

**NEW ISSUE—BOOK-ENTRY ONLY****RATING:****S&P: “\_\_\_\_\_”****(See “RATING” herein)**

*In the opinion of Anzel Galvan LLP, San Francisco, California, Bond Counsel, under existing law and subject to certain qualifications described herein, the interest on the Series 2025 Bonds is excludable from gross income for federal income tax purposes. In addition, interest on the Series 2025 Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals; however, interest on the Series 2025 Bonds may affect the federal alternative minimum tax applicable to certain corporations. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. See “TAX MATTERS.”*

**\$(Par Amount)\***

**WATSONVILLE PUBLIC FINANCE AUTHORITY  
LEASE REVENUE BONDS, SERIES 2025**

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

The Watsonville Public Finance Authority Lease Revenue Bonds, Series 2025 (the “Series 2025 Bonds”) are payable from base rental payments (the “Base Rental Payments”) to be made by the City of Watsonville (the “City”) for the right to use certain real property (the “Property”) pursuant to a Lease Agreement, dated as of June 1, 2025 (the “Lease Agreement”), by and between the City, as lessee, and the Watsonville Public Finance Authority (the “Authority”), as lessor. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2025 BONDS.”

The Series 2025 Bonds are being issued to provide funds to (i) finance a portion of the costs of the design, acquisition, construction and installation of certain public capital improvements to the City’s Ramsay Park and City Plaza, and related infrastructure improvements; and (ii) pay the costs incurred in connection with the issuance of the Series 2025 Bonds. See “THE PROJECT.” The City has covenanted under the Lease Agreement to make all Base Rental Payments provided for therein, to include all such payments as a separate line item in its annual budgets, and to make all the necessary annual appropriations for such Base Rental Payments. The City’s obligation to make Base Rental Payments is subject to abatement during any period in which, by reason of material damage to, or destruction or condemnation of, the Property, or any defects in title to the Property, there is substantial interference with the City’s right to use and occupy any portion of the Property. See “RISK FACTORS—Abatements.”

The Series 2025 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 2025 Bonds is payable semiannually on May 1 and November 1 of each year, commencing November 1, 2025. Purchasers will not receive certificates representing their interest in the Series 2025 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 2025 Bonds will be paid by U.S. Bank Trust Company, National Association, 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 2025 Bonds. See “THE SERIES 2025 BONDS—Book-Entry Only System” herein.

The Series 2025 Bonds will be issued pursuant to an Indenture, dated as of June 1, 2025 (the “Indenture”) by and among the City, the Authority and the Trustee. The Series 2025 Bonds and any additional bonds issued pursuant to the Indenture (“Additional Bonds”) are collectively referred to as the “Bonds.”

The Series 2025 Bonds are subject to extraordinary and mandatory sinking fund redemption prior to maturity. See “THE SERIES 2025 BONDS—Redemption.” The Series 2025 are not subject to optional redemption.

**The Series 2025 Bonds are special obligations of the Authority, payable solely from Base Rental Payments 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 2025 Bonds.**

**The obligation of the City to make the Base Rental Payments does not constitute a debt of the City or the State of California 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 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.**

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 2025 Bonds will be offered when, as and if issued and received by the Underwriter, subject to the approval as to their validity by Anzel Galvan LLP, San Francisco, California, Bond Counsel. Anzel Galvan LLP, San Francisco, California, is also acting as Disclosure Counsel to the City and the Authority. Certain legal matters will be passed upon for the City and the Authority by the City Attorney of the City of Watsonville, and for the Underwriter by Kutak Rock LLP, Irvine, California. It is anticipated that the Series 2025 Bonds in definitive form will be available for delivery to DTC in New York, New York on or about \_\_\_\_\_, 2025.*

[UW Logo]

Dated: \_\_\_\_\_, 2025

\* Preliminary; subject to change.

