327,009</u>	<u>959,430</u>	<u>757,900</u>	<u>201,530</u>
TOTAL EXPENDITURES	<u>327,009</u>	<u>959,430</u>	<u>757,900</u>	<u>201,530</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(72,649)</u>	<u>(655,070)</u>	<u>75,584</u>	<u>730,654</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	110,000	110,000	142,865	32,865
Transfers out	<u>(100,000)</u>	<u>(148,747)</u>	<u>(148,747)</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>10,000</u>	<u>(38,747)</u>	<u>(5,882)</u>	<u>32,865</u>
NET CHANGE IN FUND BALANCE	(62,649)	(693,817)	69,702	763,519
FUND BALANCE AT BEGINNING OF YEAR	<u>439,215</u>	<u>439,215</u>	<u>439,215</u>	<u>-</u>
FUND BALANCE AT END OF YEAR	<u>\$ 376,566</u>	<u>\$ (254,602)</u>	<u>\$ 508,917</u>	<u>\$ 763,519</u>

CITY OF GILROY

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

PROP 172 SALES TAX SPECIAL REVENUE FUND

For the year ended June 30, 2019

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 234,111	\$ 234,111	\$ 245,623	\$ 11,512
Investment income	100	100	368	268
TOTAL REVENUES	<u>234,211</u>	<u>234,211</u>	<u>245,991</u>	<u>11,780</u>
EXPENDITURES:				
Current:				
Public safety	<u>258,129</u>	<u>258,129</u>	<u>229,438</u>	<u>28,691</u>
TOTAL EXPENDITURES	<u>258,129</u>	<u>258,129</u>	<u>229,438</u>	<u>28,691</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(23,918)	(23,918)	16,553	40,471
OTHER FINANCING SOURCES (USES):				
Transfers out	<u>-</u>	<u>-</u>	<u>(16,553)</u>	<u>(16,553)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>(16,553)</u>	<u>(16,553)</u>
NET CHANGE IN FUND BALANCE	(23,918)	(23,918)	-	23,918
FUND BALANCE AT BEGINNING OF YEAR	<u>71,281</u>	<u>71,281</u>	<u>71,281</u>	<u>-</u>
FUND BALANCE AT END OF YEAR	<u>\$ 47,363</u>	<u>\$ 47,363</u>	<u>\$ 71,281</u>	<u>\$ 23,918</u>

CITY OF GILROY

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

COMMUNITY DEVELOPMENT BLOCK GRANT SPECIAL REVENUE FUND

For the year ended June 30, 2019

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental	\$ 402,612	\$ 402,612	\$ 233,916	\$ (168,696)
Investment income	3,650	3,650	23,638	19,988
Miscellaneous	43,000	43,000	11,913	(31,087)
TOTAL REVENUES	449,262	449,262	269,467	(179,795)
EXPENDITURES:				
Current:				
Community development	338,219	399,804	363,386	36,418
TOTAL EXPENDITURES	338,219	399,804	363,386	36,418
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	111,043	49,458	(93,919)	(143,377)
OTHER FINANCING USES:				
Transfers in	-	-	95,297	95,297
Transfers out	(48,500)	(155,288)	(148,875)	6,413
TOTAL OTHER FINANCING USES	(48,500)	(155,288)	(53,578)	101,710
NET CHANGE IN FUND BALANCE	62,543	(105,830)	(147,497)	(41,667)
FUND BALANCE AT BEGINNING OF YEAR	2,372,756	2,372,756	2,372,756	-
FUND BALANCE AT END OF YEAR	\$ 2,435,299	\$ 2,266,926	\$ 2,225,259	\$ (41,667)

CITY OF GILROY

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

REHABILITATION LOANS SPECIAL REVENUE FUND

For the year ended June 30, 2019

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Investment income	\$ -	\$ -	\$ 5	\$ 5
TOTAL REVENUES	-	-	5	5
FUND BALANCE AT BEGINNING OF YEAR	221	221	221	-
FUND BALANCE AT END OF YEAR	\$ 221	\$ 221	\$ 226	\$ 5

CITY OF GILROY

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

HOUSING TRUST FUND SPECIAL REVENUE FUND

For the year ended June 30, 2019

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Investment income	\$ 31,000	\$ 31,000	\$ 28,513	\$ (2,487)
Miscellaneous	429,500	429,500	434,003	4,503
TOTAL REVENUES	460,500	460,500	462,516	2,016
EXPENDITURES:				
Current:				
Community development	420,619	575,184	609,002	(33,818)
TOTAL EXPENDITURES	420,619	575,184	609,002	(33,818)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	39,881	(114,684)	(146,486)	(31,802)
OTHER FINANCING SOURCES:				
Transfers in	-	-	11,489	11,489
TOTAL OTHER FINANCING SOURCES	-	-	11,489	11,489
NET CHANGE IN FUND BALANCE	39,881	(114,684)	(134,997)	(20,313)
FUND BALANCE AT BEGINNING OF YEAR	2,940,234	2,940,234	2,940,234	-
FUND BALANCE AT END OF YEAR	\$ 2,980,115	\$ 2,825,550	\$ 2,805,237	\$ (20,313)

CITY OF GILROY

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

COMMUNITY FACILITIES DISTRICT SPECIAL REVENUE FUND

For the year ended June 30, 2019

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 267,000	\$ 299,583	\$ 443,255	\$ 143,672
Investment income	800	800	19,549	18,749
TOTAL REVENUES	<u>267,800</u>	<u>300,383</u>	<u>462,804</u>	<u>162,421</u>
EXPENDITURES:				
Current:				
Community development	<u>322,382</u>	<u>322,382</u>	<u>162,572</u>	<u>159,810</u>
TOTAL EXPENDITURES	<u>322,382</u>	<u>322,382</u>	<u>162,572</u>	<u>159,810</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(54,582)	(21,999)	300,232	322,231
FUND BALANCE AT BEGINNING OF YEAR	<u>752,384</u>	<u>752,384</u>	<u>752,384</u>	<u>-</u>
FUND BALANCE AT END OF YEAR	<u>\$ 697,802</u>	<u>\$ 730,385</u>	<u>\$ 1,052,616</u>	<u>\$ 322,231</u>

CITY OF GILROY

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

VEHICLE LICENSE FEE SPECIAL REVENUE FUND

For the year ended June 30, 2019

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental	\$ 320,000	\$ 320,000	\$ 342,538	\$ 22,538
Investment income	5,000	5,000	36,325	31,325
TOTAL REVENUES	<u>325,000</u>	<u>325,000</u>	<u>378,863</u>	<u>53,863</u>
EXPENDITURES:				
Current:				
Community development	<u>325,000</u>	<u>1,496,934</u>	<u>120,196</u>	<u>1,376,738</u>
TOTAL EXPENDITURES	<u>325,000</u>	<u>1,496,934</u>	<u>120,196</u>	<u>1,376,738</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	-	(1,171,934)	258,667	1,430,601
FUND BALANCE AT BEGINNING OF YEAR	<u>1,374,030</u>	<u>1,374,030</u>	<u>1,374,030</u>	<u>-</u>
FUND BALANCE AT END OF YEAR	<u>\$ 1,374,030</u>	<u>\$ 202,096</u>	<u>\$ 1,632,697</u>	<u>\$ 1,430,601</u>

CITY OF GILROY

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

LOS ARROYOS FUND SPECIAL REVENUE FUND

For the year ended June 30, 2019

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental	\$ -	\$ -	\$ 6,434	\$ 6,434
Investment income	-	-	9,475	9,475
TOTAL REVENUES	-	-	15,909	15,909
EXPENDITURES:				
Current:				
Community development	-	7,871	7,871	-
TOTAL EXPENDITURES	-	7,871	7,871	-
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	-	(7,871)	8,038	15,909
NET CHANGE IN FUND BALANCE	-	(7,871)	8,038	15,909
FUND BALANCE AT BEGINNING OF YEAR	347,952	347,952	347,952	-
FUND BALANCE AT END OF YEAR	\$ 347,952	\$ 340,081	\$ 355,990	\$ 15,909

CITY OF GILROY

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

CalHOME FUNDS SPECIAL REVENUE FUND

For the year ended June 30, 2019

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental	\$ -	\$ -	\$ 48,173	\$ 48,173
Investment income	-	-	12,429	12,429
Miscellaneous	-	-	48,559	48,559
TOTAL REVENUES	-	-	109,161	109,161
EXPENDITURES:				
Current:				
Public safety	-	-	-	-
Community development	-	36,699	36,698	1
TOTAL EXPENDITURES	-	36,699	36,698	1
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	-	(36,699)	72,463	109,162
NET CHANGE IN FUND BALANCE	-	(36,699)	72,463	109,162
FUND BALANCE AT BEGINNING OF YEAR	87,871	87,871	87,871	-
FUND BALANCE AT END OF YEAR	\$ 87,871	\$ 51,172	\$ 160,334	\$ 109,162

DEBT SERVICE FUNDS

These funds account for resources accumulated for the payment of principal and interest (other than that for proprietary fund debt).

Gilroy Community Library - This fund is used to account for payments of the indebtedness of the 2009 and 2010 General Obligation Bonds for the new Gilroy Community Library.

Refunding Lease 2010 - This fund is used to account for the payments of debt service of principal and interest for the PFFA Refunding Lease 2010 Bonds.

2013 Refunding Bond - This fund is used to account for the payments of debt service of principal and interest for the 2013 Lease Revenue Refunding Bonds.

CA Energy Commission Loan - This fund is used to account for the payments of debt service of principal and interest for the loan agreement between the CA Energy Commission (CEC) and the City for the Wide LED streetlight replacement project.

CITY OF GILROY

COMBINING BALANCE SHEET
OTHER GOVERNMENTAL DEBT SERVICE FUNDS

June 30, 2019

	Gilroy Community Library	Refunding Lease 2010	2013 Refunding Bond	CA Energy Commission Loan	Total Debt Service Funds
ASSETS					
Cash and investments	\$ 1,710,736	\$ 88,058	\$ 56,620	\$ 19,248	\$ 1,874,662
Cash and investments with fiscal agent	1,667	1,775,595	927,429	-	2,704,691
Due from other governments	13,007	-	-	-	13,007
TOTAL ASSETS	<u>\$ 1,725,410</u>	<u>\$ 1,863,653</u>	<u>\$ 984,049</u>	<u>\$ 19,248</u>	<u>\$ 4,592,360</u>
FUND BALANCES					
FUND BALANCES:					
Restricted	<u>\$ 1,725,410</u>	<u>\$ 1,863,653</u>	<u>\$ 984,049</u>	<u>\$ 19,248</u>	<u>\$ 4,592,360</u>
TOTAL FUND BALANCES	<u>\$ 1,725,410</u>	<u>\$ 1,863,653</u>	<u>\$ 984,049</u>	<u>\$ 19,248</u>	<u>\$ 4,592,360</u>

CITY OF GILROY

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
OTHER GOVERNMENTAL DEBT SERVICE FUNDS

For the year ended June 30, 2019

	Gilroy Community Library	Refunding Lease 2010	2013 Refunding Bond	CA Energy Commission Loan	Total Debt Service Funds
REVENUES:					
Taxes	\$ 2,297,959	\$ -	\$ -	\$ -	\$ 2,297,959
Investment income	25,010	63,412	21,052	727	110,201
TOTAL REVENUES	2,322,969	63,412	21,052	727	2,408,160
EXPENDITURES:					
Debt service:					
Principal	830,000	860,000	875,000	89,708	2,654,708
Interest and other charges	1,446,081	887,458	972,371	10,154	3,316,064
Bond issuance costs	112,903	-	-	-	112,903
TOTAL EXPENDITURES	2,388,984	1,747,458	1,847,371	99,862	6,083,675
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(66,015)	(1,684,046)	(1,826,319)	(99,135)	(3,675,515)
OTHER FINANCING SOURCES:					
Transfers in	-	1,685,806	1,845,969	99,862	3,631,637
Payment to refunded bond escrow	(8,565,000)	-	-	-	(8,565,000)
Refunding debt issuance	8,633,538	-	-	-	8,633,538
TOTAL OTHER FINANCING SOURCES	68,538	1,685,806	1,845,969	99,862	3,700,175
NET CHANGE IN FUND BALANCES	2,523	1,760	19,650	727	24,660
FUND BALANCES AT BEGINNING OF YEAR	1,722,887	1,861,893	964,399	18,521	4,567,700
FUND BALANCES AT END OF YEAR	<u>\$ 1,725,410</u>	<u>\$ 1,863,653</u>	<u>\$ 984,049</u>	<u>\$ 19,248</u>	<u>\$ 4,592,360</u>

CITY OF GILROY

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

GILROY COMMUNITY LIBRARY DEBT SERVICE FUND

For the year ended June 30, 2019

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 2,108,709	\$ 2,108,709	\$ 2,297,959	\$ 189,250
Investment income	5,511	5,511	25,010	19,499
TOTAL REVENUES	<u>2,114,220</u>	<u>2,114,220</u>	<u>2,322,969</u>	<u>208,749</u>
EXPENDITURES:				
Debt service:				
Principal	830,000	830,000	830,000	-
Interest and other charges	1,278,709	1,446,081	1,446,081	-
Debt issuance costs	-	112,903	112,903	-
TOTAL EXPENDITURES	<u>2,108,709</u>	<u>2,388,984</u>	<u>2,388,984</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>5,511</u>	<u>(274,764)</u>	<u>(66,015)</u>	<u>208,749</u>
OTHER FINANCING SOURCES (USES):				
Payment to refunded bond escrow agent	-	(8,565,000)	(8,565,000)	-
Refunding debt issuance	-	-	8,633,538	8,633,538
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>(8,565,000)</u>	<u>68,538</u>	<u>8,633,538</u>
NET CHANGE IN FUND BALANCE	5,511	(8,839,764)	2,523	8,842,287
FUND BALANCE AT BEGINNING OF YEAR	<u>1,722,887</u>	<u>1,722,887</u>	<u>1,722,887</u>	<u>-</u>
FUND BALANCE AT END OF YEAR	<u>\$ 1,728,398</u>	<u>\$ (7,116,877)</u>	<u>\$ 1,725,410</u>	<u>\$ 8,842,287</u>

CITY OF GILROY

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

REFUNDING LEASE 2010 DEBT SERVICE FUND

For the year ended June 30, 2019

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Investment income	\$ 466	\$ 466	\$ 63,412	\$ 62,946
TOTAL REVENUES	466	466	63,412	62,946
EXPENDITURES:				
Debt service:				
Principal	860,000	860,000	860,000	-
Interest and other charges	887,806	887,806	887,458	348
TOTAL EXPENDITURES	1,747,806	1,747,806	1,747,458	348
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(1,747,340)	(1,747,340)	(1,684,046)	63,294
OTHER FINANCING SOURCES:				
Transfers in	1,685,806	1,685,806	1,685,806	-
TOTAL OTHER FINANCING SOURCES	1,685,806	1,685,806	1,685,806	-
NET CHANGE IN FUND BALANCE	(61,534)	(61,534)	1,760	63,294
FUND BALANCE AT BEGINNING OF YEAR	1,861,893	1,861,893	1,861,893	-
FUND BALANCE AT END OF YEAR	\$ 1,800,359	\$ 1,800,359	\$ 1,863,653	\$ 63,294

CITY OF GILROY

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

2013 REFUNDING BOND DEBT SERVICE FUND

For the year ended June 30, 2019

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Investment income	\$ 2,333	\$ 2,333	\$ 21,052	\$ 18,719
TOTAL REVENUES	2,333	2,333	21,052	18,719
EXPENDITURES:				
Debt service:				
Principal	875,000	875,000	875,000	-
Interest and other charges	972,969	972,969	972,371	598
TOTAL EXPENDITURES	1,847,969	1,847,969	1,847,371	598
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(1,845,636)	(1,845,636)	(1,826,319)	19,317
OTHER FINANCING SOURCES:				
Transfers in	1,845,969	1,845,969	1,845,969	-
TOTAL OTHER FINANCING SOURCES	1,845,969	1,845,969	1,845,969	-
NET CHANGE IN FUND BALANCE	333	333	19,650	19,317
FUND BALANCE AT BEGINNING OF YEAR	964,399	964,399	964,399	-
FUND BALANCE AT END OF YEAR	\$ 964,732	\$ 964,732	\$ 984,049	\$ 19,317

CITY OF GILROY

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

CA ENERGY COMMISSION LOAN DEBT SERVICE FUND

For the year ended June 30, 2019

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Investment income	\$ 150	\$ 150	\$ 727	\$ 577
TOTAL REVENUES	150	150	727	577
EXPENDITURES:				
Debt service:				
Principal	89,708	89,708	89,708	-
Interest and other charges	10,155	20,155	10,154	10,001
TOTAL EXPENDITURES	99,863	109,863	99,862	10,001
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(99,713)	(109,713)	(99,135)	10,578
OTHER FINANCING SOURCES:				
Transfers in	99,862	99,862	99,862	-
TOTAL OTHER FINANCING SOURCES	99,862	99,862	99,862	-
NET CHANGE IN FUND BALANCE	149	(9,851)	727	10,578
FUND BALANCE AT BEGINNING OF YEAR	18,521	18,521	18,521	-
FUND BALANCE AT END OF YEAR	\$ 18,670	\$ 8,670	\$ 19,248	\$ 10,578

CAPITAL PROJECTS FUNDS

These funds account for resources intended to be used primarily for major capital facilities (other than those financed by revenues of proprietary funds).

OTHER GOVERNMENTAL FUNDS

Capital Projects - This fund is used to account for major capital projects other than those financed by revenues of proprietary funds, including projects that are partially funded from other sources such as grants or fuel tax.

BANS 2009 Financing - This fund is used to account for the 2009 short-term refinancing of the City's public facilities debt. The City included its cost for the Christopher High School joint use public facilities with GUSD in the refinancing.

Traffic Impact - This fund is used to finance the construction of streets, bridges, interchanges and traffic signals within the City as described in the City of Gilroy's Circulation Element. Improvements and expansions of the City's traffic circulation system are needed to accommodate development of new residential, commercial and industrial uses with the City. The traffic impact fee is used to expand system capacity to accommodate new development.

Storm Drains - This fund is used finance the construction of drainage collection and distribution systems within the City as described in the City of Gilroy's Storm Drain Master Plan. Improvements and expansions of the City's storm drain system are needed to accommodate development of new residential, commercial and industrial uses within the City. The storm drain development fee is used to expand system capacity to accommodate new development.

Utility Undergrounding - This fund is used to allocate resources to underground existing overhead utilities (electricity, telephone and cable) along fully constructed streets. The City collects the fee from developers as development occurs along these streets.

Street Trees Development - This fund is used to account for the collection of a front footage fee to plant trees in new developments.

Sewer Development - This fund is used to account for the construction of sewer collection and conveyance systems within the City as described in the City of Gilroy's Sewer Master Plan. Improvements and expansions of the City's sewer system are needed to accommodate development of new residential, commercial and industrial uses within the City. The sewer development fee is used to expand system capacity to accommodate new development.

Water Development - This fund is used to account for the construction of water transmission, distribution and storage systems within Pressure Zone 1 of the City's water system as described in the City of Gilroy's Water Master Plan. Improvements and expansions of the City's water system are needed to accommodate development of new residential, commercial and industrial uses within the City. The water development fee is used to expand capacity to accommodate new development.

CAPITAL PROJECTS FUNDS (CONTINUED)

Bank Interest - This fund is used to account for the interest earned on the citywide treasurer's investment pool. Quarterly, the earnings are allocated to the appropriate funds. At the end of the fiscal year, the earnings of those funds not subject to interest are transferred to the Capital Projects Fund.

Gilroy Community Library - This fund is used to account for the acquisition, construction and improvement of facilities to be used as a public library within the City. Funding was provided by issuance of general obligation bonds. Interest earned on specific LAIF account will be recorded directly to the Library fund.

MAJOR FUND

Public Facilities Impact - This fund is used to account for the tracking of expenditures related to the construction of facilities for public use.