**MATURITY SCHEDULE**

\$ \_\_\_\_\_

**WATSONVILLE PUBLIC FINANCE AUTHORITY**

**Lease Revenue Bonds, Series 2025**

**Base CUSIP<sup>†</sup>: \_\_\_\_\_**

<i><b>Maturity Date</b></i> <i><b>(May 1)</b></i>	<i><b>Principal Amount</b></i>	<i><b>Interest Rate</b></i>	<i><b>Yield</b></i>	<i><b>Price</b></i>	<i><b>CUSIP<sup>†</sup></b></i>
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\$ _____	_____ %	Term Bonds due May 1, 20__	Yield: _____ %	Price: _____	<sup>c</sup> CUSIP <sup>†</sup> _____
\$ _____	_____ %	Term Bonds due May 1, 20__	Yield: _____ %	Price: _____	<sup>c</sup> CUSIP <sup>†</sup> _____

<sup>c</sup> Priced to optional redemption date of May 1, 20\_\_, at par.

<sup>†</sup> CUSIP® is a registered trademark of the American Bankers Association. CUSIP Global Services (CGS) is managed on behalf of the American Bankers Association by FactSet Research Systems Inc. Copyright© 2025 CUSIP Global Services. All rights reserved. CUSIP® data herein is provided by CUSIP Global Services. This data is not intended to create a database and does not serve in any way as a substitute for the CGS database. CUSIP® numbers are provided for convenience of reference only. None of the Underwriter, the Authority or the City, or their agents or counsel, assume responsibility for the accuracy of such numbers.

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 2025 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 2025 Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale. This Official Statement is not to be construed as a contract with the purchasers or Owners of the Series 2025 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 2025 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 captions “THE CITY OF WATSONVILLE,” “CITY FINANCIAL INFORMATION” and “RISK FACTORS.”

**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 2025 BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2025 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 2025 BONDS TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENT AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICE STATED ON THE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICE MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.**

**THE SERIES 2025 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 2025 Bonds.

**CITY OF WATSONVILLE  
SANTA CRUZ COUNTY, CALIFORNIA**

**WATSONVILLE PUBLIC FINANCE AUTHORITY GOVERNING BOARD AND CITY COUNCIL  
OF THE CITY OF WATSONVILLE**

Maria Orozco, *Chair/Mayor*  
Kristal Salcido, *Vice Chair/Mayor Pro Tempore*  
Eduardo Montesino, *Board Member/Council Member*  
Vanessa Quiroz-Carter, *Board Member/Council Member*  
Kristal Salcido, *Board Member/Council Member*  
Casey K. Clark, *Board Member/Council Member*  
Jimmy Dutra, *Board Member/Council Member*  
Ari Parker, *Board Member/Council Member*

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**CITY / AUTHORITY OFFICIALS**

Tamara Vides, *City Manager/Executive Director*  
Marissa Duran, *Administrative Services Director/Treasurer*  
Irwin I. Ortiz, *City Clerk/Secretary*  
Burke, Williams & Sorensen, LLP, *City Attorney*

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**BOND COUNSEL AND DISCLOSURE COUNSEL**