CITY OF GILROY

COMBINING BALANCE SHEET
OTHER GOVERNMENTAL CAPITAL PROJECTS FUNDS

June 30, 2019

	Capital Projects	BANS 2009 Financing	Traffic Impact	Storm Drains
ASSETS				
Cash and investments	\$ 1,483,818	\$ 34,111	\$ 12,885,097	\$ 939,271
Due from other governments	-	-	-	-
Interest receivable	-	-	-	-
Interfund loan receivable	-	-	-	1,071,527
TOTAL ASSETS	\$ 1,483,818	\$ 34,111	\$ 12,885,097	\$ 2,010,798
LIABILITIES, DEFERRED INFLOWS OF LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ -	\$ -	\$ 23,690	\$ -
Accrued liabilities	-	-	9,020	923
Due to other funds	-	-	-	-
Due to joint venture	-	-	-	-
TOTAL LIABILITIES	-	-	32,710	923
DEFERRED INFLOWS OF RESOURCES:				
Unavailable revenue	-	-	-	-
FUND BALANCES (DEFICIT):				
Restricted	-	34,111	12,852,387	2,009,875
Assigned	1,483,818	-	-	-
Unassigned	-	-	-	-
TOTAL FUND BALANCES (DEFICIT)	1,483,818	34,111	12,852,387	2,009,875
TOTAL LIABILITIES, DEFERRED INFLOWS TOTAL LIABILITIES AND FUND BALANCES	\$ 1,483,818	\$ 34,111	\$ 12,885,097	\$ 2,010,798

Utility Undergrounding	Street Trees Development	Sewer Development	Water Development	Bank Interest	Gilroy Community Library	Total Capital Projects Funds
\$ 7,933	\$ 132,944	\$ 12,979,909	\$ 4,609,177	\$ -	\$ 5,091,385	\$ 38,163,645
-	-	-	-	-	32,405	32,405
-	-	-	-	850,092	-	850,092
-	-	2,060,933	-	-	-	3,132,460
<u>\$ 7,933</u>	<u>\$ 132,944</u>	<u>\$ 15,040,842</u>	<u>\$ 4,609,177</u>	<u>\$ 850,092</u>	<u>\$ 5,123,790</u>	<u>\$ 42,178,602</u>
\$ -	\$ -	\$ 7,384	\$ 7,384	\$ 10	\$ -	\$ 38,468
-	-	-	-	-	-	9,943
-	-	-	-	850,133	-	850,133
-	-	1,499,513	-	-	-	1,499,513
-	-	1,506,897	7,384	850,143	-	2,398,057
-	-	-	-	-	-	-
7,933	132,944	13,533,945	4,601,793	-	5,123,790	38,296,778
-	-	-	-	-	-	1,483,818
-	-	-	-	(51)	-	(51)
<u>7,933</u>	<u>132,944</u>	<u>13,533,945</u>	<u>4,601,793</u>	<u>(51)</u>	<u>5,123,790</u>	<u>39,780,545</u>
<u>\$ 7,933</u>	<u>\$ 132,944</u>	<u>\$ 15,040,842</u>	<u>\$ 4,609,177</u>	<u>\$ 850,092</u>	<u>\$ 5,123,790</u>	<u>\$ 42,178,602</u>

CITY OF GILROY

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
OTHER GOVERNMENTAL CAPITAL PROJECTS FUNDS

For the year ended June 30, 2019

	Capital Projects	BANS 2009 Financing	Traffic Impact	Storm Drains
REVENUES:				
Intergovernmental	\$ -	\$ -	\$ -	\$ -
Charges for services	-	-	2,512,216	8,128
Investment income	83,988	540	290,248	38,769
Miscellaneous	518	-	-	-
TOTAL REVENUES	84,506	540	2,802,464	46,897
EXPENDITURES:				
Current:				
Community services	-	-	-	-
Community development	49,642	-	2,205,055	38,171
TOTAL EXPENDITURES	49,642	-	2,205,055	38,171
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	34,864	540	597,409	8,726
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	48,769	1,196
Transfers out	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	48,769	1,196
NET CHANGE IN FUND BALANCES	34,864	540	646,178	9,922
FUND BALANCES (DEFICIT) AT BEGINNING OF YEAR	1,448,954	33,571	12,206,209	1,999,953
FUND BALANCES (DEFICIT) AT END OF YEAR	\$ 1,483,818	\$ 34,111	\$ 12,852,387	\$ 2,009,875

<u>Utility Undergrounding</u>	<u>Street Trees Development</u>	<u>Sewer Development</u>	<u>Water Development</u>	<u>Bank Interest</u>	<u>Gilroy Community Library</u>	<u>Total Capital Projects Funds</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	396	2,234,082	517,403	-	-	5,272,225
181	3,025	340,661	102,758	77,828	121,358	1,059,356
-	-	-	-	-	329	847
<u>181</u>	<u>3,421</u>	<u>2,574,743</u>	<u>620,161</u>	<u>77,828</u>	<u>121,687</u>	<u>6,332,428</u>
-	-	-	-	-	-	-
-	-	2,721,985	178,233	77,828	-	5,270,914
-	-	2,721,985	178,233	77,828	-	5,270,914
<u>181</u>	<u>3,421</u>	<u>(147,242)</u>	<u>441,928</u>	<u>-</u>	<u>121,687</u>	<u>1,061,514</u>
-	27	28,351	5,893	-	-	84,236
-	-	(694,146)	-	-	-	(694,146)
-	27	(665,795)	5,893	-	-	(609,910)
181	3,448	(813,037)	447,821	-	121,687	451,604
<u>7,752</u>	<u>129,496</u>	<u>14,346,982</u>	<u>4,153,972</u>	<u>(51)</u>	<u>5,002,103</u>	<u>39,328,941</u>
<u>\$ 7,933</u>	<u>\$ 132,944</u>	<u>\$ 13,533,945</u>	<u>\$ 4,601,793</u>	<u>\$ (51)</u>	<u>\$ 5,123,790</u>	<u>\$ 39,780,545</u>

CITY OF GILROY

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

CAPITAL PROJECTS FUND

For the year ended June 30, 2019

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Investment income	\$ 30,925	\$ 30,925	\$ 83,988	\$ 53,063
Miscellaneous	-	-	518	518
TOTAL REVENUES	<u>30,925</u>	<u>30,925</u>	<u>84,506</u>	<u>53,581</u>
EXPENDITURES:				
Current:				
Community development	<u>23,082</u>	<u>1,241,556</u>	<u>49,642</u>	<u>1,191,914</u>
TOTAL EXPENDITURES	<u>23,082</u>	<u>1,241,556</u>	<u>49,642</u>	<u>1,191,914</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	7,843	(1,210,631)	34,864	1,245,495
FUND BALANCE AT BEGINNING OF YEAR	<u>1,588,907</u>	<u>1,588,907</u>	<u>1,448,954</u>	<u>(139,953)</u>
FUND BALANCE AT END OF YEAR	<u>\$ 1,596,750</u>	<u>\$ 378,276</u>	<u>\$ 1,483,818</u>	<u>\$ 1,105,542</u>

CITY OF GILROY

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

BANS 2009 FINANCING CAPITAL PROJECTS FUND

For the year ended June 30, 2019

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Investment income	\$ 1,043	\$ 1,043	\$ 540	\$ (503)
TOTAL REVENUES	1,043	1,043	540	(503)
EXPENDITURES:				
Current:				
Community development	61,988	61,988	-	61,988
TOTAL EXPENDITURES	61,988	61,988	-	61,988
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(60,945)	(60,945)	540	61,485
FUND BALANCE AT BEGINNING OF YEAR	33,571	33,571	33,571	-
FUND BALANCE AT END OF YEAR	\$ (27,374)	\$ (27,374)	\$ 34,111	\$ 61,485

CITY OF GILROY

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

TRAFFIC IMPACT CAPITAL PROJECTS FUND

For the year ended June 30, 2019

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental	\$ -	\$ -	\$ -	\$ -
Charges for services	4,283,603	4,283,603	2,512,216	(1,771,387)
Investment income	60,000	60,000	290,248	230,248
TOTAL REVENUES	4,343,603	4,343,603	2,802,464	(1,541,139)
EXPENDITURES:				
Current:				
Community development	6,582,458	11,948,697	2,205,055	9,743,642
TOTAL EXPENDITURES	6,582,458	11,948,697	2,205,055	9,743,642
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(2,238,855)	(7,605,094)	597,409	8,202,503
OTHER FINANCING SOURCES:				
Transfers in	48,769	48,769	48,769	-
TOTAL OTHER FINANCING SOURCES	48,769	48,769	48,769	-
NET CHANGE IN FUND BALANCE	(2,190,086)	(7,556,325)	646,178	8,202,503
FUND BALANCE AT BEGINNING OF YEAR	12,206,209	12,206,209	12,206,209	-
FUND BALANCE AT END OF YEAR	\$ 10,016,123	\$ 4,649,884	\$ 12,852,387	\$ 8,202,503

CITY OF GILROY

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

STORM DRAINS CAPITAL PROJECTS FUND

For the year ended June 30, 2019

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Charges for services	\$ 64,924	\$ 64,924	\$ 8,128	\$ (56,796)
Investment income	12,617	12,617	38,769	26,152
TOTAL REVENUES	77,541	77,541	46,897	(30,644)
EXPENDITURES:				
Current:				
Community development	155,261	155,261	38,171	117,090
TOTAL EXPENDITURES	155,261	155,261	38,171	117,090
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(77,720)	(77,720)	8,726	86,446
OTHER FINANCING SOURCES:				
Transfers in	57,394	57,394	1,196	(56,198)
TOTAL OTHER FINANCING SOURCES	57,394	57,394	1,196	(56,198)
NET CHANGE IN FUND BALANCE	(20,326)	(20,326)	9,922	30,248
FUND BALANCE AT BEGINNING OF YEAR	1,999,953	1,999,953	1,999,953	-
FUND BALANCE AT END OF YEAR	\$ 1,979,627	\$ 1,979,627	\$ 2,009,875	\$ 30,248

CITY OF GILROY

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

UTILITY UNDERGROUNDING CAPITAL PROJECTS FUND

For the year ended June 30, 2019

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Investment income	\$ -	\$ -	\$ 181	\$ 181
TOTAL REVENUES	-	-	181	181
FUND BALANCE AT BEGINNING OF YEAR	7,752	7,752	7,752	-
FUND BALANCE AT END OF YEAR	\$ 7,752	\$ 7,752	\$ 7,933	\$ 181

CITY OF GILROY

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

STREET TREES DEVELOPMENT CAPITAL PROJECTS FUND

For the year ended June 30, 2019

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Charges for services	\$ 1,000	\$ 1,000	\$ 396	\$ (604)
Investment income	800	800	3,025	2,225
TOTAL REVENUES	1,800	1,800	3,421	1,621
EXPENDITURES:				
Current:				
Community services	5,270	5,270	-	5,270
TOTAL EXPENDITURES	5,270	5,270	-	5,270
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(3,470)	(3,470)	3,421	6,891
OTHER FINANCING SOURCES:				
Transfers in	44	44	27	(17)
TOTAL OTHER FINANCING SOURCES	44	44	27	(17)
NET CHANGE IN FUND BALANCE	(3,426)	(3,426)	3,448	6,874
FUND BALANCE AT BEGINNING OF YEAR	129,496	129,496	129,496	-
FUND BALANCE AT END OF YEAR	\$ 126,070	\$ 126,070	\$ 132,944	\$ 6,874

CITY OF GILROY

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

SEWER DEVELOPMENT CAPITAL PROJECTS FUND

For the year ended June 30, 2019

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Charges for services	\$ 2,943,973	\$ 2,943,973	\$ 2,234,082	\$ (709,891)
Investment income	45,853	45,853	340,661	294,808
TOTAL REVENUES	<u>2,989,826</u>	<u>2,989,826</u>	<u>2,574,743</u>	<u>(415,083)</u>
EXPENDITURES:				
Current:				
Community development	<u>1,267,403</u>	<u>2,774,123</u>	<u>2,721,985</u>	<u>52,138</u>
TOTAL EXPENDITURES	<u>1,267,403</u>	<u>2,774,123</u>	<u>2,721,985</u>	<u>52,138</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>1,722,423</u>	<u>215,703</u>	<u>(147,242)</u>	<u>(362,945)</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	322,685	322,685	28,351	(294,334)
Transfers out	<u>(694,146)</u>	<u>(694,146)</u>	<u>(694,146)</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(371,461)</u>	<u>(371,461)</u>	<u>(665,795)</u>	<u>(294,334)</u>
NET CHANGE IN FUND BALANCE	1,350,962	(155,758)	(813,037)	(657,279)
FUND BALANCE AT BEGINNING OF YEAR	<u>14,346,982</u>	<u>14,346,982</u>	<u>14,346,982</u>	<u>-</u>
FUND BALANCE AT END OF YEAR	<u>\$ 15,697,944</u>	<u>\$ 14,191,224</u>	<u>\$ 13,533,945</u>	<u>\$ (657,279)</u>

CITY OF GILROY

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

WATER DEVELOPMENT CAPITAL PROJECTS FUND

For the year ended June 30, 2019

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Charges for services	\$ 795,646	\$ 795,646	\$ 517,403	\$ (278,243)
Investment income	20,000	20,000	102,758	82,758
TOTAL REVENUES	815,646	815,646	620,161	(195,485)
EXPENDITURES:				
Current:				
Community development	188,037	196,574	178,233	18,341
TOTAL EXPENDITURES	188,037	196,574	178,233	18,341
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	627,609	619,072	441,928	(177,144)
OTHER FINANCING SOURCES:				
Transfers in	5,893	5,893	5,893	-
TOTAL OTHER FINANCING SOURCES	5,893	5,893	5,893	-
NET CHANGE IN FUND BALANCE	633,502	624,965	447,821	(177,144)
FUND BALANCE AT BEGINNING OF YEAR	4,153,972	4,153,972	4,153,972	-
FUND BALANCE AT END OF YEAR	\$ 4,787,474	\$ 4,778,937	\$ 4,601,793	\$ (177,144)

CITY OF GILROY

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

BANK INTEREST CAPITAL PROJECTS FUND

For the year ended June 30, 2019

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Investment income	\$ 96,900	\$ 96,900	\$ 77,828	\$ (19,072)
TOTAL REVENUES	96,900	96,900	77,828	(19,072)
EXPENDITURES:				
Current:				
Community development	96,900	96,900	77,828	19,072
TOTAL EXPENDITURES	96,900	96,900	77,828	19,072
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	-	-	-	-
FUND BALANCE (DEFICIT) AT BEGINNING OF YEAR	(51)	(51)	(51)	-
FUND BALANCE (DEFICIT) AT END OF YEAR	\$ (51)	\$ (51)	\$ (51)	\$ -

CITY OF GILROY

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

GILROY COMMUNITY LIBRARY CAPITAL PROJECTS FUND

For the year ended June 30, 2019

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Investment income	\$ 25,000	\$ 25,000	\$ 121,358	\$ 96,358
	-	-	329	329
TOTAL REVENUES	<u>25,000</u>	<u>25,000</u>	<u>121,687</u>	<u>96,687</u>
EXPENDITURES:				
Current:				
Community development	-	-	-	-
TOTAL EXPENDITURES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	25,000	25,000	121,687	96,687
FUND BALANCE AT BEGINNING OF YEAR	<u>5,002,103</u>	<u>5,002,103</u>	<u>5,002,103</u>	<u>-</u>
FUND BALANCE AT END OF YEAR	<u>\$ 5,027,103</u>	<u>\$ 5,027,103</u>	<u>\$ 5,123,790</u>	<u>\$ 96,687</u>

CITY OF GILROY

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

PUBLIC FACILITIES IMPACT CAPITAL PROJECTS FUND - MAJOR FUND

For the year ended June 30, 2019

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Charges for services	\$ 7,157,504	\$ 7,157,504	\$ 3,291,141	\$ (3,866,363)
Investment income	17,326	17,326	139,507	122,181
TOTAL REVENUES	7,174,830	7,174,830	3,430,648	(3,744,182)
EXPENDITURES:				
Current:				
Community development	674,973	3,966,934	400,821	3,566,113
Debt service:				
Interest and other charges	58,715	58,715	132,492	(73,777)
TOTAL EXPENDITURES	733,688	4,025,649	533,313	3,492,336
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	6,441,142	3,149,181	2,897,335	(251,846)
OTHER FINANCING SOURCES (USES):				
Transfers in	40,763	40,763	40,763	-
Transfers out	(4,205,967)	(4,205,967)	(3,531,775)	674,192
TOTAL OTHER FINANCING SOURCES (USES)	(4,165,204)	(4,165,204)	(3,491,012)	674,192
NET CHANGE IN FUND BALANCE	2,275,938	(1,016,023)	(593,677)	422,346
FUND BALANCE (DEFICIT) AT BEGINNING OF YEAR	(2,588,334)	(2,588,334)	(2,588,334)	-
FUND BALANCE (DEFICIT) AT END OF YEAR	\$ (312,396)	\$ (3,604,357)	\$ (3,182,011)	\$ 422,346

INTERNAL SERVICE FUNDS

These funds account for goods or services provided to other departments of the City where the intent of the City is that the costs of these goods or services are to be recovered through interdepartmental charges at the time that the goods are delivered or the services rendered to those departments.

Fleet Services - This fund is used to account for the operations required to maintain the City's vehicles. The costs are recovered through an annual "user fee" which is charged to all departments/funds that have vehicle use. This fund also provides funding for replacement of all the City's vehicles on an "as needed" basis.

Equipment Outlay - This fund is used to allocate resources intended for the purchase of General Fund equipment costing more than \$1,000.

Workers' Compensation - This fund is used to account for all expenses relating to workers' compensation (i.e., injury claims, insurance premiums, etc.). The costs are recovered through an annual "user fee" which is charged to all departments/funds that have employees.

General Liability - This fund is used to account for all expenses relating to the City's general liability insurance. The costs are recovered through an annual "user fee" which is charged to various funds.

Facility Services - This fund is used to account for all expenses relating to the operation and maintenance of City facilities. The costs are recovered through an annual "user fee" which is charged to all departments/funds that have facilities.

Information Technologies - This fund is used to account for all expenses relating to computer hardware, software, maintenance, capital purchasing and other service charges. The costs are recovered through an annual "user fee" which is charged to all departments/funds that have computer equipment.

Fringe Benefits - This fund is used for City paid benefits which are charged. Examples include medical, dental, disability, unemployment, life insurance and retirement including PERS and PARS. These benefit costs are allocated to the funds based on budget for three quarters and then reconciled to actual in the fourth quarter.

CITY OF GILROY

COMBINING STATEMENT OF NET POSITION
INTERNAL SERVICE FUNDS

June 30, 2019

	<u>Fleet Services</u>	<u>Equipment Outlay</u>
ASSETS:		
CURRENT ASSETS:		
Cash and investments	\$ 2,891,095	\$ 2,727,132
Accounts receivable	-	-
Inventory of materials	47,555	-
Prepaid items	-	24,608
	<u>2,938,650</u>	<u>2,751,740</u>
TOTAL CURRENT ASSETS		
NONCURRENT ASSETS:		
Interfund loans receivable	<u>3,441,694</u>	<u>1,129,362</u>
CAPITAL ASSETS:		
Construction in progress	-	4,404
Land improvements	-	21,500
Furniture, fixtures and equipment	348,638	2,210,627
Fleet	11,130,325	46,630
Information technologies	-	-
	<u>11,478,963</u>	<u>2,283,161</u>
TOTAL CAPITAL ASSETS		
Less accumulated depreciation	<u>(7,205,616)</u>	<u>(1,859,829)</u>
NET CAPITAL ASSETS	<u>4,273,347</u>	<u>423,332</u>
TOTAL ASSETS	<u>10,653,691</u>	<u>4,304,434</u>
LIABILITIES:		
CURRENT LIABILITIES:		
Accounts payable	25,541	59,411
Accrued liabilities	30,778	-
Compensated absences, current portion	5,400	-
Claims payable, current portion	-	-
	<u>61,719</u>	<u>59,411</u>
TOTAL CURRENT LIABILITIES		
LONG-TERM LIABILITIES:		
Compensated absences	48,710	-
Claims payable	-	-
	<u>48,710</u>	<u>-</u>
TOTAL LONG-TERM LIABILITIES		
TOTAL LIABILITIES	<u>110,429</u>	<u>59,411</u>
NET POSITION:		
Net investment in capital assets	4,273,347	423,332
Unrestricted	<u>6,269,915</u>	<u>3,821,691</u>
TOTAL NET POSITION	<u>\$ 10,543,262</u>	<u>\$ 4,245,023</u>

<u>Workers' Compensation</u>	<u>General Liability</u>	<u>Facility Services</u>	<u>Information Technologies</u>	<u>Fringe Benefits</u>	<u>Total</u>
\$ 3,442,704	\$ 2,022,195	\$ 1,654,442	\$ 5,027,374	\$ 434,622	\$ 18,199,564
-	-	23,890	7,200	-	31,090
-	-	-	-	-	47,555
150	-	244	-	-	25,002
<u>3,442,854</u>	<u>2,022,195</u>	<u>1,678,576</u>	<u>5,034,574</u>	<u>434,622</u>	<u>18,303,211</u>
-	-	-	-	-	4,571,056
-	-	-	-	-	4,404
-	-	-	-	-	21,500
-	-	-	-	-	2,559,265
-	-	-	-	-	11,176,955
-	-	-	2,344,093	-	2,344,093
-	-	-	2,344,093	-	16,106,217
-	-	-	(1,916,720)	-	(10,982,165)
-	-	-	427,373	-	5,124,052
<u>3,442,854</u>	<u>2,022,195</u>	<u>1,678,576</u>	<u>5,461,947</u>	<u>434,622</u>	<u>27,998,319</u>
-	20,507	90,478	118,331	402,949	717,217
-	-	41,040	36,131	37,580	145,529
-	-	2,900	1,900	-	10,200
879,000	103,000	-	-	-	982,000
<u>879,000</u>	<u>123,507</u>	<u>134,418</u>	<u>156,362</u>	<u>440,529</u>	<u>1,854,946</u>
-	-	26,108	16,898	-	91,716
2,375,870	506,953	-	-	-	2,882,823
<u>2,375,870</u>	<u>506,953</u>	<u>26,108</u>	<u>16,898</u>	<u>-</u>	<u>2,974,539</u>
<u>3,254,870</u>	<u>630,460</u>	<u>160,526</u>	<u>173,260</u>	<u>440,529</u>	<u>4,829,485</u>
-	-	-	427,373	-	5,124,052
187,984	1,391,735	1,518,050	4,861,314	(5,907)	18,044,782
<u>\$ 187,984</u>	<u>\$ 1,391,735</u>	<u>\$ 1,518,050</u>	<u>\$ 5,288,687</u>	<u>\$ (5,907)</u>	<u>\$ 23,168,834</u>

CITY OF GILROY

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
INTERNAL SERVICE FUNDS

For the year ended June 30, 2019

	Fleet Services	Equipment Outlay
OPERATING REVENUES:		
Charges for services	\$ 1,579,584	\$ 125,922
TOTAL OPERATING REVENUES	1,579,584	125,922
OPERATING EXPENSES:		
Operations	1,614,359	533,575
Depreciation	422,548	88,178
Administration	-	-
Claims and judgments	-	-
Insurance premiums	-	-
TOTAL OPERATING EXPENSES	2,036,907	621,753
OPERATING LOSS	(457,323)	(495,831)
NONOPERATING REVENUES:		
Investment income	131,693	85,667
Miscellaneous	6,785	-
Gain on disposal of capital assets	672	-
TOTAL NONOPERATING REVENUES	139,150	85,667
INCOME (LOSS) BEFORE TRANSFERS	(318,173)	(410,164)
TRANSFERS:		
Transfers in	-	-
TOTAL TRANSFERS	-	-
CHANGES IN NET POSITION	(318,173)	(410,164)
NET POSITION AT BEGINNING OF YEAR	10,861,435	4,655,187
NET POSITION AT END OF YEAR	\$ 10,543,262	\$ 4,245,023