Anzel Galvan LLP  
San Francisco, California

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**MUNICIPAL ADVISOR**

Urban Futures, Inc.  
Walnut Creek, California

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**TRUSTEE**

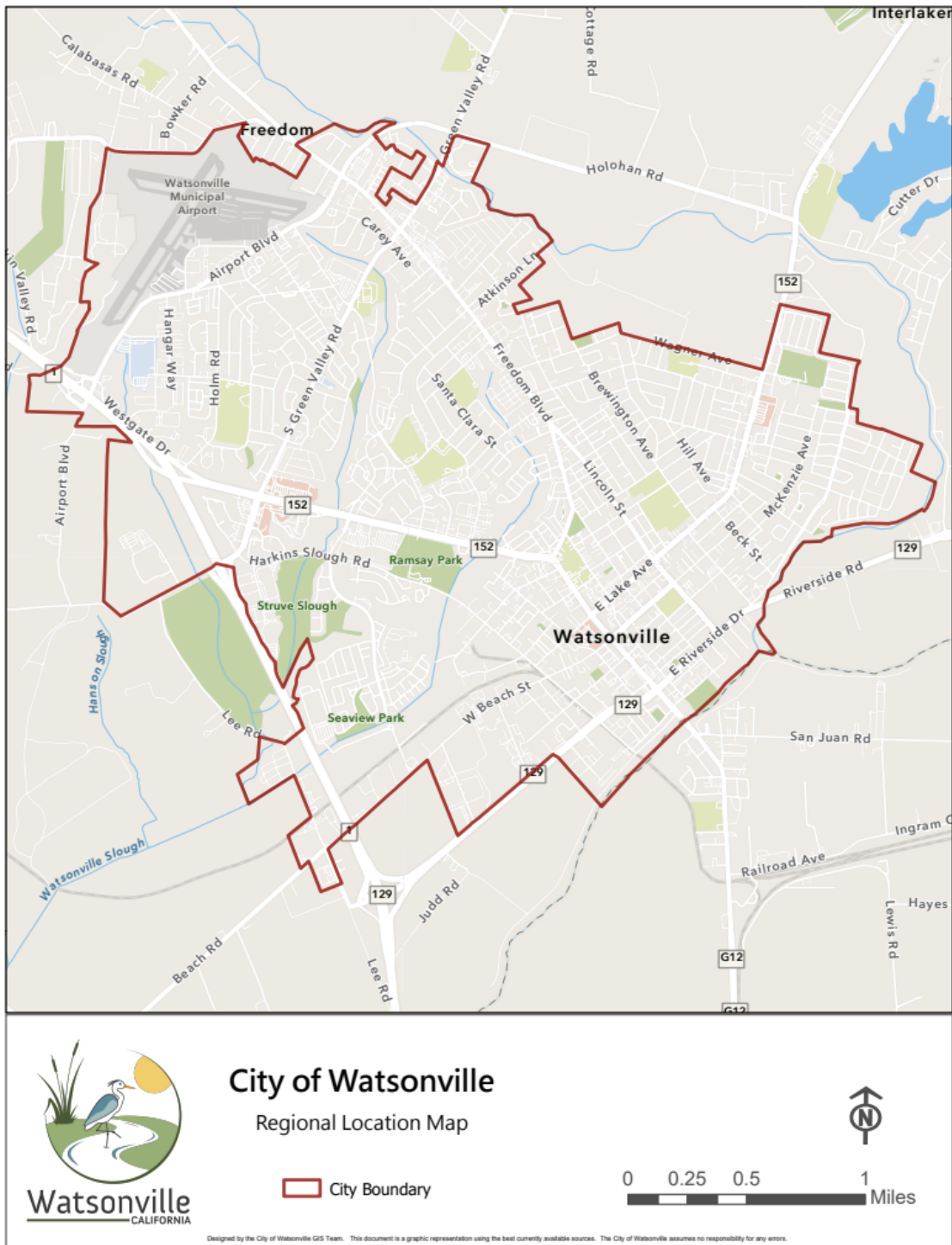
U.S. Bank Trust Company, National Association  
San Francisco, California

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# CITY OF WATSONVILLE REGIONAL LOCATION MAP



## OFFICIAL STATEMENT

### **[\$Par Amount]\* WATSONVILLE PUBLIC FINANCE AUTHORITY LEASE REVENUE BONDS, SERIES 2025**

#### 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 \$ \_\_\_\_\_ aggregate principal amount of Watsonville Public Finance Authority Lease Revenue Bonds, Series 2025 (the “Series 2025 Bonds”).

The net proceeds of the sale of the Series 2025 Bonds will be used to (i) finance a portion of the costs of the design, acquisition, construction and installation of certain public capital improvements as part of the City’s Ramsay Park and City Plaza, and related infrastructure improvements (collectively, the “Project”); and (ii) pay the costs incurred in connection with the issuance of the Series 2025 Bonds. See “THE PROJECT” herein for a further description of the Project.

The Series 2025 Bonds are equally and ratably payable from base rental payments (the “Base Rental Payments”) to be made by the City of Watsonville (the “City”) for the right to use certain real property (collectively, the “Property” and described further under the caption “THE PROPERTY”) pursuant to a Lease Agreement, dated as of June 1, 2025 (the “Lease Agreement”), between the City, as lessee, and the Watsonville Public Finance Authority (the “Authority”), as lessor.

The Series 2025 Bonds will be issued pursuant to an Indenture, dated as of June 1, 2025 (the “Indenture”), by and among the Authority, the City and U.S. Bank Trust Company, National Association, as trustee (the “Trustee”). Pursuant to the Indenture, the Authority may issue additional bonds (the “Additional Bonds”) payable from the Base Rental Payments on a parity with the Series 2025 Bonds (the Series 2025 Bonds and any such Additional Bonds being collectively referred to as the “Bonds”). See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2025 BONDS—Additional Bonds.”

Pursuant to a Ground Lease, dated as of June 1, 2025 (the “Ground Lease”), by and between the City and the Authority, the City has leased the Property to the Authority. The Authority has subleased the Property to the City under the Lease Agreement. The Lease Agreement obligates the City to make Base Rental Payments to the Authority.

The Trustee and the Authority have entered into an Assignment Agreement, dated as of June 1, 2025, pursuant to which the Authority has assigned to the Trustee for the benefit of the Bond Owners substantially all of the Authority’s right, title and interest in and to the Ground Lease and the Lease Agreement, including its right to receive the Base Rental Payments due under the Lease Agreement and to enforce any remedies in the event of a default by the City.

The Property leased under the Ground Lease and the Lease Agreement will consist of the Property (as such term is defined under the caption “THE PROPERTY”). The Property generally consists of the City’s Police/Innovation Technology Building, Parks and Community Services Building, Youth Center and City Hall . See the captions “THE PROPERTY” and “THE PROJECT—The Project and the Project Site.” The City also has the right to substitute or release all or a portion of the Property subject to certain conditions precedent. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2025 BONDS—Substitution, Addition and Removal of Property.”

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\* Preliminary; subject to change.



The City will covenant under the Lease Agreement to take such action as may be necessary to include all Rental Payments, which are comprised of Base Rental Payments and Additional Rental Payments (which include taxes and assessments affecting the Property, administrative costs of the Authority relating to the Property, fees and expenses of the Trustee and other amounts payable under the Lease Agreement), due under the Lease Agreement as a separate line item in its annual budgets and to make the necessary annual appropriations therefor, subject to abatement as described herein.

Base Rental 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 Property or any portion thereof. See "RISK FACTORS—Abatements." Abatement of Base Rental Payments under the Lease Agreement, to the extent that payment is not made from alternative sources as set forth below, would result in all Bond Owners receiving less than the full amount of principal of and interest on the Series 2025 Bonds. To the extent that proceeds of insurance are available or moneys are available in certain funds and accounts pledged as security for the Series 2025 Bonds, Base Rental Payments (or a portion thereof) may be made during periods of abatement.

THE SERIES 2025 BONDS ARE SPECIAL OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM BASE RENTAL PAYMENTS 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 2025 BONDS. THE AUTHORITY HAS NO TAXING POWER.

THE OBLIGATION OF THE CITY TO MAKE THE BASE RENTAL PAYMENTS DOES NOT CONSTITUTE A DEBT OF THE CITY, THE STATE OR 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.

The Authority is not funding a debt service reserve fund for the Series 2025 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 ("Rule 15c2-12") 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 Rule 15c2-12. See "CONTINUING DISCLOSURE" herein for a description of the Authority's and the City's compliance with its prior continuing disclosure undertakings pursuant to Rule 15c2-12 and APPENDIX—E "FORM OF CONTINUING DISCLOSURE CERTIFICATE" for a description of the specific nature of the annual report and notices of listed events and the terms of the disclosure undertaking pursuant to which such reports are to be made.

U.S. Bank Trust Company, National Association, San Francisco, California, will act as Trustee with respect to the Series 2025 Bonds. The Series 2025 Bonds will be issued subject to the approval as to their legality by Anzel Galvan LLP, San Francisco, California, Bond Counsel. Certain legal matters will be passed upon for the City and the Authority by the City Attorney of the City of Watsonville and by Anzel Galvan LLP, San Francisco, California, Disclosure Counsel. Certain legal matters will be passed upon for the Underwriter by Kutak Rock LLP, Irvine, California. The City's financial statements for the fiscal year ended June 30, 2024, included as Appendix C hereto have been audited by Maze & Associates, Pleasant Hill, California (the "Auditor"). See APPENDIX C—"AUDITED FINANCIAL STATEMENTS OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2024" herein. The City's financial statements are public documents and are included within this Official Statement without the prior approval of the Auditor. Accordingly, the Auditor

has not performed any post-audit review of the financial condition of the City and also has not performed any procedures relating to this Official Statement.

Certain events could affect the ability of the City to make the Base Rental 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 2025 Bonds.

The presentation of information, including tables of receipt of revenues, is intended to show recent historical information and, except for a discussion of the proposed fiscal year 2025-26 budget and estimated fiscal year 2024-25 results, 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 the captions “THE CITY OF WATSONVILLE” and “CITY FINANCIAL INFORMATION” for financial and operating information related to the City.