<u>Workers' Compensation</u>	<u>General Liability</u>	<u>Facility Services</u>	<u>Information Technologies</u>	<u>Fringe Benefits</u>	<u>Total</u>
<u>\$ 1,239,254</u>	<u>\$ 1,050,014</u>	<u>\$ 2,532,882</u>	<u>\$ 2,455,612</u>	<u>\$ 14,768,197</u>	<u>\$ 23,751,465</u>
<u>1,239,254</u>	<u>1,050,014</u>	<u>2,532,882</u>	<u>2,455,612</u>	<u>14,768,197</u>	<u>23,751,465</u>
-	-	2,706,725	2,414,924	14,774,104	22,043,687
-	-	-	158,748	-	669,474
185,948	101,903	-	-	-	287,851
1,066,813	642,811	-	-	-	1,709,624
225,820	969,266	-	-	-	1,195,086
<u>1,478,581</u>	<u>1,713,980</u>	<u>2,706,725</u>	<u>2,573,672</u>	<u>14,774,104</u>	<u>25,905,722</u>
<u>(239,327)</u>	<u>(663,966)</u>	<u>(173,843)</u>	<u>(118,060)</u>	<u>(5,907)</u>	<u>(2,154,257)</u>
72,937	30,100	18,110	109,401	-	447,908
-	614,307	155,734	7,274	-	784,100
-	-	-	-	-	672
<u>72,937</u>	<u>644,407</u>	<u>173,844</u>	<u>116,675</u>	<u>-</u>	<u>1,232,680</u>
<u>(166,390)</u>	<u>(19,559)</u>	<u>1</u>	<u>(1,385)</u>	<u>(5,907)</u>	<u>(921,577)</u>
-	-	1,000,000	-	-	1,000,000
-	-	1,000,000	-	-	1,000,000
(166,390)	(19,559)	1,000,001	(1,385)	(5,907)	78,423
354,374	1,411,294	518,049	5,290,072	-	23,090,411
<u>\$ 187,984</u>	<u>\$ 1,391,735</u>	<u>\$ 1,518,050</u>	<u>\$ 5,288,687</u>	<u>\$ (5,907)</u>	<u>\$ 23,168,834</u>

CITY OF GILROY

COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS

For the year ended June 30, 2019

	<u>Fleet Services</u>	<u>Equipment Outlay</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from user departments	\$ 1,591,562	\$ 125,922
Cash payments to suppliers of goods and services	(1,095,261)	(543,247)
Cash payments to employees for services	(551,724)	-
	<u>(55,423)</u>	<u>(417,325)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Cash received from other funds	211,417	106,788
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>211,417</u>	<u>106,788</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from sale of capital assets	672	-
Acquisition of capital assets	(1,275,652)	(51,015)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(1,274,980)</u>	<u>(51,015)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment income	131,693	85,667
	<u>131,693</u>	<u>85,667</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(987,293)</u>	<u>(275,885)</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>3,878,388</u>	<u>3,003,017</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 2,891,095</u>	<u>\$ 2,727,132</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating loss	\$ (457,323)	\$ (495,831)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation	422,548	88,178
Miscellaneous nonoperating income	6,785	-
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	-	-
(Increase) decrease in inventory of materials	5,193	-
(Increase) decrease in prepaid items	-	(24,608)
Increase (decrease) in accounts payable	(38,029)	14,936
Increase (decrease) in accrued liabilities	1,788	-
Increase (decrease) in compensated absences	3,615	-
Increase (decrease) in claims payable	-	-
	<u>(55,423)</u>	<u>(417,325)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ (55,423)</u>	<u>\$ (417,325)</u>

Workers' Compensation	General Liability	Facility Services	Information Technologies	Fringe Benefits	Total
\$ 1,239,254	\$ 1,696,878	\$ 2,676,685	\$ 2,455,686	\$ 14,768,197	\$ 24,554,184
(1,133,681)	(1,237,498)	(1,921,284)	(1,985,808)	(14,716,433)	(22,633,212)
-	-	(782,151)	(418,537)	-	(1,752,412)
105,573	459,380	(26,750)	51,341	51,764	168,560
-	-	1,000,000	-	-	1,318,205
-	-	1,000,000	-	-	1,318,205
-	-	-	-	-	672
-	-	-	-	-	(1,326,667)
-	-	-	-	-	(1,325,995)
72,937	30,100	18,110	109,401	-	447,908
178,510	489,480	991,360	160,742	51,764	608,678
3,264,194	1,532,715	663,082	4,866,632	382,858	17,590,886
<u>\$ 3,442,704</u>	<u>\$ 2,022,195</u>	<u>\$ 1,654,442</u>	<u>\$ 5,027,374</u>	<u>\$ 434,622</u>	<u>\$ 18,199,564</u>
\$ (239,327)	\$ (663,966)	\$ (173,843)	\$ (118,060)	\$ (5,907)	\$ (2,154,257)
-	-	-	158,748	-	669,474
-	614,307	155,734	7,274	-	784,100
-	32,557	(11,931)	(7,200)	-	13,426
-	-	-	-	-	5,193
(150)	-	25,014	-	-	256
(21,340)	4,767	(20,717)	1,830	48,624	(9,929)
-	-	(1,594)	8,483	9,047	17,724
-	-	587	266	-	4,468
366,390	471,715	-	-	-	838,105
<u>\$ 105,573</u>	<u>\$ 459,380</u>	<u>\$ (26,750)</u>	<u>\$ 51,341</u>	<u>\$ 51,764</u>	<u>\$ 168,560</u>



CITY OF

gilroyTM

CALIFORNIA

A community with a spice for life

AGENCY FUNDS

These funds account for assets held by the City on behalf of other organizations.

Henry Miller - This fund is used to account for a donation from Henry Miller. The annual interest earned on the original donation of \$15,000 is the amount donated to the poor of Gilroy each Christmas season.

Deposit Revolving - This fund is used to account for miscellaneous deposits, revolving deposits from developers and refundable deposits received in advance for rental of City facilities.

Gilroy Junior Golf - This fund is used to account for entry fees received from participants in junior golf tournaments and is used to pay associated costs such as trophies, supplies and officials.

Softball Advisory Board - This fund is used to pay for program expense such as trophies, T-shirts, supplies, umpires, scorekeepers and donations to other recreation programs.

Senior Advisory Board - This fund is used to account for revenues that come from fund raising and donations. The funds are used to buy equipment for the Senior Center.

Employee Wellness - This fund is used to account for the employee organization designed to provide recreational and educational programs to foster the City employees' mental and physical health.

Barney J. Garcia EMS Training - This fund is used to account for a donation from the family of Barney J. Garcia. The family has restricted the use of donations and interest earnings to the purchase of Fire EMS training equipment only.

Highway 152 Series 2002 - This fund is used to account for special assessments collected and pay the bonded indebtedness for the Highway 152 Series 2002 improvements.

Highway 152 Series 2006 - This fund is used to account for special assessments collected and pay the bonded indebtedness for the Highway 152 Series 2006 improvements.

Highway 152 Series 2018 - This fund is used to account for special assessments collected and pay the bonded indebtedness for the Highway 152 Series 2018 Bonds.

Payroll Withholdings - This fund is used to establish the liabilities for payroll withholdings and their subsequent payment to outside agencies.

Museum Trust - This fund was established by the sale of a vase by the Gilroy Museum. The purpose in selling the vase was to create an endowment for the museum. This would generate interest income for the museum.

CITY OF GILROY

COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS

June 30, 2019

	Henry Miller	Deposit Revolving	Gilroy Junior Golf	Softball Advisory Board	Senior Advisory Board	Employee Wellness
ASSETS:						
Cash and investments	\$ 17,308	\$ 3,440,462	\$ 3,791	\$ 3,105	\$ 8,535	\$ 1,742
Cash and investments with fiscal agent	-	-	-	-	-	-
Accounts receivable	-	7,027	-	-	-	-
Due from County	-	-	-	-	-	-
TOTAL ASSETS	<u>\$ 17,308</u>	<u>\$ 3,447,489</u>	<u>\$ 3,791</u>	<u>\$ 3,105</u>	<u>\$ 8,535</u>	<u>\$ 1,742</u>
LIABILITIES:						
Accounts payable	\$ -	\$ 89,958	\$ -	\$ -	\$ 18	\$ 20
Due to bondholders	-	-	-	-	-	-
Unearned revenue	-	54,089	-	-	-	-
Deposits payable	17,308	3,303,442	3,791	3,105	8,517	1,722
TOTAL LIABILITIES	<u>\$ 17,308</u>	<u>\$ 3,447,489</u>	<u>\$ 3,791</u>	<u>\$ 3,105</u>	<u>\$ 8,535</u>	<u>\$ 1,742</u>

<u>Barney J. Garcia EMS Training</u>	<u>Highway 152 Series 2002</u>	<u>Highway 152 Series 2006</u>	<u>Highway 152 Series 2018</u>	<u>Payroll Withholdings</u>	<u>Museum Trust</u>	<u>Total Agency Funds</u>
\$ 2,343	\$ -	\$ 1,008	\$ 743,211	\$ 2,816	\$ 43,754	\$ 4,268,075
-	-	-	295,479	-	-	295,479
-	-	-	-	-	-	7,027
-	237	308	-	-	-	545
<u>\$ 2,343</u>	<u>\$ 237</u>	<u>\$ 1,316</u>	<u>\$ 1,038,690</u>	<u>\$ 2,816</u>	<u>\$ 43,754</u>	<u>\$ 4,571,126</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 89,996
-	237	1,316	1,038,690	-	-	1,040,243
-	-	-	-	-	-	54,089
2,343	-	-	-	2,816	43,754	3,386,798
<u>\$ 2,343</u>	<u>\$ 237</u>	<u>\$ 1,316</u>	<u>\$ 1,038,690</u>	<u>\$ 2,816</u>	<u>\$ 43,754</u>	<u>\$ 4,571,126</u>

CITY OF GILROY

STATEMENT OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS

For the year ended June 30, 2019

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
HENRY MILLER				
ASSETS:				
Cash and investments	\$ 17,332	\$ 399	\$ 423	\$ 17,308
LIABILITIES:				
Deposits payable	\$ 17,332	\$ 399	\$ 423	\$ 17,308
DEPOSIT REVOLVING				
ASSETS:				
Cash and investments	\$ 4,154,327	\$ -	\$ 713,865	\$ 3,440,462
Accounts receivable	8,227	-	1,200	7,027
TOTAL ASSETS	\$ 4,162,554	\$ -	\$ 715,065	\$ 3,447,489
LIABILITIES:				
Accounts payable	\$ 118,412	\$ -	\$ 28,454	\$ 89,958
Unearned revenue	60,396	-	6,307	54,089
Deposits payable	3,983,746	-	680,304	3,303,442
TOTAL LIABILITIES	\$ 4,162,554	\$ -	\$ 715,065	\$ 3,447,489
GILROY JUNIOR GOLF				
ASSETS:				
Cash and investments	\$ 3,705	\$ 86	\$ -	\$ 3,791
LIABILITIES:				
Deposits payable	\$ 3,705	\$ 86	\$ -	\$ 3,791
SOFTBALL ADVISORY BOARD				
ASSETS:				
Cash and investments	\$ 3,034	\$ 71	\$ -	\$ 3,105
LIABILITIES:				
Deposits payable	\$ 3,034	\$ 71	\$ -	\$ 3,105
SENIOR ADVISORY BOARD				
ASSETS:				
Cash and investments	\$ 8,762	\$ 617	\$ 844	\$ 8,535
LIABILITIES:				
Accounts payable	\$ -	\$ 18	\$ -	\$ 18
Deposits payable	8,762	599	844	8,517
	\$ 8,762	\$ 617	\$ 844	\$ 8,535

(Continued)

CITY OF GILROY

STATEMENT OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
 AGENCY FUNDS
 (Continued)

For the year ended June 30, 2019

	Balance July 1, 2018	Additions	Deletions	Balance June 30, 2019
EMPLOYEE WELLNESS				
ASSETS:				
Cash and investments	\$ 1,193	\$ 549	\$ -	\$ 1,742
LIABILITIES:				
Accounts payable	\$ -	\$ 20	\$ -	\$ 20
Deposits payable	1,193	529	-	1,722
TOTAL LIABILITIES	\$ 1,193	\$ 549	\$ -	\$ 1,742
BARNEY J. GARCIA EMS TRAINING				
ASSETS:				
Cash and investments	\$ 2,290	\$ 53	\$ -	\$ 2,343
LIABILITIES:				
Deposits payable	\$ 2,290	\$ 53	\$ -	\$ 2,343
HIGHWAY 152 SERIES 2002				
ASSETS:				
Cash and investments	\$ 970,579	\$ 5,055,875	\$ 6,026,454	\$ -
Cash and investments with fiscal agent	548,365	-	548,365	-
Due from County	44	193	-	237
TOTAL ASSETS	\$ 1,518,988	\$ 5,056,068	\$ 6,574,819	\$ 237
LIABILITIES:				
Due to bondholders	\$ 1,518,988	\$ 5,056,068	\$ 6,574,819	\$ 237
HIGHWAY 152 SERIES 2006				
ASSETS:				
Cash and investments	\$ 559,782	\$ 7,048,590	\$ 7,607,364	\$ 1,008
Cash and investments with fiscal agent	589,570	-	589,570	-
Due from County	48	260	-	308
TOTAL ASSETS	\$ 1,149,400	\$ 7,048,850	\$ 8,196,934	\$ 1,316
LIABILITIES:				
Due to bondholders	\$ 1,149,400	\$ 7,048,850	\$ 8,196,934	\$ 1,316

(Continued)

CITY OF GILROY

STATEMENT OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
 AGENCY FUNDS
 (Continued)

For the year ended June 30, 2019

	Balance July 1, 2018	Additions	Deletions	Balance June 30, 2019
HIGHWAY 152 SERIES 2018				
ASSETS:				
Cash and investments	\$ -	\$ 743,211	\$ -	\$ 743,211
Cash and investments with fiscal agent	-	7,815,860	7,520,381	295,479
TOTAL ASSETS	\$ -	\$ 8,559,071	\$ 7,520,381	\$ 1,038,690
LIABILITIES:				
Due to bondholders	\$ -	\$ 8,559,071	\$ 7,520,381	\$ 1,038,690
PAYROLL WITHHOLDINGS				
ASSETS:				
Cash and investments	\$ -	\$ 2,816	\$ -	\$ 2,816
Prepaid items	88,968	-	88,968	-
TOTAL ASSETS	\$ 88,968	\$ 2,816	\$ 88,968	\$ 2,816
LIABILITIES:				
Accounts payable	\$ 85,188	\$ -	\$ 85,188	\$ -
Deposits payable	3,780	2,816	3,780	2,816
TOTAL LIABILITIES	\$ 88,968	\$ 2,816	\$ 88,968	\$ 2,816
MUSEUM TRUST				
ASSETS:				
Cash and investments	\$ 42,669	\$ 1,657	\$ 572	\$ 43,754
LIABILITIES:				
Deposits payable	\$ 42,669	\$ 1,657	\$ 572	\$ 43,754
TOTAL ALL AGENCY FUNDS				
ASSETS:				
Cash and investments	\$ 5,763,673	\$ 12,853,924	\$ 14,349,522	\$ 4,268,075
Cash and investments with fiscal agent	1,137,935	7,815,860	8,658,316	295,479
Accounts receivable	8,227	-	1,200	7,027
Prepaid items	88,968	-	88,968	-
Due from County	92	453	-	545
Prepaid items	-	-	-	-
TOTAL ASSETS	\$ 6,998,895	\$ 20,670,237	\$ 23,098,006	\$ 4,571,126
LIABILITIES:				
Accounts payable	\$ 203,600	\$ 38	\$ 113,642	\$ 89,996
Due to bondholders	2,668,388	20,663,989	22,292,134	1,040,243
Unearned revenue	60,396	-	6,307	54,089
Deposits payable	4,066,511	6,210	685,923	3,386,798
TOTAL LIABILITIES	\$ 6,998,895	\$ 20,670,237	\$ 23,098,006	\$ 4,571,126

ADDITIONAL SCHEDULES

CITY OF GILROY

ANALYSIS OF AVAILABLE RESOURCES - SELECTED FUNDS

For the year ended June 30, 2019

	Sewer	Water	Fleet Services	Equipment Outlay
BEGINNING RESOURCES AVAILABLE:				
Depreciation reserve	\$ 8,974,391	\$ 15,459,901	\$ 8,623,893	\$ 3,457,521
Operating reserve	11,997,037	7,527,739	391,461	1,314,958
TOTAL BEGINNING RESOURCES	20,971,428	22,987,640	9,015,354	4,772,479
SOURCE OF FUNDS:				
Revenues	12,904,657	12,260,246	1,579,584	125,922
Investment income	593,929	704,286	131,693	85,667
Miscellaneous revenue	-	33,873	6,785	-
Sale of assets (gross proceeds)	-	-	672	-
Capital contributions	2,574,460	-	-	-
Interfund loan repayments	-	-	211,417	106,788
Interfund transfers in	694,146	-	-	-
TOTAL SOURCES	16,767,192	12,998,405	1,930,151	318,377
USE OF FUNDS:				
Expenditures (excluding depreciation)	9,714,572	10,428,557	1,614,359	533,575
Interest paid	512,625	-	-	-
Principal paid	2,045,000	-	-	-
Capital assets constructed/acquired	105,584	-	1,275,652	51,015
Interfund transfers out	-	53,799	-	-
TOTAL USES	12,377,781	10,482,356	2,890,011	584,590
ADJUSTMENTS:				
Adjustments for other assets and liabilities	(2,981,364)	(4,473,478)	(1,779,024)	(709,183)
TOTAL ADJUSTMENTS	(2,981,364)	(4,473,478)	(1,779,024)	(709,183)
TOTAL CHANGES IN RESOURCES	1,408,047	(1,957,429)	(2,738,884)	(975,396)
ENDING RESOURCES AVAILABLE	\$ 22,379,475	\$ 21,030,211	\$ 6,276,470	\$ 3,797,083
RECAP OF ENDING RESOURCES:				
Depreciation reserve	\$ 9,274,721	\$ 16,133,247	\$ 9,046,441	\$ 3,545,699
Operating reserve	13,104,754	4,896,964	(2,769,971)	251,384
TOTAL ENDING RESOURCES	\$ 22,379,475	\$ 21,030,211	\$ 6,276,470	\$ 3,797,083
ANALYSIS OF DEPRECIATION RESERVE:				
Beginning balance	\$ 8,974,391	\$ 15,459,901	\$ 8,623,893	\$ 3,457,521
2018-2019 depreciation	300,330	673,346	422,548	88,178
TOTAL DEPRECIATION RESERVE	\$ 9,274,721	\$ 16,133,247	\$ 9,046,441	\$ 3,545,699

<u>Workers' Compensation</u>	<u>General Liability</u>	<u>Facility Services</u>	<u>Information Technologies</u>	<u>Fringe Benefits</u>	<u>Total</u>
\$ -	\$ -	\$ 4,057	\$ 6,663,585	\$ -	\$ 43,183,348
<u>2,979,147</u>	<u>1,578,266</u>	<u>539,080</u>	<u>(4,788,325)</u>	<u>-</u>	<u>21,539,363</u>
<u>2,979,147</u>	<u>1,578,266</u>	<u>543,137</u>	<u>1,875,260</u>	<u>-</u>	<u>64,722,711</u>
1,239,254	1,050,014	2,532,882	2,455,612	14,768,197	48,916,368
72,937	30,100	18,110	109,401	-	1,746,123
-	614,307	155,734	7,274	-	817,973
-	-	-	-	-	672
-	-	-	-	-	2,574,460
-	-	-	-	-	318,205
-	-	1,000,000	-	-	1,694,146
<u>1,312,191</u>	<u>1,694,421</u>	<u>3,706,726</u>	<u>2,572,287</u>	<u>14,768,197</u>	<u>56,067,947</u>
1,478,581	1,713,980	2,706,725	2,414,924	14,774,104	45,379,377
-	-	-	-	-	512,625
-	-	-	-	-	2,045,000
-	-	-	-	-	1,432,251
-	-	-	-	-	53,799
<u>1,478,581</u>	<u>1,713,980</u>	<u>2,706,725</u>	<u>2,414,924</u>	<u>14,774,104</u>	<u>49,423,052</u>
<u>629,947</u>	<u>442,981</u>	<u>3,676</u>	<u>2,847,489</u>	<u>-</u>	<u>(6,018,956)</u>
<u>629,947</u>	<u>442,981</u>	<u>3,676</u>	<u>2,847,489</u>	<u>-</u>	<u>(6,018,956)</u>
<u>463,557</u>	<u>423,422</u>	<u>1,003,677</u>	<u>3,004,852</u>	<u>(5,907)</u>	<u>625,939</u>
<u>\$ 3,442,704</u>	<u>\$ 2,001,688</u>	<u>\$ 1,546,814</u>	<u>\$ 4,880,112</u>	<u>\$ (5,907)</u>	<u>\$ 65,348,650</u>
\$ -	\$ -	\$ 4,057	\$ 6,822,333	\$ -	\$ 44,826,498
<u>3,442,704</u>	<u>2,001,688</u>	<u>1,542,757</u>	<u>(1,942,221)</u>	<u>(5,907)</u>	<u>20,522,152</u>
<u>\$ 3,442,704</u>	<u>\$ 2,001,688</u>	<u>\$ 1,546,814</u>	<u>\$ 4,880,112</u>	<u>\$ (5,907)</u>	<u>\$ 65,348,650</u>
\$ -	\$ -	\$ 4,057	\$ 6,663,585	\$ -	\$ 43,183,348
<u>-</u>	<u>-</u>	<u>-</u>	<u>158,748</u>	<u>-</u>	<u>1,643,150</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,057</u>	<u>\$ 6,822,333</u>	<u>\$ -</u>	<u>\$ 44,826,498</u>

CITY OF GILROY

COMPOSITION OF AVAILABLE RESOURCES - SELECTED FUNDS

For the year ended June 30, 2019

	Sewer	Water	Fleet Services	Equipment Outlay
BEGINNING RESOURCES AVAILABLE:				
Cash	\$ 20,012,239	\$ 23,554,747	\$ 3,878,388	\$ 3,003,017
Receivables	1,267,201	1,260,648	3,653,111	1,236,151
Payables	<u>(149,194)</u>	<u>(1,223,762)</u>	<u>(92,560)</u>	<u>(44,475)</u>
TOTAL BEGINNING WORKING CAPITAL	<u>\$ 21,130,246</u>	<u>\$ 23,591,633</u>	<u>\$ 7,438,939</u>	<u>\$ 4,194,693</u>
ENDING RESOURCES AVAILABLE:				
Cash	\$ 20,308,838	\$ 21,271,226	\$ 2,891,095	\$ 2,727,132
Receivables	2,261,086	1,293,034	3,441,694	1,129,362
Payables	<u>(190,449)</u>	<u>(1,534,049)</u>	<u>(56,319)</u>	<u>(59,411)</u>
TOTAL ENDING WORKING CAPITAL	<u>\$ 22,379,475</u>	<u>\$ 21,030,211</u>	<u>\$ 6,276,470</u>	<u>\$ 3,797,083</u>

<u>Workers' Compensation</u>	<u>General Liability</u>	<u>Facility Services</u>	<u>Information Technologies</u>	<u>Fringe Benefits</u>	<u>Total</u>
\$ 3,264,194	\$ 1,532,715	\$ 663,082	\$ 4,866,632	\$ 382,858	\$ 61,157,872
-	32,557	11,959	-	-	7,461,627
<u>(21,340)</u>	<u>(15,740)</u>	<u>(153,829)</u>	<u>(144,150)</u>	<u>(382,858)</u>	<u>(2,227,908)</u>
<u>\$ 3,242,854</u>	<u>\$ 1,549,532</u>	<u>\$ 521,212</u>	<u>\$ 4,722,482</u>	<u>\$ -</u>	<u>\$ 66,391,591</u>
\$ 3,442,704	\$ 2,022,195	\$ 1,654,442	\$ 5,027,374	\$ 434,622	\$ 59,779,628
-	-	23,890	7,200	-	8,156,266
<u>-</u>	<u>(20,507)</u>	<u>(131,518)</u>	<u>(154,462)</u>	<u>(440,529)</u>	<u>(2,587,244)</u>
<u>\$ 3,442,704</u>	<u>\$ 2,001,688</u>	<u>\$ 1,546,814</u>	<u>\$ 4,880,112</u>	<u>\$ (5,907)</u>	<u>\$ 65,348,650</u>



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**CITY OF GILROY
ANNUAL REPORT FILINGS FOR FISCAL YEAR 2018-19**

(1) Gilroy Community Library Project:

\$8,633,538

**CITY OF GILROY
2019 General Obligation Refunding Bonds Series A
(Gilroy Community Library Project)**

\$23,500,000

**CITY OF GILROY
2010 General Obligation Bonds
(Gilroy Community Library Project)**

(a) Audited financial statements for the City for Fiscal Year 2018-19.