The summaries or references to the Indenture, the Lease Agreement, the Ground Lease, the Assignment Agreement and other documents, agreements and statutes referred to herein, and the description of the Series 2025 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) that are defined in the Indenture or the Lease Agreement have the meanings set forth therein. See APPENDIX B—“SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS.”

## **THE SERIES 2025 BONDS**

### **General**

The Series 2025 Bonds shall be issued in fully registered form without coupons in denominations of \$5,000 or any integral multiple thereof. The Series 2025 Bonds will be dated as of and bear interest (calculated on the basis of a 360-day year comprised of twelve 30-day months) from the dated date thereof at the rates set forth on the inside cover page hereof. Interest on the Series 2025 Bonds will be paid semiannually on May 1 and November 1 (each, an “Interest Payment Date”) of each year, commencing November 1, 2025.

Interest on the Series 2025 Bonds will be payable from the Interest Payment Date next preceding the date of authentication thereof (a “Record Date”) unless (i) a Series 2025 Bond is authenticated on or before an Interest Payment Date and after the close of business on the preceding Record Date, in which event it will bear interest from such Interest Payment Date, (ii) a Series 2025 Bond is authenticated on or before the first Record Date, in which event interest thereon will be payable from the dated date thereof, or (iii) interest on any Series 2025 Bond is in default as of the date of authentication thereof, in which event interest thereon will be payable from the date to which interest has been paid in full, payable on each Interest Payment Date. Interest will be paid in lawful money of the United States on each Interest Payment Date to the Persons in whose names the ownership of the Series 2025 Bonds is registered on the Registration Books at the close of business on the immediately preceding Record Date, except as provided below. Interest will be paid by check of the Trustee mailed by first class mail, postage prepaid, on each Interest Payment Date to the Series 2025 Bond Owners at their respective addresses shown on the Registration Books as of the close of business on the preceding Record Date.

The principal and premium, if any, of the Series 2025 Bonds will be payable in lawful money of the United States of America upon presentation and surrender thereof upon maturity or earlier redemption at the Office of the Trustee. The Series 2025 Bonds will be subject to redemption as set forth herein.

## Registration

The Series 2025 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 2025 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 2025 Bonds. See “THE SERIES 2025 BONDS—Book-Entry Only System.”

## Redemption

***Extraordinary Redemption from Net Proceeds.*** The Series 2025 Bonds are subject to redemption, in whole or in part, on any date, in denominations of \$5,000 or any integral multiple thereof, from and to the extent of any Net Insurance Proceeds received with respect to all or a portion of the Property, deposited by the Trustee in the Redemption Fund pursuant to the Indenture, at a Redemption Price equal to the principal amount of the Series 2025 Bonds to be redeemed, plus accrued interest thereon to the date of redemption, without premium.

***Optional Redemption of Series 2025 Bonds.*** The Series 2025 Bonds are not subject to optional redemption prior to maturity.

***Mandatory Sinking Fund Redemption.*** The Series 2025 Bonds with stated maturities on May 1, 20\_\_, are subject to mandatory sinking fund redemption in part (by lot) on each May 1 on and after May 1, 20\_\_, in integral multiples of \$5,000 at a Redemption Price equal to the principal amount thereof plus accrued interest to the date fixed for redemption, without premium, in accordance with the following schedule:

<b><i>Redemption Date (May 1)</i></b>	<b><i>Principal Amount</i></b>
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\* Final Maturity.

In the event of a partial optional redemption or extraordinary mandatory redemption of any of the Term Bonds, the City will provide the Trustee with a revised mandatory sinking fund schedule giving effect to the redemption so completed.

***Selection of Bonds for Redemption.*** Whenever provision is made in the Indenture for the redemption of less than all of the Bonds, the Trustee shall select the Bonds to be redeemed from all Bonds not previously called for redemption with respect to any redemption of Bonds of a Series, among maturities of Bonds of such Series as directed in a Written Request of the Authority and pro rata among Bonds of the same Series with the same maturity. For purposes of such selection, all Bonds will be deemed to be comprised of separate \$5,000 denominations and such separate denominations will be treated as separate Bonds which may be separately redeemed.