This exhibit is attached to the City's audited financial statements.

(b) Financial information and operating data.

(i) Assessed value of taxable property within the jurisdiction of the City.

**CITY OF GILROY
Assessed Valuations of All Taxable Property
Fiscal Years 2014-15 to 2019-20**

Fiscal Year	Gross Local Secured ⁽¹⁾	Net Local Secured ⁽²⁾	Net Utility ⁽³⁾	Net Unsecured ⁽⁴⁾	Total ⁽²⁾
2014-15	6,395,754,046	6,349,703,846	52,530,836	265,879,967	6,668,114,649
2015-16	6,798,621,370	6,752,750,370	47,030,836	268,445,327	7,068,226,533
2016-17	7,385,130,561	7,338,552,561	42,130,836	273,713,487	7,654,396,884
2017-18	7,872,947,886	7,825,703,486	39,330,836	263,667,226	8,128,701,548
2019-20	9,001,686,593	8,953,812,193	32,539,704	257,410,089	9,243,761,986

(1) Before deduction of homeowner's exemptions.

(2) Net of homeowner's exemptions.

(3) Beginning in Fiscal Year 1988-89, Chapter 921 of the Statutes of 1987 requires the establishment of a single Countywide tax area for the assignment of the assessed value of certain types of State-assessed utility property and sets forth formulas for the determination of Countywide tax rates for this particular type of property. This statute also spells out how to distribute the taxes which have been collected from the bills derived from this value and specified tax rate.

(4) Does not include aircraft.

Source: Santa Clara County Auditor-Controller's Office

- (iii) If and to the extent such information is available from the County, property tax collection delinquencies for the City if the City is no longer a participant in Santa Clara County's Teeter Plan.

The County is not able to provide tax levy and delinquency information to the City because the County has adopted the Teeter Plan, which means it pays to the City the amount of taxes levied rather than the amount collected. The City will make this information available if and when it becomes available from the County.

- (iv) Amount of all general obligation debt of the City outstanding, and total scheduled debt service on such general obligation debt.

Please see information in the audited financial statements.

- (v) Any changes in the operation of Santa Clara County's Teeter Plan since the previous Annual Report affecting the City's receipt of property tax revenues used to pay debt service on the Bonds.

The City is not aware of any changes in the operation of Santa Clara County's Teeter Plan since the previous Annual Report affecting the City's receipt of property tax revenues used to pay debt service.

(2) Gilroy Public Facilities Financing Authority:

\$24,475,000
GILROY PUBLIC FACILITIES FINANCING AUTHORITY
Refunding Lease Revenue Bonds, Series 2010

\$23,120,000
GILROY PUBLIC FACILITIES FINANCING AUTHORITY
Refunding Lease Revenue Bonds, Series 2013

(a) Audited financial statements for the City for Fiscal Year 2018-2019.

This exhibit is attached to the City's audited financial statements.

(b) Financial information and operating data.

(i) Principal amount of Notes/Bonds outstanding.

Please see information in the audited financial statements.

(ii) Balance in each fund under the Trust Agreement as of August 31, preceding the filing of the Annual Report.

CITY OF GILROY						
Balance under the Trust Agreement as of August 31, 2019						
<u>Financing Authority</u>	<u>Type</u>	<u>Year</u>	<u>Account Name</u>	<u>Shares/Units</u>	<u>Cost Basis</u>	<u>Market Value</u>
Gilroy Public Facilities Financing Authority	Lease Revenue Bonds	Series 2010	Reserve	\$1,744,606.26	\$1,744,606.26	\$1,744,606.26
Gilroy Public Facilities Financing Authority	Lease Revenue Bonds	Series 2013	Reserve	\$920,222	\$920,222	\$920,222

(iii) General fund summary of revenues and expenditures.

Please see information in the audited financial statements.

(iv) General fund balance sheet.

Please see information in the audited financial statements.

(v) General fund budget for the then-current fiscal year.

	Budget 2019-20
REVENUES	
Taxes	\$ 43,836,328
Licenses & Permits	3,654,218
Intergovernmental	141,500
Charges for Services	5,669,485
Fines	262,730
Investment Income	475,334
Miscellaneous	<u>1,605,849</u>
Total Revenues	\$ 55,645,444
EXPENDITURES	
Personnel Expense	\$ 40,651,230
Maintenance and Services	6,078,499
Interfund, charges, allocations & other	<u>10,802,235</u>
Total Expenditures	\$ 57,531,964

Also, please see information in the audited financial statements.

(vi) General fund tax revenues by source.

CITY OF GILROY
General Fund Tax Revenues by Source
For Fiscal Years 2014-15 through 2018-19

Source	Audited 2014-15	Audited 2015-16	Audited 2016-17	Audited 2017-18	Audited 2018-19
REVENUES					
Sales Taxes	15,858,910	17,884,735	17,768,469	18,827,189	20,186,105
Property Taxes (1)	10,862,568	11,468,510	12,278,552	13,161,022	14,476,481
Utility Users Tax	4,520,149	4,610,631	4,748,382	4,666,131	4,721,529
Motor Vehicle in lieu of Taxes	21,479	21,385	24,715	29,444	26,695
Franchise Taxes	1,463,770	1,569,059	1,623,952	1,713,690	1,669,817
Transient Occupancy Taxes	1,501,837	1,676,691	1,709,332	1,722,355	1,771,882
Document Transfer Taxes	385,719	505,957	516,105	526,583	372,284
Total	<u>\$ 34,614,432</u>	<u>\$ 37,736,968</u>	<u>\$ 38,669,506</u>	<u>\$40,646,414</u>	<u>\$43,224,793</u>

(1) Property tax revenue includes secured, unsecured and supplemental property tax revenue along with penalties and interest.

Source: City of Gilroy Finance Department

(vii) Sales tax rates.

CITY OF GILROY
Sales Tax Rates
Effective January 1, 2019

State	6.0%
Santa Clara County Transportation Funds	0.25
City	1.00
Santa Clara County Transit District	0.50
Santa Clara County Valley Transportation Authority (VTA)	0.50
Santa Clara County Retail Transactions and Use Tax	0.125
Santa Clara VTA Bay Area Rapid Transit (BART)	0.125
Silicon Valley Transportation Solutions Tax	<u>0.50</u>
Total	9.00%

Source: California State Board of Equalization.

(viii) Assessed valuation of property in the City.

Please see (1)(b)(i) above.

(ix) Updated descriptions of outstanding general fund debt and lease obligations.

Please see information in the audited financial statements.

(3) Wastewater Revenue Refunding Bonds:

\$23,375,000
CITY OF GILROY
2010 Wastewater Revenue Refunding Bonds

(a) Audited financial statements for the City for Fiscal Year 2018-19.

This exhibit is attached to the City’s audited financial statements.

(b) Financial information and operating data.

(i) Principal amount of Bonds outstanding.

\$9,230,000

(ii) Balance in the Reserve Fund and a statement of the Reserve Requirement.

Reserve Fund Balance as of June 30, 2019: \$2,621,046.

Reserve Requirement: \$2,621,000. Reserve Requirement is defined in the Indenture to mean an amount equal to the maximum amount of principal of and interest on the Bonds coming due and payable in the current or any future Bond Year including the principal of any Term Bonds required to be redeemed in such Bond Year under the Indenture.

(iii) Updated wastewater system information:

CITY OF GILROY WASTEWATER SYSTEM
Wastewater Flow
Fiscal Years 2014-15 through 2018-19

<u>Fiscal Year</u>	<u>SCRWA Treatment Facility Total Flow (MG/Year)</u>	<u>SCRWA Treatment Facility Million Gallons per Day (MGD)</u>	<u>City of Gilroy Flow (MG/Year)</u>	<u>City % Share of SCRWA Treatment Facility Flow</u>
2014-15	2,186.40	5.99	1,278.96	58
2015-16	2,185.58	5.97	1,311.35	60
2016-17	2,763.99	7.60	1,761.18	63
2017-18	2,250.28	6.16	1,413.14	61
2018-19	2,427.24	6.66	1,539.50	63

Source: City of Gilroy

Historical Revenues and Expenses: Please see information in the audited financial statements.

CITY OF GILROY WASTEWATER SYSTEM
Historical Debt Service Coverage

	2014-15	2015-16	2016-17	2017-18	2018-19
Gross Revenues:					
Charges for services	\$10,336,111	\$11,773,938	\$12,644,730	\$12,720,141	12,904,657
Investment Income	257,938	210,826	188,300	241,144	593,929
Available Rate Stabilization Fund Balance	-	-	-	-	-
Transfers from Sewer Impact Fund	700,544	700,111	696,546	697,198	694,146
Total Gross Revenues	11,294,593	12,684,875	13,529,576	13,658,483	14,192,732
Operating Expenses:					
Operations	(6,281,516)	(7,296,107)	(7,454,895)	(7,466,650)	(8,339,489)
Billing	(588,131)	(612,551)	(594,654)	(618,400)	(668,982)
Administration	(377,770)	(500,398)	(472,465)	(558,846)	(706,101)
Total Operating Expenses	(7,247,417)	(8,409,056)	(8,522,014)	(8,643,896)	(9,714,572)
Net Wastewater System Revenues	4,047,176	4,275,819	5,007,562	5,014,587	4,478,160
Series 1999 Installment Payments/ Refunding Series 2010 Payments	2,566,950	2,566,550	2,558,687	2,562,738	2,557,625
Gross Revenue Debt Service Coverage	440.00%	494.24%	528.77%	532.96%	554.92%
Net Revenue Debt Service Coverage	157.66%	166.60%	195.71%	195.67%	175.09%
Funds Available					
Sewer Development Capital Project Fund	\$10,362,866	\$11,481,078	\$12,964,741	\$14,534,002	15,040,842
Sewer Fund Cash and Cash Equivalent	26,336,933	18,537,029	16,777,330	17,391,216	17,687,792
Rate Stabilization Fund	750,000	750,000	750,000	750,000	750,000
Total Funds Available	\$37,449,799	\$30,768,107	\$30,492,071	\$32,675,218	\$33,478,634
Days Cash on Hand (Sewer Fund Cash/Cash Equivalent)	1,326	805	719	734	665

Source: City of Gilroy

- (iv) A summary of any changes in the City's wastewater service charges since the date of the previous Annual Report.

Effective July 1, 2018, the City of Gilroy implemented a wastewater rate increase in accordance with the rate analysis study approved in August 2015. This represents a 3% increase in the fixed monthly charge for non-residential wastewater rates.

The increases noted in the rate structure will help to ensure that sufficient funding is collected to operate and maintain the capital infrastructure of the wastewater system.

- (v) A description of any Parity Debt issued during the most recently completed fiscal year.

None

STATISTICAL SECTION





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DESCRIPTION OF STATISTICAL SECTION CONTENTS

June 30, 2019

This part of the City of Gilroy'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 say about the government's overall financial health.

Contents:	<u>Pages</u>
<u>Financial Trends</u> these schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.	176 - 185
<u>Revenue Capacity</u> these schedules contain information to help the reader assess the City's most significant local revenue source, the property tax.	186 - 193
<u>Debt Capacity</u> these schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.	194 - 199
<u>Demographic and Economic Information</u> these schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.	200- 201
<u>Operating Information</u> these schedules 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.	202 - 207



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CITY OF GILROY
NET POSITION (NET ASSETS)
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)

	Fiscal Year			
	2010	2011	2012	2013
Governmental activities				
Net investment in capital assets	\$ 190,329,025	\$ 186,497,667	\$ 180,031,582	\$ 170,944,637
Restricted	16,850,843	16,148,971	19,257,961	19,616,322
Unrestricted	21,623,252	21,373,299	25,031,844	26,414,676
Total governmental activities net position (net assets)	<u>\$ 228,803,120</u>	<u>\$ 224,019,937</u>	<u>\$ 224,321,387</u>	<u>\$ 216,975,635</u>
Business-type activities				
Net investment in capital assets	\$ 98,038,135	\$ 96,128,432	\$ 93,390,622	\$ 91,165,074
Restricted	-	-	-	-
Unrestricted	70,237,674	75,964,187	79,652,868	82,012,944
Total business-type activities net position (net assets)	<u>\$ 168,275,809</u>	<u>\$ 172,092,619</u>	<u>\$ 173,043,490</u>	<u>\$ 173,178,018</u>
Primary government				
Net investment in capital assets	\$ 288,367,160	\$ 282,626,099	\$ 273,422,204	\$ 262,109,711
Restricted	16,850,843	16,148,971	19,257,961	19,616,322
Unrestricted	91,860,926	97,337,486	104,684,712	108,427,620
Total primary government net position (net assets)	<u>\$ 397,078,929</u>	<u>\$ 396,112,556</u>	<u>\$ 397,364,877</u>	<u>\$ 390,153,653</u>

Fiscal Year					
2014	2015	2016	2017	2018	2019
\$ 162,950,296	\$ 167,625,947	\$ 159,684,128	\$ 154,863,285	\$ 159,069,886	\$ 156,750,373
24,277,233	22,320,085	35,564,991	41,636,040	48,731,281	49,688,804
28,892,199	(26,524,001)	(25,032,197)	(25,229,815)	(36,193,491)	(37,759,850)
<u>\$ 216,119,728</u>	<u>\$ 163,422,031</u>	<u>\$ 170,216,922</u>	<u>\$ 171,269,510</u>	<u>\$ 171,607,676</u>	<u>\$ 168,679,327</u>
\$ 88,728,174	\$ 90,335,349	\$ 90,917,108	\$ 88,183,287	\$ 87,336,604	\$ 91,134,932
-	-	-	-	-	-
85,736,094	84,832,390	88,668,400	93,612,020	98,375,675	100,053,259
<u>\$ 174,464,268</u>	<u>\$ 175,167,739</u>	<u>\$ 179,585,508</u>	<u>\$ 181,795,307</u>	<u>\$ 185,712,279</u>	<u>\$ 191,188,191</u>
\$ 251,678,470	\$ 257,961,296	\$ 250,601,236	\$ 243,046,572	\$ 246,406,490	\$ 247,885,305
24,277,233	22,320,085	35,564,991	41,636,040	48,731,281	49,688,804
114,628,293	58,308,389	63,636,203	68,382,205	62,182,184	62,293,409
<u>\$ 390,583,996</u>	<u>\$ 338,589,770</u>	<u>\$ 349,802,430</u>	<u>\$ 353,064,817</u>	<u>\$ 357,319,955</u>	<u>\$ 359,867,518</u>

CITY OF GILROY
 CHANGES IN NET POSITION (NET ASSETS)
 LAST TEN FISCAL YEARS
 (ACCRUAL BASIS OF ACCOUNTING)

	Fiscal Year			
	2010	2011	2012	2013
Expenses				
Governmental activities				
General government	\$ 3,843,423	\$ 3,385,407	\$ 2,575,724	\$ 3,732,098
Public safety	25,666,866	24,069,357	27,755,687	28,747,964
Community development	13,583,326	14,423,744	14,597,004	15,485,705
Community services	6,558,840	6,355,948	7,338,765	7,686,862
Interest and other charges	974,387	3,666,139	3,347,898	3,226,789
Total governmental activities expenses	<u>50,626,842</u>	<u>51,900,595</u>	<u>55,615,078</u>	<u>58,879,418</u>
Business-type activities				
Sewer	7,599,003	9,599,950	10,422,402	10,206,770
Water	6,442,690	6,508,446	7,414,809	8,081,041
Total business-type activities expenses	<u>14,041,693</u>	<u>16,108,396</u>	<u>17,837,211</u>	<u>18,287,811</u>
Total primary government expenses	<u>\$ 64,668,535</u>	<u>\$ 68,008,991</u>	<u>\$ 73,452,289</u>	<u>\$ 77,167,229</u>
Program Revenues				
Governmental activities				
Charges for services				
General government	\$ 2,939,351	\$ 1,008,468	\$ 1,099,125	\$ 1,119,217
Public safety	907,222	926,399	923,031	1,004,530
Community development	1,990,275	2,959,139	3,537,567	3,866,305
Community services	605,831	603,419	672,123	757,445
Operating contributions and grants	4,682,843	4,633,908	15,903,187	14,091,083
Capital contributions and grants	5,558,998	7,083,530	3,495,212	3,207,487
Total governmental activities program revenues	<u>16,684,520</u>	<u>17,214,863</u>	<u>25,630,245</u>	<u>24,046,067</u>
Business-type activities				
Charges for services				
Sewer	7,500,914	8,012,406	8,170,711	8,441,024
Water	7,229,460	7,219,424	7,715,525	8,179,888
Capital contributions and grants	1,022	-	2,535,228	1,410,773
Total business-type activities program revenues	<u>14,731,396</u>	<u>15,231,830</u>	<u>18,421,464</u>	<u>18,031,685</u>
Total primary government program revenues	<u>\$ 31,415,916</u>	<u>\$ 32,446,693</u>	<u>\$ 44,051,709</u>	<u>\$ 42,077,752</u>

Fiscal Year						
2014	2015	2016	2017	2018	2019	
\$ 3,795,033	\$ 3,619,582	\$ 3,900,226	\$ 6,437,408	\$ 7,315,065	\$ 7,696,445	
29,696,344	30,273,444	31,020,245	33,393,829	35,591,790	37,837,438	
14,824,460	15,901,215	21,413,283	19,167,193	19,211,323	18,348,409	
7,726,938	7,807,765	8,217,318	8,978,597	9,654,957	9,526,627	
3,744,396	3,406,855	3,327,992	3,256,733	3,147,606	3,226,849	
<u>59,787,171</u>	<u>61,008,861</u>	<u>67,879,064</u>	<u>71,233,760</u>	<u>74,920,741</u>	<u>76,635,768</u>	
9,929,622	9,806,990	12,298,662	12,060,236	11,538,388	14,044,716	
8,642,660	8,329,710	8,370,320	9,197,426	9,937,768	11,777,220	
<u>18,572,282</u>	<u>18,136,700</u>	<u>20,668,982</u>	<u>21,257,662</u>	<u>21,476,156</u>	<u>25,821,936</u>	
<u>\$ 78,359,453</u>	<u>\$ 79,145,561</u>	<u>\$ 88,548,046</u>	<u>\$ 92,491,422</u>	<u>\$ 96,396,897</u>	<u>\$ 102,457,704</u>	
\$ 1,415,106	\$ 2,096,137	\$ 1,651,713	\$ 3,087,335	\$ 3,280,977	\$ 3,726,486	
897,059	1,030,410	1,146,593	1,439,418	959,277	1,234,017	
5,434,764	7,385,391	6,145,791	5,207,571	6,430,321	6,624,477	
810,503	886,988	978,780	986,582	977,834	1,009,235	
15,057,119	13,109,933	22,838,535	15,860,767	19,389,757	13,146,274	
3,157,642	8,999,636	3,820,892	5,438,560	10,319,300	2,649,021	
<u>26,772,193</u>	<u>33,508,495</u>	<u>36,582,304</u>	<u>32,020,233</u>	<u>41,357,466</u>	<u>28,389,510</u>	
10,359,334	10,597,617	11,984,798	12,833,030	12,961,285	12,904,657	
8,640,784	7,069,363	7,330,300	9,156,082	11,343,036	12,294,119	
179,707	3,581,138	5,086,464	1,172,844	2,330,335	4,160,510	
<u>19,179,825</u>	<u>21,248,118</u>	<u>24,401,562</u>	<u>23,161,956</u>	<u>26,634,656</u>	<u>29,359,286</u>	
<u>\$ 45,952,018</u>	<u>\$ 54,756,613</u>	<u>\$ 60,983,866</u>	<u>\$ 55,182,189</u>	<u>\$ 67,992,122</u>	<u>\$ 57,748,796</u>	