***Notice of Redemption.*** So long as the Bonds are held in book-entry form, notices of redemption will be mailed by the Trustee only to DTC and not to any Beneficial Owners. The Authority will provide the Trustee with written notice of redemption pursuant to the Indenture at least thirty (30) days prior to the date set for the redemption of Series 2025 Bonds, or such shorter period as may be consented to by the Trustee, such notice being for the convenience of the Trustee. The Trustee on behalf and at the expense of the Authority will

mail (by first class mail) notice of any redemption to the respective Owners of any Bonds designated for redemption at their respective addresses appearing on the Registration Books, to the Securities Depositories and to one or more Information Services, at least 20 but not more than 60 days prior to the date fixed for redemption. Such notice will state the date of the notice, the redemption date, the redemption place and the Redemption Price and shall designate the CUSIP numbers, the Bond numbers and the maturity or maturities (except in the event of redemption of all of the Bonds of such maturity or maturities in whole) of the Bonds to be redeemed, and will require that such Bonds be then surrendered at the principal corporate trust office of the Trustee for redemption at the Redemption Price, giving notice also that further interest on such Bonds will not accrue from and after the date fixed for redemption. Neither the failure to receive any notice so mailed, nor any defect in such notice, will affect the validity of the proceedings for the redemption of the Bonds or the cessation of accrual of interest thereon from and after the date fixed for redemption.

With respect to any notice of optional redemption of the Bonds, such notice may state that such redemption is conditional upon the receipt by the Trustee, on or prior to the date fixed for such redemption, of moneys sufficient to pay the principal of, premium if any, and interest on the Bonds to be redeemed and upon other conditions set forth therein and that, if such money has not been so received or such other conditions have not been satisfied, said notice is of no force and effect and the Trustee is not required to redeem such Bonds. If any condition stated in the redemption notice for an optional redemption have not been satisfied on or prior to the redemption date: (i) the redemption notice will be of no force and effect, (ii) the Authority will not be required to redeem such Bonds, (iii) the redemption will not be made, and (iv) the Trustee will within a reasonable time thereafter give notice to the persons in the manner in which the conditional redemption notice was given that such condition or conditions were not met and that the redemption was canceled.

***Partial Redemption of Bonds.*** Upon surrender of any Bonds redeemed in part only, the Authority will execute and the Trustee will authenticate and deliver to the Owner thereof, at the expense of the Authority, a new Bond or Bonds of the same Series in authorized denominations equal in aggregate principal amount representing the unredeemed portion of the Bonds surrendered.

***Effect of Notice of Redemption.*** Notice having been mailed as aforesaid, and moneys for the Redemption Price, and the interest to the applicable date fixed for redemption, having been set aside in the Redemption Fund, the Bonds will become due and payable on said date, and, upon presentation and surrender thereof at the principal corporate trust office of the Trustee, said Bonds will be paid at the Redemption Price thereof, together with interest accrued and unpaid to said date.

If, on said date fixed for redemption, moneys for the Redemption Price of all the Bonds to be redeemed, together with interest to said date, will be held by the Trustee so as to be available therefor on such date, and, if notice of redemption thereof has been mailed as aforesaid and not canceled, then, from and after said date, interest on said Bonds will cease to accrue and become payable. All moneys held by or on behalf of the Trustee for the redemption of Bonds will be held in trust for the account of the Owners of the Bonds so to be redeemed without liability to such Owners for interest thereon. All Bonds paid at maturity or redeemed prior to maturity pursuant to the provisions of the Indenture will be canceled upon surrender thereof and destroyed.

### **Book-Entry Only System**

***General.*** DTC will act as securities depository for the Series 2025 Bonds. The Series 2025 Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered Series 2025 Bond will be issued for each maturity of the Series 2025 Bonds, each in the initial aggregate principal amount of such maturity, and will be deposited with DTC. See APPENDIX F—"BOOK-ENTRY ONLY SYSTEM."

***Transfer and Exchange of Bonds.*** The following provisions regarding the exchange and transfer of the Series 2025 Bonds apply only during any period in which the Series 2025 Bonds are not subject to DTC's

book-entry system. While the Series 2025 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.

Any Bond may, in accordance with its terms, be transferred upon the books required to be kept by the Trustee pursuant to the provisions of the Indenture by the Person in whose name it is registered, in person or by his or her duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form acceptable to the Trustee. Whenever any Bond or Bonds will be surrendered for transfer, the Authority will execute and the Trustee will authenticate and will deliver a new Bond or Bonds of the same Series in a like aggregate principal amount, in any Authorized Denomination. The Trustee will require the Bond Owner requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer.