CITY OF GILROY
 CHANGES IN NET POSITION (NET ASSETS)
 LAST TEN FISCAL YEARS
 (ACCRUAL BASIS OF ACCOUNTING)

	Fiscal Year			
	2010	2011	2012	2013
Net (Expense) Revenue				
Governmental activities	\$ (33,942,322)	\$ (34,685,732)	\$ (29,984,833)	\$ (34,833,351)
Business-type activities	689,703	(876,566)	584,253	(256,126)
Total primary government net (expense) revenue	<u>\$ (33,252,619)</u>	<u>\$ (35,562,298)</u>	<u>\$ (29,400,580)</u>	<u>\$ (35,089,477)</u>
General Revenues				
Governmental activities				
Taxes				
Property tax	\$ 9,553,660	\$ 8,861,163	\$ 8,907,492	\$ 9,462,337
Sales tax	11,539,468	12,820,172	13,833,561	14,114,277
Transient occupancy tax	829,901	889,124	998,743	1,092,486
Franchise tax	1,279,863	1,293,850	1,355,340	1,326,364
Other	4,935,357	5,048,813	4,781,148	4,694,440
Investment income	1,356,981	1,060,450	922,309	350,105
State motor vehicle in lieu	152,460	236,142	25,739	26,670
Other	30,000	-	109,798	390,812
Transfers	(568,675)	(307,165)	(647,847)	(669,940)
Total governmental activities	<u>29,109,015</u>	<u>29,902,549</u>	<u>30,286,283</u>	<u>30,787,551</u>
Business-type activities				
Investment income	543,382	1,013,724	777,528	-
Other	690	350	600	-
Share of joint revenue net income (loss)	(1,219,022)	3,372,137	(1,059,357)	-
Transfers	568,675	307,165	647,847	669,940
Total business-type activities	<u>(106,275)</u>	<u>4,693,376</u>	<u>366,618</u>	<u>669,940</u>
Total primary government general revenues	<u>\$ 29,002,740</u>	<u>\$ 34,595,925</u>	<u>\$ 30,652,901</u>	<u>\$ 31,457,491</u>
Changes in Net Position (Net Assets)				
Governmental activities	\$ (4,833,307)	\$ (4,783,183)	\$ 301,450	\$ (4,045,800)
Business-type activities	583,428	3,816,810	950,871	413,814
Total primary government	<u>\$ (4,249,879)</u>	<u>\$ (966,373)</u>	<u>\$ 1,252,321</u>	<u>\$ (3,631,986)</u>
Net Position (Net Assets), Beginning	\$404,144,706	\$397,078,929	\$396,112,556	\$397,364,877
Beginning Fund Balance Restatement ⁽¹⁾	(2,815,898)	-	-	(3,579,238)
Changes in Net Position (Net Assets)	(4,249,879)	(966,373)	1,252,321	(3,631,986)
Net Position (Net Assets), Ending	<u>\$ 397,078,929</u>	<u>\$ 396,112,556</u>	<u>\$ 397,364,877</u>	<u>\$ 390,153,653</u>

⁽¹⁾ Net Position (Net Assets) of the governmental and business type activities were restated based on an infrastructure study performed by an independent consulting firm. The study was conducted to obtain the values necessary for the City to implement GASB Statement No. 34. Additional restatement of net position (FY15) to record pension liability necessary for the implementation of GASB No. 68 and No. 71.

Fiscal Year						
2014	2015	2016	2017	2018	2019	
\$ (33,014,978)	\$ (27,500,366)	\$ (31,296,760)	\$ (39,213,527)	\$ (33,563,275)	\$	-
607,543	3,111,418	3,732,580	1,904,294	5,158,500		
<hr/>						
\$ (32,407,435)	\$ (24,388,948)	\$ (27,564,180)	\$ (37,309,233)	\$ (28,404,775)	\$	-
<hr/>						
\$ 9,728,458	\$ 10,862,568	\$ 11,468,510	\$ 12,278,553	\$ 13,161,022	\$	14,476,481
14,423,130	15,858,910	17,884,735	17,768,469	18,827,189		20,186,105
1,234,798	1,501,837	1,676,691	1,709,332	1,722,355		1,771,882
1,408,045	1,463,770	1,569,059	1,623,951	1,713,690		1,669,817
4,759,067	4,905,868	5,116,588	5,264,486	5,192,899		5,093,813
630,095	619,139	647,057	900,622	1,190,732		2,567,147
22,072	21,479	21,385	24,715	29,444		26,695
632,113	164,321	392,815	15,188	571,340		166,316
(678,707)	(689,011)	(685,189)	(305,505)	1,241,528		(640,347)
32,159,071	34,708,881	38,091,651	39,279,811	43,650,199		45,317,909
<hr/>						
-	-	-	-	-		1,298,215
-	-	-	-	-		-
-	-	-	-	-		-
678,707	689,011	685,189	305,505	(1,241,528)		640,347
678,707	689,011	685,189	305,505	(1,241,528)		1,938,562
<hr/>						
\$ 32,837,778	\$ 35,397,892	\$ 38,776,840	\$ 39,585,316	\$ 42,408,671	\$	47,256,471
<hr/>						
\$ (855,907)	\$ 7,208,515	\$ 6,794,891	\$ 66,284	\$ 10,086,924	\$	(2,928,349)
1,286,250	3,800,429	4,417,769	2,209,799	3,916,972		5,475,912
\$ 430,343	\$ 11,008,944	\$ 11,212,660	\$ 2,276,083	\$ 14,003,896	\$	2,547,563
<hr/>						
\$390,153,653	\$390,583,996	\$338,589,770	\$ 349,802,430	\$ 352,078,513	\$	-
-	(63,003,170)	-	-	(8,762,454)		
430,343	11,008,944	11,212,660	2,276,083	14,003,896		
\$ 390,583,996	\$ 338,589,770	\$ 349,802,430	\$ 352,078,513	\$ 357,319,955	\$	-
<hr/>						

CITY OF GILROY
 FUND BALANCES - GOVERNMENTAL FUNDS
 LAST TEN FISCAL YEARS
 (MODIFIED ACCRUAL BASIS OF ACCOUNTING)

	Fiscal Year			
	2010	2011	2012	2013
General Fund				
<i>Prior to GASB 54</i>				
Reserved	\$ -	\$ -	\$ -	\$ -
Unreserved:				
Designated	-	-	-	-
Undesignated	-	-	-	-
<i>GASB 54 Implementation</i>				
Nonspendable	51,474	54,011	59,670	45,003
Restricted	496,920	-	-	-
Assigned	-	-	-	-
Unassigned	21,302,486	25,166,657	25,423,199	23,038,183
Total General Fund	\$ 21,850,880	\$ 25,220,668	\$ 25,482,869	\$ 23,083,186
Other Governmental Funds				
<i>Prior to GASB 54</i>				
Reserved	\$ -	\$ -	\$ -	\$ -
Unreserved:				
Designated	-	-	-	-
Undesignated	-	-	-	-
<i>GASB 54 Implementation</i>				
Nonspendable	10,028	10,848	9,766	5,454,973
Restricted	36,076,961	50,980,559	37,880,519	31,995,403
Assigned	409,467	743,166	525,601	226,654
Unassigned	(16,710,128)	(14,551,024)	(12,379,723)	(12,423,935)
Total Other Governmental Fund	\$ 19,786,328	\$ 37,183,549	\$ 26,036,163	\$ 25,253,095

Notes:

The City implemented GASB 54, "Fund Balance Reporting and Government Fund Type Definition" beginning fiscal year 2011.

Certain data required by GASB 54 was not readily available for fiscal years prior to 2010.

The City elected to restate fiscal year 2010 data to incorporate GASB 54 starting fiscal year 2010 for comparability with the most recent years.

Fiscal Year					
2014	2015	2016	2017	2018	2019
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	-	-
52,592	74,622	84,923	74,217	126,935	76,000
-	-	-	-	-	-
-	-	-	-	-	-
22,291,553	21,316,940	22,202,316	24,354,609	25,475,105	27,683,870
<u>\$ 22,344,145</u>	<u>\$ 21,391,562</u>	<u>\$ 22,287,239</u>	<u>\$ 24,428,826</u>	<u>\$ 25,602,040</u>	<u>\$ 27,759,870</u>

\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	-	-
9,265	9,265	8,670	9,470	25,570	1,000
41,474,238	40,117,010	44,922,496	50,775,875	55,248,281	57,445,219
576,889	544,284	2,827,521	1,588,907	1,448,954	1,483,818
(11,866,882)	(12,884,818)	(7,883,587)	(5,761,804)	(2,841,776)	(4,206,362)
<u>\$ 30,193,510</u>	<u>\$ 27,785,741</u>	<u>\$ 39,875,100</u>	<u>\$ 46,612,448</u>	<u>\$ 53,881,029</u>	<u>\$ 54,723,675</u>

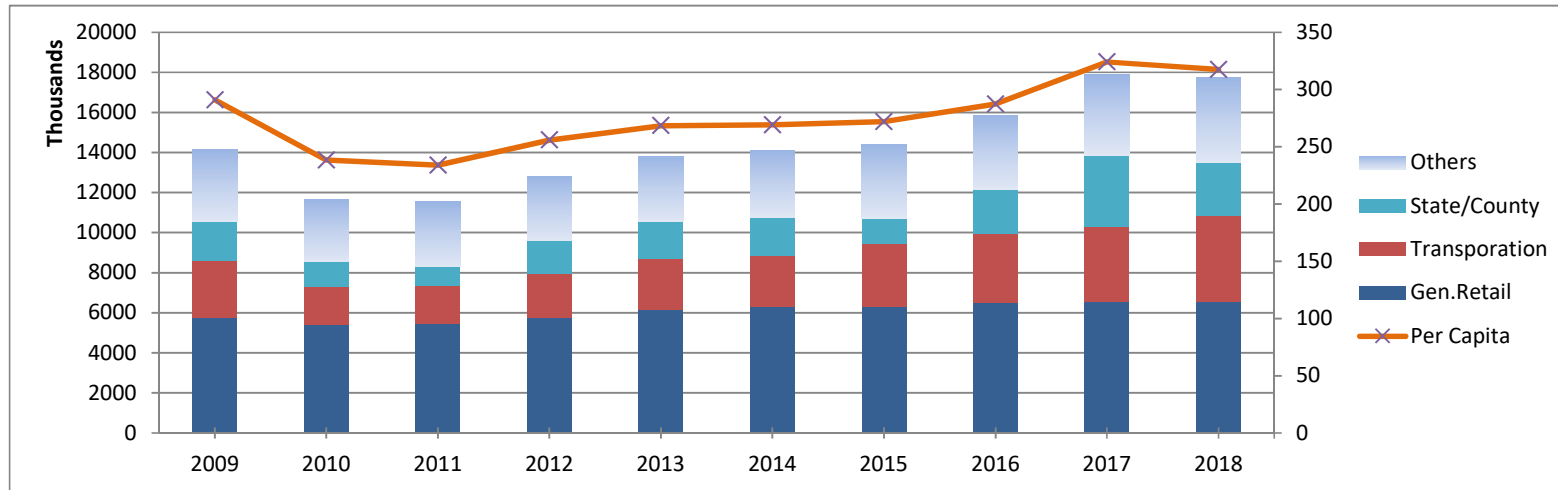
CITY OF GILROY
 CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
 LAST TEN FISCAL YEARS
 (MODIFIED ACCRUAL BASIS OF ACCOUNTING)

	Fiscal Year			
	2010	2011	2012	2013
REVENUES				
Taxes	\$ 28,138,249	\$ 28,913,122	\$ 30,122,948	\$ 33,041,266
Licenses and permits	1,325,850	1,552,585	2,000,283	2,071,569
Intergovernmental	5,240,678	5,669,019	6,413,621	5,258,266
Charges for services	7,398,569	8,225,000	14,688,796	13,944,828
Fines	317,911	339,063	425,265	251,313
Special assessments	1,165,774	2,359,399	2,133,413	-
Investment income (loss)	1,321,742	1,034,140	898,495	385,744
Contribution from property owners	-	-	-	-
Miscellaneous	675,539	728,057	826,591	1,035,480
Total revenues	<u>45,584,312</u>	<u>48,820,385</u>	<u>57,509,412</u>	<u>55,988,466</u>
EXPENDITURES				
General government	2,960,615	2,714,636	3,287,262	3,793,066
Public safety	23,131,511	23,098,221	25,448,868	26,416,606
Community services	4,724,800	4,856,669	5,650,806	6,029,323
Community development	12,096,747	19,816,994	26,470,128	14,393,211
Debt Service:				
Principal	270,000	430,000	2,170,000	1,350,000
Interest	1,039,079	2,804,239	3,287,244	3,319,071
Bond Issuance Cost	-	-	-	-
Total expenditures	<u>44,222,752</u>	<u>53,720,759</u>	<u>66,314,308</u>	<u>55,301,277</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>1,361,560</u>	<u>(4,900,374)</u>	<u>(8,804,896)</u>	<u>687,189</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	10,455,903	4,522,359	5,496,446	3,746,485
Transfers out	(9,974,540)	(5,037,174)	(7,576,735)	(7,616,425)
Issuance of loan/notes	1,500,000	-	-	-
Issuance of bonds	46,370,000	70,815,000	-	-
Payment to bond escrow agent	(42,700,000)	(46,370,000)	-	-
Premium on bonds	349,166	1,737,198	-	-
Total other financing sources (uses)	<u>6,000,529</u>	<u>25,667,383</u>	<u>(2,080,289)</u>	<u>(3,869,940)</u>
Net Change in fund balances	<u>\$7,362,089</u>	<u>\$20,767,009</u>	<u>(\$10,885,185)</u>	<u>(\$3,182,751)</u>
Debt service as a percentage of noncapital expenditures ⁽¹⁾	3.25%	7.11%	11.66%	9.57%
	3,934,336	8,252,168	19,502,689	6,503,584

Note ⁽¹⁾ Debt service ratio as a percentage of noncapital expenditures was calculated by dividing debt service expenditures excluding bond issuance cost by total non-capital expenditures.

Fiscal Year						
	2014	2015	2016	2017	2018	2019
\$	33,902,225	\$ 37,190,336	\$ 40,177,903	\$ 41,350,739	\$ 43,512,402	\$ 51,483,855
	2,088,024	2,847,912	3,720,755	2,713,733	2,751,137	3,487,338
	5,235,608	3,260,688	4,291,272	3,748,000	4,047,728	3,913,484
	17,081,714	17,396,590	24,960,535	18,973,863	22,820,605	11,501,828
	226,220	281,580	266,163	293,899	208,305	239,873
	-	-	-	-	-	-
	697,612	600,960	608,641	762,671	1,084,408	1,247,543
	-	-	-	-	-	-
	1,464,470	2,128,737	2,059,106	1,604,397	1,635,888	1,990,459
	60,695,873	63,706,803	76,084,375	69,447,302	76,060,473	73,864,380
	4,073,708	4,025,604	4,532,241	4,906,824	5,103,946	5,760,831
	27,448,432	28,845,371	29,867,361	30,830,873	31,781,515	34,062,421
	6,072,624	6,322,864	6,764,060	7,231,274	7,723,166	7,831,193
	10,031,035	16,393,573	14,675,204	11,052,313	14,993,509	15,421,483
	25,745,000	2,215,000	2,305,000	2,459,619	2,558,818	2,654,708
	3,525,898	3,557,829	3,479,710	3,410,441	3,302,252	3,448,556
	275,515	2,582	-	-	-	112,903
	77,172,212	61,362,823	61,623,576	59,891,344	65,463,206	69,292,095
	(16,476,339)	2,343,980	14,460,799	9,555,958	10,597,267	4,572,285
	3,574,115	4,318,330	6,803,782	4,233,745	4,503,781	4,236,075
	(7,154,454)	(11,012,940)	(8,521,471)	(4,910,768)	(6,659,253)	(5,876,422)
	-	959,229	241,926	-	-	-
	23,120,000	-	-	-	-	-
	-	-	-	-	-	(8,565,000)
	1,138,052	-	-	-	-	8,633,538
	20,677,713	(5,735,381)	(1,475,763)	(677,023)	(2,155,472)	(1,571,809)
	\$4,201,374	(\$3,391,401)	\$12,985,036	\$8,878,935	\$ 8,441,795	\$ 3,000,476
	39.37%	10.81%	9.52%	9.97%	9.58%	9.53%
	2,831,468	7,967,777	870,322	1,003,386	4,284,158	5,261,085

CITY OF GILROY
SALES TAX BY CATEGORY
LAST TEN FISCAL YEARS
(in \$000)



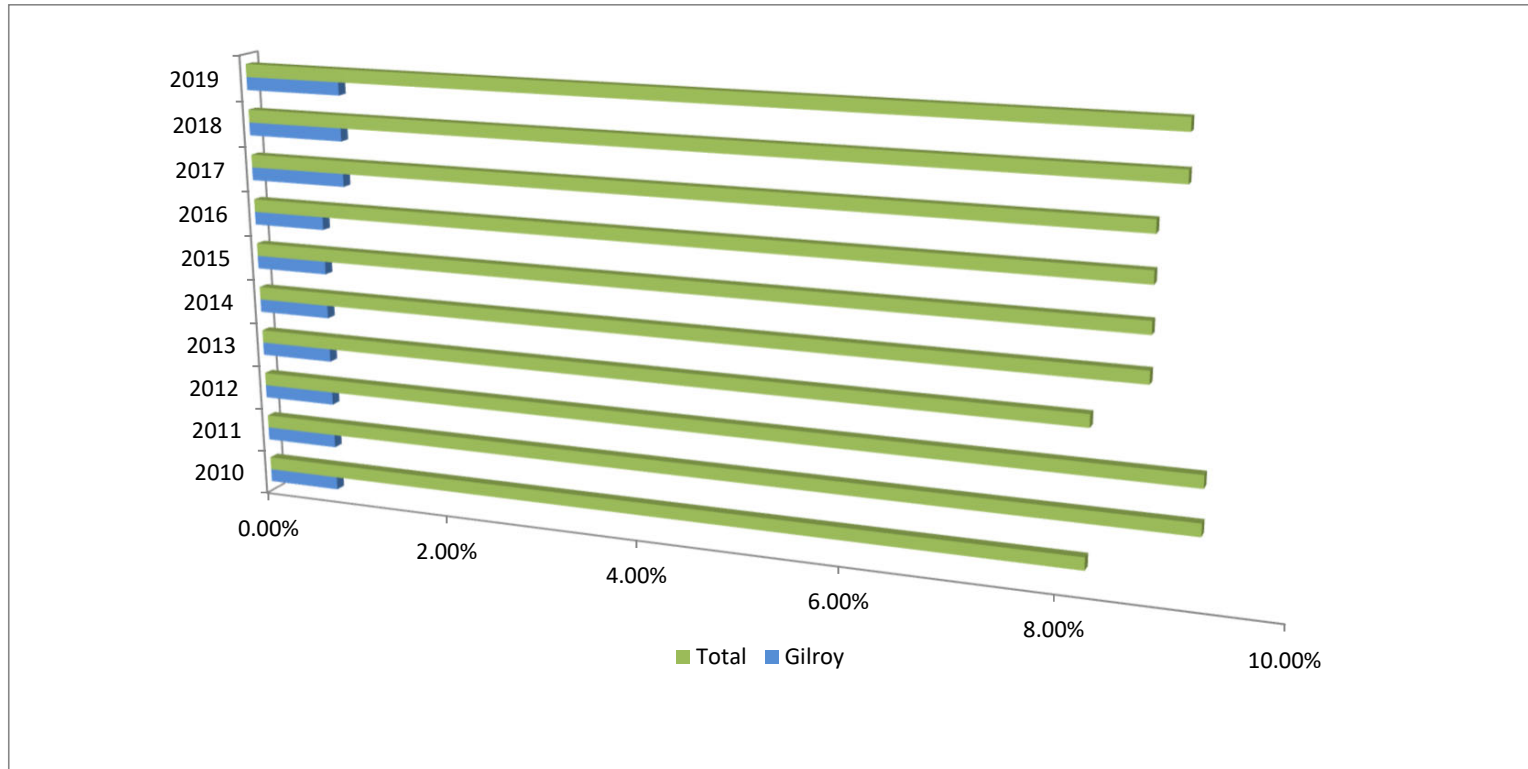
	Fiscal Year									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Outlet Center	\$ 2,319,603	\$ 2,358,906	\$ 2,552,694	\$ 2,833,256	\$ 2,845,863	\$ 2,867,431	\$ 2,899,778	\$ 2,747,030	\$ 2,669,216	\$ 2,571,713
Newman Development	2,020,221	2,008,741	2,070,313	2,131,034	2,201,623	2,230,855	2,332,215	2,426,698	2,500,961	2,529,804
Regency Center	842,960	887,223	923,509	940,836	949,436	946,073	965,112	999,738	968,005	987,417
Downtown Core	218,562	188,685	191,131	224,977	271,227	296,354	316,595	356,687	398,344	385,497
General Retail	5,401,346	5,443,555	5,737,647	6,130,103	6,268,149	6,340,713	6,513,700	6,530,153	6,536,526	6,474,431
Auto Dealers	900,899	827,840	871,311	1,045,717	1,131,680	1,649,758	2,136,541	2,633,013	3,224,719	3,691,038
Service Stations	1,021,341	1,104,099	1,355,605	1,543,421	1,457,239	1,442,888	1,292,736	1,094,398	1,064,232	1,290,582
Transportation	1,922,240	1,931,939	2,226,916	2,589,138	2,588,919	3,092,646	3,429,277	3,727,411	4,288,951	4,981,620
Others	3,111,215	3,244,461	3,234,205	3,284,517	3,344,680	3,697,010	3,695,108	4,018,337	4,263,541	4,632,323
Allocation from State and County	1,215,554	919,513	1,621,404	1,829,803	1,912,529	1,292,761	2,220,825	3,608,834	2,679,451	2,152,877
Total	\$ 11,650,355	\$ 11,539,468	\$ 12,820,172	\$ 13,833,561	\$ 14,114,277	\$ 14,423,130	\$ 15,858,910	\$ 17,884,735	\$ 17,768,469	\$ 18,241,251
Population	48,627	48,853	49,316	50,081	51,505	52,413	53,000	55,170	55,936	55,615
Sales Tax Per Capita	240	236	260	276	274	275	299	324	318	328

Sources: MBIA MuniServices Company

State of California, Department of Finance, Population Estimates for California Cities

Note: FY 2018 sales tax data is not available at the time of this reporting.

CITY OF GILROY
SALES TAX RATES
LAST TEN YEARS



	Year									
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
State of California	7.250%	7.250%	6.250%	6.500%	6.500%	6.500%	6.250%	6.000%	6.000%	6.000%
Santa Clara County (SCC) Transportation Funds	0.250%	0.250%	0.250%	0.250%	0.250%	0.250%	0.250%	0.250%	0.250%	0.250%
City of Gilroy	0.750%	0.750%	0.750%	0.750%	0.750%	0.750%	1.000%	1.000%	1.000%	1.000%
SCC Retail Transactions and Use Tax	-	-	-	0.125%	0.125%	0.125%	0.125%	0.125%	0.125%	0.125%
SCC Transactions and Use Tax	-	-	-	-	-	-	-	-	-	-
SCC Transit District	0.500%	0.500%	0.500%	0.500%	0.500%	0.500%	0.500%	0.500%	0.500%	0.500%
SCC Valley Transportation Authority	0.500%	0.500%	0.500%	0.500%	0.500%	0.500%	0.500%	0.500%	0.500%	0.500%
SCC VTA Bay Area Rapid Transit	-	-	-	0.125%	0.125%	0.125%	0.125%	0.125%	0.125%	0.125%
Silicon Valley Transportation Solutions Tax	-	-	-	-	-	-	-	0.500%	0.500%	0.500%
Total	9.250%	9.250%	8.250%	8.750%	8.750%	8.750%	8.750%	9.000%	9.000%	9.000%

Source: California Department of Tax and Fee Administration



CITY OF

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CITY OF GILROY
 PRINCIPAL SALES TAXPAYERS
 CURRENT YEAR AND NINE YEARS AGO

2019		2010	
Taxpayer	Business Type	Taxpayer	Business Type
Arco AM/PM Mini Marts	Service Stations	Banana Republic	Family Apparel
Best Buy Stores	Appliance Stores	Best Buy Stores	Appliance Stores
Blinkforhome.Com	Office Eqpmt Store	Calvin Klein	Family Apparel
Chevron Service Stations	Service Stations	Chevron Service Stations	Service Stations
Coach Stores	Specialty Stores	Coach Stores	Specialty Stores
Costco Wholesale	General Stores	Costco Wholesale	General Stores
Garlic Travel Center	Service Stations	Garlic Travel Center	Service Stations
Gilroy Buick GMC	New Car Dealers	Gilroy Chevrolet Cadillac	New Car Dealers
Gilroy Chevrolet Cadillac	New Car Dealers	Gilroy Gas & Mini-Mart	Service Stations
Gilroy Toyota	New Car Dealers	Gilroy Honda	New Car Dealers
Home Depot	Building Matls Store	Gilroy Toyota	New Car Dealers
Kohl's Department Stores	Department Stores	Home Depot	Building Matls Store
Lowe's Home Centers	Building Matls Store	J.N. Abbott Distributor	Oil & Gas Products
McDonald's Restaurants	Fast Food Restaurant	Kohl's Department Stores	Department Stores
Nike Factory Store	Family Apparel	Lowe's Home Centers	Building Matls Store
Ross Stores	Family Apparel	McDonald's Restaurants	Fast Food Restaurant
Rotten Robbie Service Stations	Service Stations	Nike Factory Store	Family Apparel
See Grins RV	Trailer & Supply	Ralph Lauren	Family Apparel
Shell Service Stations	Service Stations	Rotten Robbie Service Stations	Service Stations
South County Chrysler Jeep Dodge Ram Fiat	New Car Dealers	Shell Service Stations	Service Stations
South County Hyundai of Gilroy	New Car Dealers	South County Chrysler Jeep Dodge Ram Fiat	New Car Dealers
Target Stores	Department Stores	South County Hyundai of Gilroy	New Car Dealers
Union 76 Service Stations	Service Stations	Target Stores	Department Stores
Vans	Shoe Stores	Union 76 Service Stations	Service Stations
Wal Mart Stores	Department Stores	Wal Mart Stores	Department Stores

Source: MuniServices, LLC / an Avenu Insights & Analytics Company

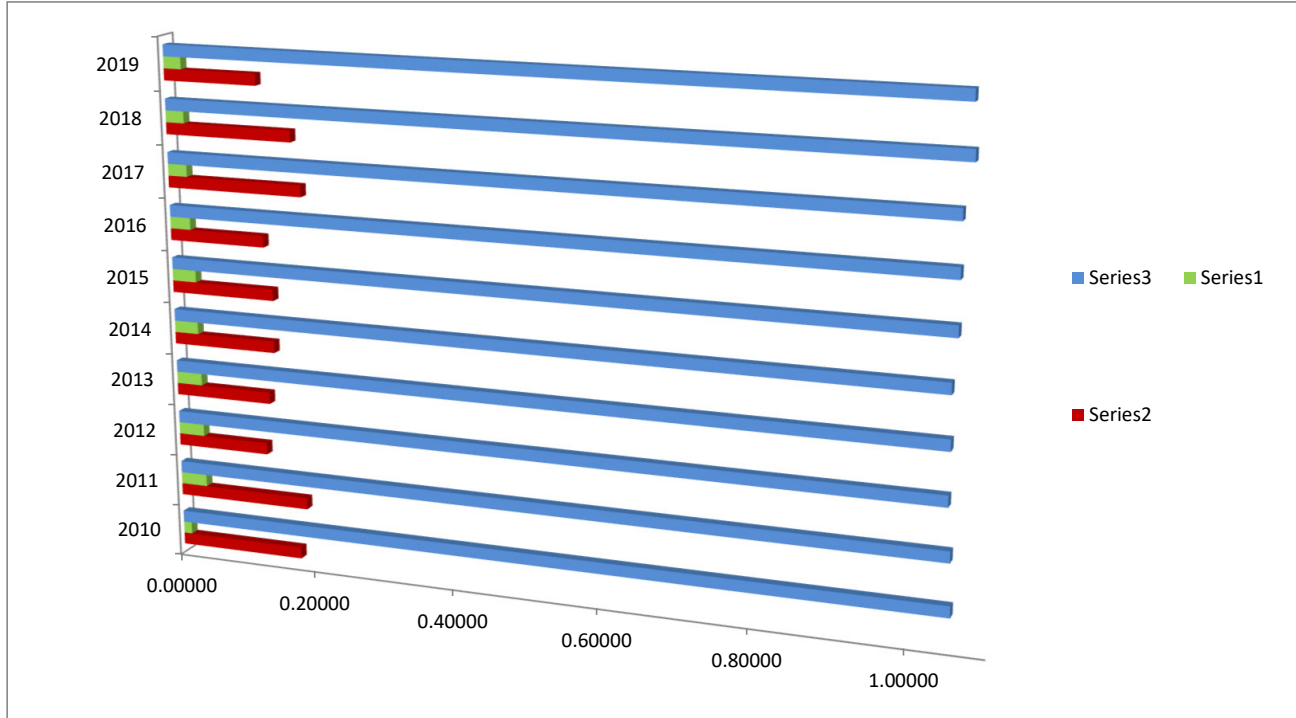
CITY OF GILROY
 ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
 LAST TEN FISCAL YEARS

Fiscal Year	Gross Local Secured	-	Exempt Valuation	=	Net Local Secured	+	Net Utility	+	Net Unsecured	=	Net Taxable Assessed Valuation	Gross Taxable Assessed Valuation
2010	5,859,438,604		46,207,000		5,813,231,604		82,118,014		265,276,407		6,160,626,025	6,206,833,025
2011	5,515,703,007		47,031,600		5,468,671,407		80,918,014		232,541,079		5,782,130,500	5,829,162,100
2012	5,477,242,040		46,387,600		5,430,854,440		78,686,470		281,804,033		5,791,344,943	5,837,732,543
2013	5,467,139,776		46,209,800		5,420,929,976		72,086,470		266,918,393		5,759,934,839	5,806,144,639
2014	5,913,805,270		46,463,200		5,867,342,070		64,186,470		260,981,844		6,192,510,384	6,238,973,584
2015	6,395,754,046		46,050,200		6,349,703,846		52,530,836		265,879,967		6,668,114,649	6,714,164,849
2016	6,798,621,370		45,871,000		6,752,750,370		47,030,836		268,445,327		7,068,226,533	7,114,097,533
2017	7,385,130,561		46,578,000		7,338,552,561		42,130,836		273,713,487		7,654,396,884	7,700,974,884
2018	7,872,947,886		47,244,400		7,825,703,486		39,330,836		263,667,226		8,128,701,548	8,175,945,948
2019	8,445,397,378		48,090,000		8,397,307,378		38,939,704		256,724,279		8,692,971,361	8,741,061,361

Note: In 1978 the voters of the State of California passed Proposition 13 which limited property taxes to a total maximum rate of 1% based upon the assessed value of the property being taxed. Each year, the assessed value of property may be increased by an "inflation factor" (limited to a maximum increase of 2%). With few exceptions, property is only reassessed at the time that it is sold to a new owner. At that point, the new assessed value is reassessed at the purchase price of property sold. The assessed valuation data shown above represents the only data currently available with respect to the actual market value of the taxable property and is subject to the limitations described above.

Source: County of Santa Clara, Department of Finance

CITY OF GILROY
PROPERTY TAX RATES - ALL OVERLAPPING GOVERNMENTS
LAST TEN FISCAL YEARS



Fiscal Year	Basic County Wide Levy	Special County Levy	Total County	City of Gilroy ⁽¹⁾	Other Special Districts	Total Tax Rate ⁽²⁾
2010	1.00000	0.05340	1.05340	0.01160	0.17630	1.24130
2011	1.00000	0.05070	1.05070	0.03750	0.18710	1.27530
2012	1.00000	0.04590	1.04590	0.03650	0.13040	1.21280
2013	1.00000	0.04630	1.04630	0.03650	0.13690	1.21970
2014	1.00000	0.04470	1.04470	0.03400	0.14620	1.22490
2015	1.00000	0.05030	1.05030	0.03400	0.14690	1.23120
2016	1.00000	0.05000	1.05000	0.02900	0.13540	1.21440
2017	1.00000	0.04980	1.04980	0.02720	0.19160	1.26860
2018	1.00000	0.06206	1.06206	0.02600	0.17900	1.26706
2019	1.00000	0.05890	1.05890	0.02500	0.13180	1.21570

Notes: ⁽¹⁾ In 2005 and 2006 the tax rate was only applicable to a certain tax district within Gilroy (2-007)

⁽²⁾ The above tax rates are applied per \$100 of assessed valuation

In 1978 the voters of the State of California passed Proposition 13 which sets the property tax rate at a 1.00% fixed amount. This 1.00% is shared by all taxing agencies for which the subject property resides within. The City of Gilroy's share is approximately 10%. In addition to the 1.00% fixed amount, property owners are charged taxes as a percentage of assessed property values for the payment of voter approved bonds.

Source: County of Santa Clara, Department of Finance

CITY OF GILROY
PRINCIPAL PROPERTY TAXPAYERS
CURRENT YEAR AND NINE YEARS AGO

2019			2010		
Owner	Assessed Valuation	% of Total Assessed Valuation	Owner	Assessed Valuation	% of Total Assessed Valuation
Simon Property Group	212,500,510	2.44%	Simon Property Group	197,424,794	3.25%
Excel Gilroy Llc	76,258,822	0.88%	Bernstein Jan A	-	0.00%
Olam West Coast Inc.	66,185,136	0.76%	Lakha Properties Gilroy LLC	-	0.00%
United Natural Foods West Inc.	58,305,350	0.67%	Conagra Inc	-	0.00%
Mabury Vineyards Llc	54,611,973	0.63%	Inland Western Gilroy I LLC	-	0.00%
Pacheco Pass Retail Xii Llc	44,961,600	0.52%	Health Care REITs Inc.	-	0.00%
Calatlantic Group Inc.	34,136,499	0.39%	Shapell Industries Inc.	-	0.00%
Wal Mart Real Est Bus Trt	33,263,694	0.38%	South Valley Apts LLC	27,093,667	0.45%
7610 Isabella Way Llc	30,324,314	0.35%	Wal Mart Real Est Bus Trt	-	0.00%
E P G South Valley Plaza Llc	27,000,000	0.31%	Creekside At Eagle Ridge Devel	-	0.00%
Saint Louise Regional Hosp	26,425,166	0.30%	Mccarthy Gilroy LLC	-	0.00%
Calpine Gilroy Cogen L P	25,274,162	0.29%	Calpine Gilroy Cogen L P	23,781,238	0.39%
Costco Wholesale Corp A Ws Cor	22,662,164	0.26%	Costco Wholesale Corp A Ws Cor	20,583,628	0.34%
Monterey Gourmet Foods	19,597,848	0.23%	CP6SV LLC	-	0.00%
Redwoods Wheeler L P	19,108,028	0.22%	Bonfante Gardens, Inc.	-	0.00%
Target Corp	17,314,602	0.20%	Gilroy Country Oaks ESTS LLC	15,298,641	0.25%
First Street Gilroy I Llc	17,300,000	0.20%	Kelly-Kehriotis Partners LLC	-	0.00%
Hd Dev Of Maryland Inc.	16,965,107	0.20%	Target Corp	-	0.00%
Mission Park Gilroy Llc	16,351,509	0.19%	TIN Inc.	-	0.00%
Lee James Trustee	16,000,000	0.18%	Inland Container Corp & Inland	-	0.00%
Gilroy Village Shopping Center	15,575,741	0.18%	Adelaide Pines LLC	13,762,290	0.23%
Lowes Hiw Inc. A Ws Corp	14,896,738	0.17%	HD Dev Of Maryland Inc.	15,593,207	0.26%
Gilroy Sky Llc	14,565,600	0.17%	Gilroy Village Shopping Center	-	0.00%
Avery Cypress Pointe Lp	14,331,076	0.16%	Lowes HIW Inc. A Ws Corp	12,591,443	0.21%
Town Place Llc	14,084,103	0.16%	Kaiser Foundation Health Plan	12,444,271	0.20%
Lakha Properties Gilroy Llc	-	0.00%		80,123,392	1.32%
Conagra Inc	-	0.00%		67,749,862	1.11%
Inland Western Gilroy I Llc	-	0.00%		65,043,911	1.07%
Health Care Reit Inc	-	0.00%		34,938,406	0.57%
Shapell Industries Inc	-	0.00%		30,910,696	0.51%
Mccarthy Gilroy Llc	-	0.00%		26,677,703	0.44%
South Valley Apts Llc	-	0.00%		25,137,743	0.41%
Creekside At Eagle Ridge Devel	-	0.00%		24,696,672	0.41%
Cp6Sv Llc	-	0.00%		20,747,306	0.34%
Chinatown Llc	-	0.00%		19,650,329	0.32%
Gilroy Country Oaks Ests Llc	-	0.00%		18,184,824	0.30%
Kelly-Kehriotis Partners Llc	-	0.00%		15,695,264	0.26%
Adelaide Pines Llc	-	0.00%		14,800,644	0.24%
Hd Development Of Maryland,Inc	-	0.00%		14,353,045	0.24%
Tin Inc.	-	0.00%		14,135,553	0.23%
Garlic Farm Annex Llc	-	0.00%		12,272,410	0.20%
	<u>\$ 907,999,742</u>	<u>10.45%</u>		<u>\$ 823,690,939</u>	<u>13.55%</u>
Gross Local Secured Valuation	<u>\$ 8,692,971,361</u>	<u>100.00%</u>		<u>\$ 6,078,508,011</u>	<u>100.00%</u>

Note:

GASB Statement 44 requires the presentation of information about the principal revenue payers for the current year and nine years prior.

Source: Santa Clara County Assessor data, MuniServices, LLC / an Avenu Insights & Analytics Company

CITY OF GILROY
PROPERTY TAX LEVIES AND COLLECTION
LAST TEN FISCAL YEARS

Fiscal Year Ended June 30,	Tax Levied for the Fiscal Year	Collected within the Fiscal Year of Levy		Total Collections to Date	
		Amount	Percent of Levy	Amount	Percent of Levy
2010	6,022,900	6,111,610	101.47%	6,111,610	101.47%
2011	5,656,421	5,591,508	98.85%	5,591,508	98.85%
2012	5,664,737	5,609,406	99.02%	5,609,406	99.02%
2013	5,634,085	5,622,101	99.79%	5,622,101	99.79%
2014	6,054,088	6,029,696	99.60%	6,029,696	99.60%
2015	6,515,197	6,547,657	100.50%	6,547,657	100.50%
2016	6,903,278	6,963,327	100.87%	6,963,327	100.87%
2017	7,472,764	7,487,528	100.20%	7,487,528	100.20%
2018	7,941,242	7,941,242	100.00%	7,941,242	100.00%
2019	8,521,868	8,521,868	100.00%	8,521,868	100.00%

Note: The amounts presented include City secured and supplemented property taxes.

The City of Gilroy is on Santa Clara County's teeter program. Therefore, secured revenue is based on net levy, rather than collection.

Source: Finance Department, County of Santa Clara

CITY OF GILROY
RATIO OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS

Fiscal Year	Governmental Activities						Total Governmental Activities
	General Obligation Bonds ⁽⁴⁾	Tax Allocation Bonds	Notes & Loans	Lease Revenue Bonds ⁽⁴⁾	Special Assessment Bonds	Revenue Bonds	
	2010	10,724,640		1,500,000	46,370,000	1,130,000	
2011	34,529,124		24,340,000	25,410,269	870,000		85,149,393
2012	33,860,997		24,340,000	24,438,409	-		82,639,406
2013	33,162,870		24,340,000	23,710,455	-		81,213,325
2014	32,434,743		-	47,182,360	-		79,617,103
2015	31,681,616		959,229	45,587,503	-		78,228,348
2016	30,893,489		1,201,155	43,937,647	-		76,032,291
2017	30,080,362		1,126,536	42,232,790	-		73,439,688
2018	29,247,235		1,082,253	40,462,933	-		70,792,421
2019	28,305,209		948,011	38,623,072	-		67,876,292

Fiscal Year	Business-type Activities			Total Primary Government ⁽¹⁾	% of Property Net Assessed Value ⁽²⁾	Debt Per Capita
	Wastewater Revenue Bonds ⁽³⁾⁽⁴⁾					
	2010	26,168,102				
2011	25,935,334			111,084,727	1.92%	2,253
2012	24,237,585			106,876,991	1.85%	2,134
2013	22,384,827			103,598,152	1.80%	2,011
2014	20,477,068			100,094,171	1.62%	1,910
2015	18,519,310			96,747,658	1.45%	1,825
2016	16,491,551			92,523,842	1.31%	1,677
2017	14,393,793			87,833,481	1.15%	1,570
2018	12,206,034			82,998,455	1.02%	1,484
2019	9,928,276			77,804,568	0.90%	1,391

Source: ⁽¹⁾ Finance Department, City of Gilroy

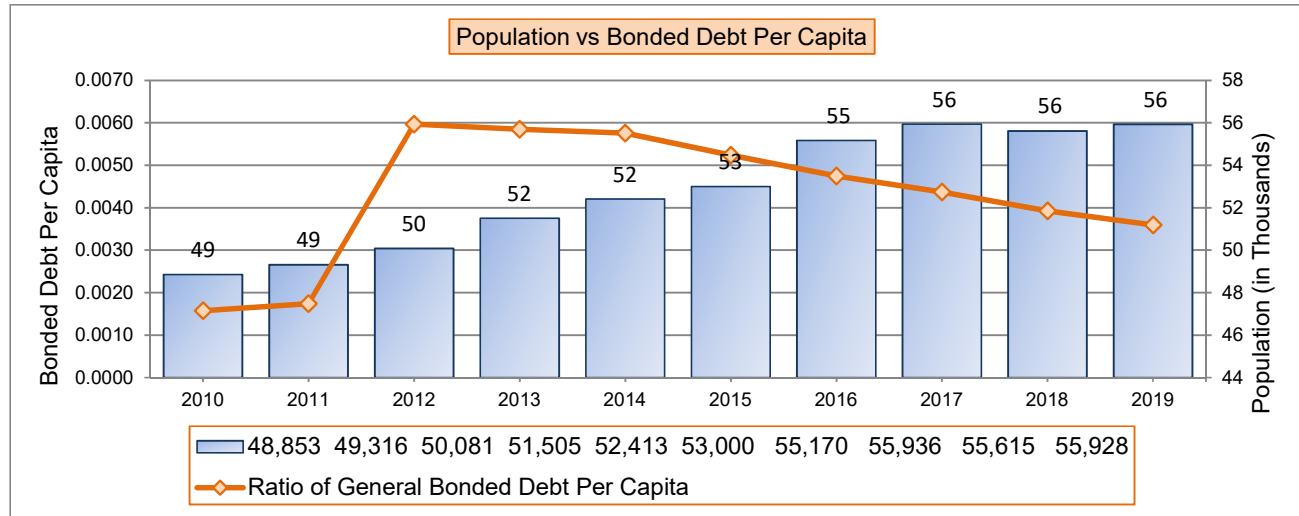
⁽²⁾ Finance Department, County of Santa Clara

⁽³⁾ In 2010, the City issued revenue refunding bonds to refinance an existing installment payment obligation.

⁽⁴⁾ Presented net of related premiums, discounts, and adjustments.

⁽⁵⁾ GO Bonds Series 2009 refinanced on June 1, 2019 to Series 2019.

CITY OF GILROY
RATIO OF GENERAL BONDED DEBT OUTSTANDING
LAST TEN FISCAL YEARS



Fiscal Year	Outstanding General Debt				Population ⁽³⁾	General Bonded Debt to Net Assessed Value	Ratio of General Bonded Debt Per Capita
	General Obligation Bonds ⁽⁴⁾	Tax Allocation Bonds	Total ⁽¹⁾	Net Assessed Value ⁽²⁾			
2010	10,724,640		10,724,640	6,160,626,025	48,853	0.174%	220
2011	34,529,124		34,529,124	5,782,130,500	49,316	0.597%	700
2012	33,860,997		33,860,997	5,791,344,943	50,081	0.585%	676
2013	33,162,870		33,162,870	5,759,934,839	51,505	0.576%	644
2014	32,434,743		32,434,743	6,192,510,384	52,413	0.524%	619
2015	31,681,616		31,681,616	6,668,114,649	53,000	0.475%	598
2016	30,893,489		30,893,489	7,068,226,533	55,170	0.437%	560
2017	30,080,362		30,080,362	7,654,396,884	55,936	0.393%	538
2018	29,247,235		29,247,235	8,128,701,548	55,615	0.360%	526
2019	28,305,209		28,305,209	8,692,971,361	55,928	0.326%	506

Sources: ⁽¹⁾ Finance Department, City of Gilroy

⁽²⁾ Finance Department, County of Santa Clara

⁽³⁾ State of California, Department of Finance, Population Estimates for California Cities

⁽⁴⁾ Presented net of related premiums, discounts, and adjustments.

CITY OF GILROY
SCHEDULE OF DIRECT AND OVERLAPPING BONDED DEBT
JUNE 30, 2019

City Gross Taxable Assessed Valuation \$ 8,741,061,361

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	Total Debt 6/30/2019	% Applicable (1)	City's Share of Debt
Santa Clara County	\$ 947,220,000	1.810%	\$ 17,144,682
Gavilan Joint Community College District	126,735,000	26.316%	33,351,583
Gilroy Unified School District General Obligation Bonds	247,429,437	8.177%	202,325,525
City of Gilroy	27,983,538	100.000%	27,983,538
City of Gilroy Community Facilities District No. 2000-1	7,815,860	100.000%	7,815,860
Santa Clara Valley Water District Benefit Assessment District	73,570,000	1.810%	1,331,617
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT			289,952,805

DIRECT AND OVERLAPPING GENERAL DEBT:			
Santa Clara County General Fund Obligations	987,719,120	1.810%	17,877,716
Santa Clara County Pension Obligation Bonds	352,378,882	1.810%	6,378,058
Santa Clara County Board of Education Certificates of Participation	4,255,000	1.810%	77,016
Gavilan Joint Community College District Certificates of Participation	13,486,000	26.316%	3,548,976
Gilroy Unified School District Certificates of Participation	25,110,000	81.771%	20,532,698
City of Gilroy General Fund Obligations	37,515,000	100.000%	37,515,000
Santa Clara County Vector Control Certificates of Participation	2,245,000	1.810%	40,635
Total Gross Direct And Overlapping General Fund Debt			85,970,099
Less: Santa Clara County Support Obligations			5,825,819
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT			80,144,280

TOTAL DIRECT DEBT	65,498,538
TOTAL GROSS OVERLAPPING DEBT	310,424,366
TOTAL NET OVERLAPPING DEBT	304,598,547
GROSS COMBINED TOTAL DEBT	375,922,904 (2)
NET COMBINED TOTAL DEBT	370,097,085

- (1) The percentage of overlapping debt applicable to the city is estimated using taxable assessed property value. Applicable percentages were estimated by determining the portion of the overlapping district's assessed value that is within the boundaries of the city divided by the district's total taxable assessed value.
- (2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations.

Ratios to 2018-19 Assessed Valuation:

Direct Debt (\$27,983,538)	0.32%
Total Direct and Overlapping Tax and Assessment Debt	3.32%
Total Direct Debt (\$65,498,538)	0.75%
Gross Combined Total Debt	4.30%
Net Combined Total Debt	4.23%

AB: (\$500)

*Sources: County of Santa Clara, Department of Finance
California Municipal Statistics*

CITY OF GILROY
 LEGAL DEBT MARGIN INFORMATION
 LAST TEN FISCAL YEARS

Fiscal Year	Gross Taxable	Debt Limit Rate ⁽¹⁾	Debt Limit	Total General	Legal Debt Margin	Total Debt to Debt Limit Ratio
	Assessed Valuation			Obligation Bonds		
2010	6,206,833,025	15%	931,024,954	10,500,000	920,524,954	1.1%
2011	5,829,162,100	15%	874,374,315	33,830,000	840,544,315	3.9%
2012	5,837,732,543	15%	875,659,881	33,190,000	842,469,881	3.8%
2013	5,806,144,639	15%	870,921,696	32,520,000	838,401,696	3.7%
2014	6,238,973,584	15%	935,846,038	31,820,000	904,026,038	3.4%
2015	6,714,164,849	15%	1,007,124,727	31,095,000	976,029,727	3.1%
2016	7,114,097,533	15%	1,067,114,630	30,335,000	1,036,779,630	2.8%
2017	7,700,974,884	15%	1,155,146,233	29,550,000	1,125,596,233	2.6%
2018	8,175,945,948	15%	1,226,391,892	28,745,000	1,197,646,892	2.3%
2019	8,741,061,361	15%	1,311,159,204	27,983,538	1,283,175,666	2.1%

⁽¹⁾ Section 1108 of the City of Gilroy Charter limits the general obligation bonds of the City to 15% of total assessed value of real and personal property within the City.

Source: County of Santa Clara, Department of Finance

CITY OF GILROY
REVENUE BOND COVERAGE - WASTEWATER SYSTEM
LAST TEN FISCAL YEARS

	Fiscal Year			
	2010	2011	2012	2013
Gross revenues				
Charges for services	\$ 7,500,914	\$ 8,012,406	\$ 8,170,711	\$ 8,441,024
Investment income	349,490	646,240	451,737	283,816
Rate Stabilization Fund Balance	-	-	-	750,000
Transfer from Sewer Impact Fund	556,587	287,600	674,534	704,007
Total gross revenues	<u>8,406,991</u>	<u>8,946,246</u>	<u>9,296,982</u>	<u>10,178,847</u>
Operating expenses				
Operations	3,729,613	4,618,320	5,259,612	5,893,404
Billing	479,835	467,355	551,109	533,611
Administration	198,448	182,670	237,750	279,787
Claims and judgments	-	-	-	-
Total operating expenses	<u>4,407,896</u>	<u>5,268,345</u>	<u>6,048,471</u>	<u>6,706,802</u>
Net Revenues	<u>\$ 3,999,095</u>	<u>\$ 3,677,901</u>	<u>\$ 3,248,511</u>	<u>\$ 3,472,045</u>
Series 1999 installment payments / Refunding series 2010 payments	\$ 2,877,988	\$ 886,181	\$ 2,462,276	\$ 2,571,000
Gross revenue debt service coverage	292.11%	1009.53%	377.58%	395.91%
Net revenue debt service coverage	138.95%	415.03%	131.93%	135.05%
Funds available				
Sewer Development Capital Project Fund	\$ 9,957,540	\$ 8,519,976	\$ 10,391,910	\$ 11,416,503
Sewer Fund cash and cash equivalent	30,196,023	30,519,114	29,427,892	29,267,803
Rate Stabilization Fund	-	-	-	750,000
Total funds available	<u>\$ 40,153,563</u>	<u>\$ 39,039,090</u>	<u>\$ 39,819,802</u>	<u>\$ 41,434,306</u>
Days funds on hand	2,500	2,114	1,776	1,593

Operating expenses for FY 2009-10 includes a surplus transfer to SCRWA of \$802,016, which was treated as an adjustment to the debt service calculation

Fiscal Year						
2014	2015	2016	2017	2018	2019	
\$ 9,168,356	\$ 10,336,111	\$ 11,773,938	\$ 12,644,730	\$ 12,720,141	\$ 12,904,657	
370,199	257,938	210,826	188,300	241,144	593,929	
-	-	-	-	-	-	
705,356	700,544	700,111	696,546	697,198	694,146	
10,243,911	11,294,593	12,684,875	13,529,576	13,658,483	14,192,732	
5,612,274	6,281,516	7,296,107	7,454,895	7,466,650	8,339,489	
559,262	588,131	612,551	594,654	618,400	668,982	
375,945	377,770	500,398	472,465	558,846	706,101	
-	-	-	-	-	-	
6,547,481	7,247,417	8,409,056	8,522,014	8,643,896	9,714,572	
\$ 3,696,430	\$ 4,047,176	\$ 4,275,819	\$ 5,007,562	\$ 5,014,587	\$ 4,478,160	
\$ 2,576,576	\$ 2,566,950	\$ 2,566,550	\$ 2,558,687	\$ 2,562,738	2,557,625	
397.58%	440.00%	494.24%	528.77%	532.96%	554.92%	
143.46%	157.66%	166.60%	195.71%	195.67%	175.09%	
\$ 12,304,205	\$ 10,362,866	\$ 11,481,078	\$ 12,964,741	\$ 14,534,002	\$ 13,533,945	
27,625,188	26,336,933	18,537,029	16,777,330	17,391,216	17,687,792	
750,000	750,000	750,000	750,000	750,000	750,000	
\$ 40,679,393	\$ 37,449,799	\$ 30,768,107	\$ 30,492,071	\$ 32,675,218	\$ 31,971,737	
1,540	1,326	805	719	734	665	

CITY OF GILROY
 DEMOGRAPHICS AND ECONOMIC STATISTICS
 LAST TEN FISCAL YEARS

Fiscal Year	Population ⁽¹⁾	Net Taxable Assessed Values ⁽²⁾	Per Capita Taxable Property Values	Average Unemployment Rate % ⁽³⁾
2010	48,853	6,160,626,025	126,105	16.3%
2011	49,316	5,782,130,500	117,247	14.6%
2012	50,081	5,791,344,943	115,640	12.7%
2013	51,505	5,759,934,839	111,833	10.4%
2014	52,413	6,192,510,384	118,148	8.6%
2015	53,000	6,668,114,649	125,813	6.9%
2016	55,170	7,068,226,533	128,117	5.7%
2017	55,936	7,654,396,884	136,842	4.9%
2018	55,615	8,128,701,548	146,160	4.9%
2019	55,928	8,692,971,361	155,431	2.5%

Note: Data for personal income is not readily available; the City used taxable assessed values to calculate per capita taxable property values.

Sources:

¹ *State of California, Department of Finance, Population Estimates for California Cities*

² *County of Santa Clara, Finance Agency*

³ *State of California, Employment and Development Department, Labor Market Information Division*

CITY OF GILROY
PRINCIPAL EMPLOYERS
CURRENT AND FIVE YEARS AGO

Company or Organization	2019			2014		
	Number of Employees	Rank	% of Total Employment	Number of Employees	Rank	% of Total Employment
Gilroy Unified School District*	1,148	1	3.85%			
Christopher Ranch LLC	951	2	3.19%	800	1	4.08%
Saint Louise Regional Hospital	440	3	1.48%	550	2	2.81%
Community Solutions	331	4	1.11%			
Wal-Mart	274	5	0.92%	395	5	2.01%
Costco Wholesale	263	6	0.88%	220	7	1.12%
City of Gilroy	262	7	0.88%			
Gavilan College **	229	8	0.77%			
Rebekah Childrens Services	226	9	0.76%			
Cintas Corporation	180	10	0.60%			
Olam International (Formaly ConAgra-Gilroy Foods)			0.00%	500	4	2.55%
Gilroy Gardens Theme Park (formerly Bonfante)				500	3	2.55%
Monterey Gourmet Foods				225	6	1.15%
Kaiser Permanente				200	8	1.02%
International Paper				180	10	0.92%
Headstart Nursery				180	9	0.92%
Total Top 10 Employers	4,304		14.44%	3,750		19.13%
Total City Labor Force (1)	29,800			N/A		

Source: MuniServices, LLC / *an Avenu Insights & Analytics Company*

Results based on direct correspondence with city's local businesses.

(1) Total City Labor Force provided by EDD Labor Force Data.

2013-14 previously published CAFR.

* Includes FTE & PTE.

** Includes Permanent Employees Only

CITY OF GILROY
 FULL TIME EQUIVALENT CITY EMPLOYEES BY FUNCTION / PROGRAM
 FISCAL YEAR 2009 - 2018

Function / Program	Fiscal Year			
	2010	2011	2012	2013
Administration	5	5	6	6
City Council and Mayor	7	7	7	7
Community Development	16	17	18	18
Finance	12	13	14	13
Fire	36	43	39	41
Fleet and Facilities	10	9	10	10
Human Resources	3	3	3	3
Information Technology	3	3	2	4
Police	85	87	87	87
Public Works	34	34	34	34
Recreation	8	9	11	11
	<u>219</u>	<u>230</u>	<u>231</u>	<u>234</u>

Source: City of Gilroy, Finance Department

Fiscal Year					
2014	2015	2016	2017	2018	2019
5	4	5	5	6	6
7	7	7	7	7	7
20	21	21	18	18	21
13	13	13	11	13	14
39	40	39	35	36	37
10	10	10	10	10	10
4	4	4	4	4	4
4	2	2	3	3	4
88	93	94	87	92	94
36	38	43	40	42	54
11	11	12	10	11	11
<u>237</u>	<u>243</u>	<u>250</u>	<u>230</u>	<u>242</u>	<u>262</u>

CITY OF GILROY
OPERATING INDICATORS BY FUNCTION / PROGRAM
LAST TEN FISCAL YEARS

Function / Program	Fiscal Year			
	2010	2011	2012	2013
General Government				
Number of Business Licenses Issued	2,624	2,967	2,958	2,855
Total Volunteer Service Hours	28,649	29,668	31,905	29,566
Total City-Wide Training Hours Provided	1,246	1,538	3,513	1,300
Total Vehicle Work Orders Generated	2,545	2,631	3,118	2,919
Total Facilities Work Orders Generated	1,587	1,576	1,660	1,658
Public Safety				
Police				
Number of 911 Calls Received	17,237	21,206	22,328	24,074
Number of Police Calls for Service	53,316	59,177	59,361	58,124
Number of Investigations Assigned to Detectives	1,276	816	781	769
Number of Case Reports Processed	11,036	10,780	10,708	11,956
Fire				
Total Calls for Service	3,333	3,746	4,014	4,322
Total Fire Calls	165	179	172	178
Total Emergency Medical Aid Calls	2,150	2,340	2,410	2,566
Community Development				
Number of Building Inspections Completed	5,952	9,378	14,055	13,938
Number of Building Permits Processed	886	1,212	1,160	1,158
Number of Fire Code Permits Issued	425	525	587	577
Public Works				
Square Feet of Chip Seal/Slurry Seal/Crack Seal Completed	30,000	10,000	430,000	660,000
Linear Feet of Preventive Cleaning	350,000	600,000	540,000	640,000
Million Gallons of Wastewater Treated per Day	6.46	6.76	6.39	6.27
Million Gallons of Municipal Water Produced per Day	7.13	7.31	7.71	8.32
Million Gallons of Wastewater Flow per Day (COG)	3.60	3.91	3.70	3.58
Number of Utility Billing Customers	12,801	12,958	13,210	13,540
Recreation				
Number of Registrations Processed	4,169	4,166	5,075	7,405
Number of Meals Provided to Seniors Annually	20,071	18,392	17,744	19,459

Source: City of Gilroy, Various City Departments

* Statistic not available

** Available Data Reflects 3 of 4 qtrs of 2016

Fiscal Year					
2014	2015	2016	2017	2018	2019
2,615	3,034	2,685	3,166	3,800	3,965
35,439	32,598	34,723	33,855	31,505	28,460
1,245	1,957	2,356	3,112	3,200	2,688
2,739	3,146	2,629	2,478	1,428	1,327
1,613	1,542	1,445	1,317	1,428	1,411
27,753	28,498 **	21,044 **	23,744	23,484	22,235
58,112	62,200	62,071	63,887	63,073	64,134
727	821	913	845	815	986
11,926	13,566	12,621	12,320	12,478	11,075
4,557	5,131	5,007	5,441	5,374	5,555
182	179	223	223	265	282
2,802	3,341	3,323	3,735	3,707	3,739
14,101	21,592	24,500	23,623	17,991	17,450
1,706	2,042	2,197	1,903	1,970	2,050
567	819	839	476	1,060	1,230
930,000	90,000	274,479	712,504	533,397	1,430,477
600,000	716,900	785,288	707,379	854,304	897,479
6.05	5.99	5.97	7.60	6.16	6.66
7.87	6.79	5.94	6.46	7.07	6.80
3.45	3.50	3.59	4.84	3.87	4.13
13,716	13,865	14,300	14,549	14,870	15,133
5,500	6,378	5,856	5,807	4,952	4,737
19,549	20,031	21,351	22,566	23,815	25,103

CITY OF GILROY
 CAPITAL ASSET STATISTICS BY FUNCTION / PROGRAM
 FISCAL YEAR 2010 - 2019

Function / Program	Fiscal Year			
	2010	2011	2012	2013
General Government				
City Buildings	55	55	55	55
Public Safety				
Police				
Police Stations	1	1	1	1
Police Vehicles	69	73	71	72
Fire				
Fire Stations	3	3	3	3
Fire Vehicles	20	20	20	20
Public Works				
Park Sites	16	16	16	16
Centerline Miles of Streets	146	151	156	159
Number of Streetlights	3,659	3,784	3,894	3,969
Miles of Storm Trunk Mains	30	30	30	31
Miles of Sewer Mains	101	102	108	110
Treatment Plant Dry Weather Flow Capacity (MGD)	9	9	9	9
Water Meters in Municipal Service Area	12,905	13,063	13,319	13,651
Miles of Water Mains	108	109	116	120
Number of Fire Hydrants	1,815	1,815	1,948	1,960

Source: City of Gilroy, Various City Departments

Fiscal Year					
2014	2015	2016	2017	2018	2019
55	55	55	55	57	57
1	1	1	1	1	1
76	79	86	87	83	103
3	3	3	3	3	3
20	20	20	21	20	19
16	16	16	16	19	19
118	120	119	126	151	166
4,150	4,150	4,773	4,794	4,841	4,861
31	31	31	37	39	40
110	111	111	151	160	161
9	9	9	9	9	9
13,831	14,127	14,669	14,783	14,450	15,133
121	152	152	204	205	210
2,048	2,150	2,265	2,290	1,948	2,229

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APPENDIX D

PROPOSED FORM OF BOND COUNSEL OPINION

Upon issuance of the Series 2020A Bonds, Nixon Peabody LLP, Bond Counsel to the Authority, proposes to render its final approving opinion with respect to the Series 2020A Bonds in substantially the following form:

[Date of Delivery]

Gilroy Public Facilities Financing Authority
Gilroy, California

City of Gilroy
Gilroy, California

\$ _____
**GILROY PUBLIC FACILITIES FINANCING AUTHORITY
LEASE REVENUE REFUNDING BONDS, SERIES 2020A
(FORWARD DELIVERY)**

Ladies and Gentlemen:

We have acted as Bond Counsel to the Gilroy Public Facilities Financing Authority (the “Authority”) in connection with the issuance of \$_____ aggregate principal amount of its Lease Revenue Refunding Bonds, Series 2020A (the “Bonds”), issued pursuant to an Indenture, dated as of August 1, 2020 (the “Indenture”), by and among the Authority, the City of Gilroy (the “City”) and MUFG Union Bank, N.A., as trustee (the “Trustee”). Capitalized terms used but not defined herein shall have the meaning ascribed to such term as set forth in the Indenture.

As Bond Counsel, we have examined copies, certified to us as being true and complete, of the Indenture, the First Amended and Restated Lease Agreement, dated as of August 1, 2009 (as amended, the “Lease Agreement”), between the City and the Authority, the First Amended and Restated Site Lease, dated as of August 1, 2009, (the “Site Lease”), between the Authority and the City, the Assignment Agreement, dated as of August 1, 2009 (the “Assignment Agreement”), between the Authority and the Trustee, the Tax Certificate, dated the date hereof (the “Tax Certificate”), opinions of counsel to the Authority, the City and the Trustee, certificates of the Authority, the City, the Trustee and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein. We have not undertaken to verify independently the accuracy of the factual matters represented, warranted or certified therein, and we have assumed the genuineness of all signatures thereto. The Lease Agreement, the Site Lease, the Indenture and the Assignment Agreement are collectively referred to herein as the “Legal Documents.”

We have, with your approval, assumed that all items submitted to us as originals are authentic and that all items submitted as copies conform to the originals.

On the basis of such examination, our reliance upon the assumptions contained herein and our consideration of such questions of law as we considered relevant, and subject to the limitations and qualifications in this opinion, we are of the opinion that:

1. The Bonds constitute the valid and binding limited obligations of the Authority.
2. The Indenture has been duly executed and delivered by, and, assuming due authorization, execution and delivery by the other parties thereto, constitutes the legally valid and binding obligation of, the Authority, enforceable in accordance with its terms. The Indenture establishes a valid lien on and a

pledge of the Revenues (as defined in the Indenture) for the security of the Bonds. Enforcement thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws or equitable principles affecting the enforcement of creditors' rights generally, the exercise of judicial discretion, the application of equitable principles if equitable remedies are sought and limitations on remedies against counties in the State of California.

3. The Lease Agreement, the Site Lease and the Assignment Agreement have been duly executed and delivered by, and, assuming due authorization, execution and delivery by the other parties thereto, constitute the legally valid and binding obligations of, the City (except with respect to the Assignment Agreement) and the Authority, enforceable in accordance with their terms. Enforcement thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws or equitable principles affecting the enforcement of creditors' rights generally, the exercise of judicial discretion, the application of equitable principles if equitable remedies are sought and limitations on remedies against counties in the State of California.

4. The Internal Revenue Code of 1986 (the "Code") sets forth certain requirements which must be met subsequent to the issuance and delivery of the Bonds for interest thereon to be and remain excluded from gross income for federal income tax purposes. Noncompliance with such requirements could cause the interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issue of the Bonds. Pursuant to the Indenture, the Lease Agreement, and the Tax Certificate, the Authority and the City, as applicable, have covenanted to comply with the applicable requirements of the Code in order to maintain the exclusion of the interest on the Bonds from gross income for federal income tax purposes pursuant to Section 103 of the Code. In addition, the Authority and the City, as applicable, have made certain representations and certifications in the Indenture, the Lease Agreement, and the Tax Certificate. We have not independently verified the accuracy of those certifications and representations.

Under existing law, assuming compliance with the tax covenants described herein and the accuracy of the aforementioned representations and certifications, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code. We are also of the opinion that such interest is not treated as a preference item in calculating the alternative minimum tax imposed under the Code.

5. Interest on the Bonds is exempt from personal income taxes of the State of California under present state law.

The opinions set forth in paragraphs 1, 2 and 3 above are subject to (a) applicable bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting creditors' rights generally (including, without limitation, fraudulent conveyance laws), (b) the effect of general principles of equity, including, without limitation, concepts of materiality, reasonableness, good faith and fair dealing and the possible unavailability of specific performance or injunctive relief, regardless of whether considered in a proceeding in equity or at law, and (c) the limitations on legal remedies against government entities in the State of California. We express no opinion with respect to any indemnification, contribution, choice of law, choice of forum or waiver provisions contained in the Legal Documents, and we express no opinion on the laws of any jurisdiction other than the State of California and the United States of America.

Except as stated in paragraphs 4 and 5, we express no opinion as to any other federal, state or local tax consequences of the ownership or disposition of the Bonds. Furthermore, we express no opinion as to any federal, state or local tax law consequences with respect to the Bonds, or the interest thereon, if any action is taken with respect to the Bonds or the proceeds thereof upon the advice or approval of other counsel.

No opinion is expressed herein on the accuracy, completeness or sufficiency of any offering material relating to the Bonds. This opinion is expressly limited to the matters set forth above and we render no opinion, whether by implication or otherwise, as to any other matters.

We do not undertake to advise you of any subsequent events or developments which might affect the statements contained herein. Our engagement with respect to this matter has ended as of the date hereof, and we disclaim any obligation to update this letter.

Respectfully submitted,

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APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (this “Disclosure Certificate”) is executed and delivered by the City of Gilroy, California (the “City”) in connection with the issuance of \$_____ aggregate principal amount of the Gilroy Public Facilities Lease Revenue Refunding Bonds, Series 2020A (the “Bonds”). The Bonds are being issued pursuant to an Indenture dated as of August 1, 2020 (the “Indenture”), by and among the City, the Gilroy Public Facilities Financing Authority (the “Authority”) and MUFG Union Bank, N.A., as trustee (the “Trustee”).

Capitalized terms not defined herein shall have the meaning set forth in the Indenture. The City covenants and agrees as follows:

Section 1. Purpose of this Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the Owners and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with the Rule (as the foregoing capitalized terms are hereinafter defined).

Section 2. Definitions. The following capitalized terms shall have the following meanings:

“Beneficial Owner” shall mean any person which has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

“Dissemination Agent” shall mean the City or any successor Dissemination Agent designated in writing by the City, which has filed with the City a written acceptance of such designation.

“Financial Obligation” shall mean, for purposes of the Listed Events set out in Section 5(a)(10) and Section (5)(b)(8), 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 defined in the Securities Exchange Act of 1934, as amended) as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule.

“Listed Events” shall mean any of the events listed in Section 5 of this Disclosure Certificate.

“MSRB” shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (“EMMA”) website of the MSRB, currently located at <http://emma.msrb.org>.

“Official Statement” shall mean the Official Statement for the Bonds dated _____, 2020, as amended or supplemented.

“Participating Underwriter” shall mean the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Rule” shall mean 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 by written direction to such Dissemination Agent to, not later than March 31 after the end of the City's fiscal year (which currently ends on June 30), commencing with the report due for the fiscal year ending June 30, 2020, provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. 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 Agreement; provided that the audited financial statements of the City may be submitted separately from and later than the balance of the Annual Report if they are not available by the date required above for the filing of the Annual Report.

An Annual Report shall be provided at least annually notwithstanding any fiscal year longer than 12 calendar months. The City's fiscal year is currently effective from July 1 to the immediately succeeding June 30 of the following year. The City will promptly notify the MSRB of a change in the fiscal year dates.

(b) Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to the MSRB, the City shall provide the Annual Report to the Dissemination Agent (if the Dissemination Agent is not the City). If by fifteen (15) Business Days prior to the date specified in (a) for the Annual Report, the Dissemination Agent (if other than the City) has not received a copy of the Annual Report, the Dissemination Agent shall notify the City of such failure to receive the report. If the Dissemination Agent is other than the City, the City shall provide a written certification 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 it hereunder. The Dissemination Agent may conclusively rely upon such certification of the City and shall have no duty or obligation to review such Annual Report.

(c) If the City fails to provide an Annual Report by the date required in subsection (a), the Dissemination Agent shall send a notice of such failure in a timely manner to file to the MSRB, in the form required by the MSRB.

Section 4. Content of Annual Report. The City's Annual Report shall contain or include by reference:

(a) Financial Statements. The audited financial statements of the City for the most recent fiscal year of the City then ended. If the City prepares audited financial statements and if the audited financial statements are not available by the time the Annual Report is required to be filed, the Annual Report shall contain any unaudited financial statements of the City in a format similar to the financial statements, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available. Audited financial statements of the City shall be audited by such auditor as shall then be required or permitted by State law. Audited financial statements, if prepared by the City, shall be prepared in accordance with generally accepted accounting principles as prescribed for governmental units by the Governmental Accounting Standards Board; provided, however, that the City may from time to time, if required by federal or state legal requirements, modify the basis upon which its financial statements are prepared. In the event that the City shall modify the basis upon which its financial statements are prepared, the City shall provide a notice of such modification to the MSRB, including a reference to the specific federal or state law or regulation specifically describing the legal requirements for the change in accounting basis.

(b) Financial and Operating Data. Numerical and tabular information for the immediately preceding Fiscal Year of the type contained in Appendix A to the Official Statement, in the following charts and tables: "CITY OF GILROY — General Fund Balance Sheet," "— Statement of General Fund Revenues, Expenditures and Ending Fund Balances," "— Source of Tax Revenues," "— Assessed Value of All Taxable Property" and "— Top Twenty Local Secured Taxpayers."

Financial information relating to the City referenced in Section 4(b) may be updated from time to time, and such updates may involve displaying data in a different format or table or eliminating data that is no longer available.

The City has not undertaken in this Disclosure Certificate to provide all information an investor may want to have in making decisions to hold, sell or buy Bonds but only to provide the specific information listed above.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which have been submitted to the MSRB or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the MSRB. The City shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

(a) The City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds in a timely manner not later than ten business days after the occurrence of the event:

1. Principal and interest payment delinquencies;
2. Unscheduled draws on debt service reserves reflecting financial difficulties;
3. Unscheduled draws on credit enhancements reflecting financial difficulties;
4. Substitution of credit or liquidity providers, or their failure to perform;
5. Adverse tax opinions or the issuance by the Internal Revenue Service of proposed or final determinations of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);
6. Tender offers;
7. Defeasances;
8. Rating changes;
9. Bankruptcy, insolvency, receivership or similar event of the obligated person; or
10. Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the obligated person, any of which reflect financial difficulties.

Note: for the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) The City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material, in a timely manner not later than ten business days after the occurrence of the event:

1. Unless described in paragraph 5(a)(5), notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;
2. Modifications to rights of Bond holders;

3. Bond calls;
4. Release, substitution, or sale of property securing repayment of the Bonds;
5. Non-payment related defaults;

6. The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the 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;

7. Appointment of a successor or additional trustee or the change of name of a trustee; or

8. Incurrence of a Financial Obligation of the obligated person, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the obligated person, any of which affect security holders.

(c) Whenever the City obtains knowledge of the occurrence of a Listed Event described in Section 5(b), the City shall determine if such event would be material under applicable federal securities laws.

(d) If the City learns of the occurrence of a Listed Event described in Section 5(a), or determines that knowledge of a Listed Event described in Section 5(b) would be material under applicable federal securities laws, the City shall within ten business days of occurrence file a notice of such occurrence with the MSRB. Notwithstanding the foregoing, notice of the Listed Event described in subsections (b)(3) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to owners of affected Bonds pursuant to the Indenture.

Section 6. Format for Filings with MSRB. Any report or filing with the MSRB pursuant to this Disclosure Certificate must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB.

Section 7. Termination of Reporting Obligation. The City's obligations under this Disclosure Certificate shall terminate upon the legal defeasance or payment in full of all of the Bonds. If such termination occurs prior to the final maturity date of the Bonds, the City shall give notice of such termination in a filing with the MSRB.

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 Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the City pursuant to this Disclosure Certificate.

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, 4 or 5(a) or (b), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Owners or Beneficial Owners of the Bonds.

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 notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future 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, any Owner or Beneficial Owner of 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 or the Lease Agreement, 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 Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the City agrees to indemnify and save such 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 obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

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Section 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, if any, the Participating Underwriter and the Owners and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Date: _____, 2020

CITY OF GILROY, CALIFORNIA

By: _____
City Administrator

APPENDIX F

BOOK-ENTRY ONLY SYSTEM

The following information has been provided by DTC for use in securities offering documents, and the Authority and the City take no responsibility for the accuracy or completeness thereof. Neither the Authority nor the City can give or does give any assurances that DTC, DTC Direct Participants or DTC Indirect Participants will distribute to the Beneficial Owners either (a) payments of interest, principal or premium, if any, with respect to the Series 2020A Bonds or (b) certificates representing ownership interest in or other confirmation of ownership interest in the Series 2020A Bonds, or that they will so do on a timely basis or that DTC, DTC Direct Participants or DTC Indirect Participants will act in the manner described in this Official Statement. 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, New York, will act as securities depository for the Series 2020A Bonds. The Series 2020A Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Series 2020A Bond certificate will be issued for each issue of the Series 2020A Bonds, 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 an S&P Global Ratings 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 on such website is not incorporated herein.

3. Purchases of Series 2020A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2020A Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2020A Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial

Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2020A Bonds, except in the event that use of the book-entry system for the Series 2020A Bonds is discontinued.

4. To facilitate subsequent transfers, all Series 2020A Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2020A Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2020A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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. None of the Authority, the City or the Trustee will have any responsibility or obligation to such Direct Participants and Indirect Participants or the persons for whom they act as nominees with respect to the Series 2020A Bonds. Beneficial Owners of Series 2020A Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2020A Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Indenture and the Lease Agreement. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Series 2020A Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

6. Redemption notices shall be sent to DTC. If less than all of the Series 2020A Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2020A Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority 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 the Series 2020A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Principal and interest payments with respect to the Series 2020A Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Trustee, on payable dates in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Authority, the City or the Trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority, the City or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. DTC may discontinue providing its services as depository with respect to the Series 2020A Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Series 2020A Bond certificates are required to be printed and delivered.

10. The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Series 2020A Bond certificates will be printed and delivered.

11. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Authority and the City believe to be reliable, but the Authority and the City take no responsibility for the accuracy thereof.

The foregoing description of the procedures and record keeping with respect to beneficial ownership interests in the Series 2020A Bonds, payment of principal of and interest and other payments with respect to the Series 2020A Bonds to Direct Participants, Indirect Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in such Bonds and other related transactions by and between DTC, the Direct Participants, the Indirect 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 Direct Participants, the Indirect 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 Participants, as the case may be.

In the event that the book-entry system is discontinued as described above, the requirements of the Indenture will apply.

THE TRUSTEE, AS LONG AS A BOOK-ENTRY ONLY SYSTEM IS USED FOR THE Series 2020A Bonds, WILL SEND ANY NOTICE OF REDEMPTION OR OTHER NOTICES TO OWNERS TO ONLY DTC. ANY FAILURE OF DTC TO ADVISE ANY DTC PARTICIPANT, OR OF ANY DTC PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER, OF ANY NOTICE AND ITS CONTENT OR EFFECT WILL NOT AFFECT THE VALIDITY OR SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE REDEMPTION OF THE Series 2020A Bonds CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.

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APPENDIX G

FORM OF DELAYED DELIVERY CONTRACT

_____, 2020

Hilltop Securities Inc.
Cardiff, California

Re: \$_____ Gilroy Public Facilities Financing Authority Lease Revenue Refunding Bonds, Series 2020A (the “Bonds”)

Ladies and Gentlemen:

The undersigned (the “Purchaser”) hereby agrees to purchase from Hilltop Securities Inc. (the “Underwriter”), when, as and if issued and delivered to the Underwriter by the Gilroy Public Facilities Financing Authority (the “Authority”), and the Underwriter agrees to sell to the Purchaser:

<u>Par Amount</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>CUSIP Number</u>	<u>Yield</u>	<u>Price</u>
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of the above-referenced Bonds (the “Purchased Bonds”) offered by the Authority under the Preliminary Official Statement dated _____, 2020 (the “Preliminary Official Statement”), and the Official Statement relating to the Bonds dated _____, 2020 (the “Official Statement”), at the purchase price and with the interest rates, principal amounts, and maturity dates shown above, and on the further terms and conditions set forth in this Delayed Delivery Contract. Capitalized terms used but not defined herein have the meanings ascribed thereto in the Official Statement. The Bonds are being purchased by the Underwriter pursuant to the Forward Delivery Bond Purchase Agreement among the Authority, the City of Gilroy and the Underwriter (the “Forward Delivery Bond Purchase Agreement”).

The Purchaser hereby confirms that it has received and reviewed the Preliminary Official Statement and the Official Statement (including, without limitation, the section entitled “FORWARD DELIVERY OF THE SERIES 2020A BONDS”), has considered the risks associated with purchasing the Purchased Bonds and is duly authorized to purchase the Purchased Bonds. The Purchaser acknowledges and agrees that the Purchased Bonds are being sold on a “forward” basis, and the Purchaser hereby purchases and agrees to accept delivery of the Purchased Bonds from the Underwriter on or about August __, 2020 (the “Settlement Date”), as they may be issued and delivered in accordance with the Forward Delivery Bond Purchase Agreement.

Payment for the Purchased Bonds on the Settlement Date shall be made to the Underwriter or upon its order on the Settlement Date upon delivery to the Purchaser of the Purchased Bonds through the book-entry system of The Depository Trust Company. The Purchaser agrees that in no event shall the Underwriter be responsible or liable for any claim or loss, whether direct or consequential, that the Purchaser may suffer in the event the Authority does not for any reason issue and deliver the Bonds.

Upon issuance by the Authority of the Bonds and purchase thereof by the Underwriter, the obligation of the Purchaser to take delivery of the Purchased Bonds hereunder shall be unconditional, except in the event that between the date of this Delayed Delivery Contract and the Settlement Date one of the following events shall have occurred:

1. There is a Change in Law (defined below);
2. As a result of any legislation, regulation, rule, order, release, court decision or judgment or action by the U.S. Department of the Treasury, the Internal Revenue Service, or any agency of the State either enacted, issued, effective, adopted or proposed (but only with respect to any such proposed legislation, regulation, ruling, order, release, court decision or judgment or action that continues to be proposed as of the Settlement Date), or for any other reason, Bond Counsel cannot issue the respective opinion substantially in the form attached to the Official Statement as Appendix D to the effect that (a) the interest on the Bonds is not subject to federal income tax under Section 103 of the Code (or comparable provisions of any successor federal tax laws), and (b) the interest on the Bonds is exempt from State of California income taxation;
3. The Official Statement, including as supplemented, as of the date of Closing (as defined in the Forward Delivery Bond Purchase Agreement), which is expected to occur on or about _____, 2020, or the Updated Official Statement to be provided by the Authority and the City pursuant to the terms of the Forward Delivery Bond Purchase Agreement as of the Settlement Date, contained or contains an untrue statement or misstatement of material fact or omitted or omits to state a material fact necessary in order to make the statements and information contained therein not misleading in any material respect;
4. Legislation is enacted, or a decision by a court of the United States is rendered, or any action is taken by, or on behalf of, the Securities Exchange Commission that, in the reasonable opinion of the Underwriter, following consultation with the Authority and the City, has the effect of requiring the Bonds to be registered under the Securities Act of 1933, as amended, or requires the qualification of the Indenture under the Trust Indenture Act of 1939, as amended, or an event occurs that would cause the sale of the Bonds to be in violation of any provision of the federal or State of California securities laws; or
5. As of the Settlement Date, the Bonds are no longer rated investment grade by S&P Global Ratings.

The Underwriter shall notify the Purchaser promptly in the event that the Underwriter becomes aware of the occurrence of any of the events described in clauses 1 through 5 above.

A “Change in Law” means (i) any change in or addition to applicable federal or state law, whether statutory or as interpreted by the courts or by federal or state agencies, including any changes in or new rules, regulations or other pronouncements or interpretations by federal or state agencies; (ii) any legislation enacted by the Congress of the United States (if such enacted legislation has an effective date that is on or before the Settlement Date), (iii) any law, rule or regulation enacted by any governmental body, department or agency (if such enacted law, rule, or regulation has an effective date that is on or before the Settlement Date) or (iv) any judgment, ruling or order issued by any court or administrative body that in any such case would, (A) as to the Underwriter, prohibit the Underwriter from completing the underwriting of the Bonds or selling the Bonds or the beneficial ownership interests therein to the public or, (B) as to the Authority or the City, make the completion of the issuance, sale, or delivery of the Bonds illegal.

If the Change of Law eliminates the exclusion from gross income for federal income tax purposes of interest payable on “state or local bonds,” the Underwriter would not be obligated to purchase the Bonds from the Authority, and the Purchaser would not be required to accept delivery of the Purchased Bonds from the Underwriter.

The Purchaser acknowledges and agrees that the Purchased Bonds are being sold on a “forward” or “delayed delivery” basis for delivery on the Settlement Date and that the Purchaser is obligated to take up and pay for the Purchased Bonds on the Settlement Date unless one of the events described above occurs. The Purchaser acknowledges that it will not be able to withdraw its order as described herein, and will not otherwise be excused from performance of its obligations to take up and pay for the Purchased Bonds on the Settlement Date because of market or credit changes, including specifically, but not limited to (a) except for the rating change described in

event number 5 above, changes in the rating assigned to the Bonds between the date of Closing and the Settlement Date or changes in the credit associated with the Bonds generally, and (b) changes in the financial condition, operations, performance, properties or prospects of the Authority or the City from the date hereof to the Settlement Date. The Purchaser acknowledges and agrees that it will remain obligated to purchase the Purchased Bonds in accordance with the terms hereof, even if the Purchaser decides to sell the Purchased Bonds following the date hereof, unless the Purchaser sells the Purchased Bonds to another institution with the prior written consent of the Underwriter and such institution provides a written acknowledgment of confirmation of purchase order and a delayed delivery contract in the same respective forms as that executed by the Purchaser.

The Purchaser represents and warrants that, as of the date of this Delayed Delivery Contract, the Purchaser is not prohibited from purchasing the Purchased Bonds hereby agreed to be purchased by it under the laws of the jurisdiction to which the Purchaser is subject. Each of the undersigned parties represents and warrants that it has the power and authority to enter into this Delayed Delivery Contract and to perform its obligations hereunder.

The Purchaser agrees that it will at all times satisfy the minimum initial and maintenance margin requirements of Regulation T of the Board of Governors of the Federal Reserve System, Rule 431 of the New York Governors of the Federal Reserve System, Rule 4210 of the Financial Industry Regulatory Authority and any other margin regulations applicable to the Underwriter.

This Delayed Delivery Contract will inure to the benefit of and be binding upon the parties hereto and their respective successors, but will not be assignable by either party without the prior written consent of the other.

The Purchaser acknowledges that the Underwriter is entering into the Forward Delivery Bond Purchase Agreement with the Authority to purchase the Bonds in reliance in part on the performance by the Purchaser of its obligations hereunder.

This Delayed Delivery Contract may be executed by either of the parties hereto in any number of counterparts, each of which shall be deemed to be an original, but all such counterparts shall together constitute one and the same instrument.

It is understood that the acceptance by the Underwriter of any Delayed Delivery Contract (including this one) is in the Underwriter's sole discretion and that, without limiting the foregoing, acceptances of such contracts need not be on a first-come, first-served basis. If this Delayed Delivery Contract is acceptable to the Underwriter, it is requested that the Underwriter sign the form of acceptance below and mail, e-mail, or otherwise deliver one of the counterparts hereof to the Purchaser at its address set forth below. This will become a binding contract between the Underwriter and the Purchaser when such counterpart is so mailed, e-mailed or otherwise delivered by the Underwriter. This Delayed Delivery Contract does not constitute a customer confirmation pursuant to Rule G-15 of the Municipal Securities Rulemaking Board.

This Delayed Delivery Contract shall be construed and administered under the laws of the State of New York.

[PURCHASER]

By: _____
Name: _____
Title: _____
Address: _____
Telephone: _____

Accepted:

HILLTOP SECURITIES INC.

By: _____
Name: _____
Title: _____