The transferor will also provide or cause to be provided to the Trustee all information necessary to allow the Trustee to comply with any applicable tax reporting obligations, including without limitation any cost basis reporting obligations under Internal Revenue Code Section 6045. The Trustee may rely on the information provided to it and shall have no responsibility to verify or ensure the accuracy of such information.

The Bonds may be exchanged at the principal corporate trust office of the Trustee for a like aggregate principal amount of Bonds of the same Series of other authorized denominations. The Trustee will require the payment by the Bond Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange.

The Trustee is not obligated to make any transfer or exchange of Bonds of a Series during the period established by the Trustee for the selection of Bonds of such Series for redemption, or with respect to any Bonds of such Series selected for redemption.

## **SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2025 BONDS**

### **Pledge of Revenues**

The Series 2025 Bonds are equally and ratably payable from and secured by Base Rental Payments and certain amounts on deposit in certain funds and accounts established under the Indenture. Base Rental Payments will be paid by the City from any and all legally available funds. See the captions "THE CITY OF WATSONVILLE," "CITY FINANCIAL INFORMATION" and "RISK FACTORS" for a description of such available funds and the potential risks associated with the availability of such funds to make Base Rental Payments. The City has covenanted in the Lease Agreement to take such action as may be necessary to include all Base Rental Payments and Additional Rental Payments due under the Lease Agreement as a separate line item in its annual budgets and to make the necessary annual appropriations therefor.

The Authority, pursuant to the Assignment Agreement, will assign to the Trustee for the benefit of the Series 2025 Bond Owners all of the Authority's right, title and interest in and to the Ground Lease and the Lease Agreement, including, without limitation, its right to receive Base Rental Payments to be paid by the City under and pursuant to the Lease Agreement; provided that, the Authority will retain the rights to indemnification and to payment of reimbursement of its reasonable costs and expenses under the Lease Agreement. The City will pay Base Rental Payments directly to the Trustee, as assignee of the Authority. See "—Base Rental Payments" below. Pursuant to the Indenture, the Authority may issue Additional Bonds payable from the Base Rental Payments on a parity with the Series 2025 Bonds, subject to certain conditions precedent. See the captions "THE PROJECT" and "—Additional Bonds."

Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture, all of the Base Rental Payments and any other amounts (including proceeds of the sale of the Bonds) held in the Base Rental Payment Fund, the Interest Fund, the

Principal Fund and the Redemption Fund are pledged by the Authority pursuant to the Indenture to secure the payment of the principal of, premium, if any, and interest on the Bonds in accordance with their terms, the provisions of the Indenture and the Act. Said pledge constitutes a first lien on such assets.

THE SERIES 2025 BONDS ARE SPECIAL OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM BASE RENTAL PAYMENTS 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 2025 BONDS. THE AUTHORITY HAS NO TAXING POWER.

### **Base Rental Payments**

Rental Payments (collectively, the Base Rental Payments and the Additional Rental Payments) will be paid by the City to the Authority for and in consideration of the right to use and occupy the Property and in consideration of the continued right to the quiet use and enjoyment thereof during each Rental Period for which such Rental Payments are to be paid. Each Base Rental Payment will be deposited with the Trustee no later than the fifth Business Day preceding each Interest Payment Date (the "Base Rental Deposit Date") on which such Base Rental Payment is due. All Base Rental Payments will be paid directly by the City to the Trustee, and if received by the Authority at any time will be transferred by the Authority to the Trustee within one Business Day after the receipt thereof. All Base Rental Payments received by the Trustee will be deposited by the Trustee in the Base Rental Payment Fund.

Pursuant to the Indenture, on the Business Day immediately preceding each Interest Payment Date and on the Business Day immediately preceding each Principal Payment Date, the Trustee will transfer amounts in the Base Rental Payment 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 2025 Bonds.

Scheduled Base Rental Payments relating to the Series 2025 Bonds are set forth below under the caption "BASE RENTAL PAYMENT SCHEDULE."

THE OBLIGATION OF THE CITY TO MAKE THE BASE RENTAL PAYMENTS DOES NOT CONSTITUTE A DEBT OF THE CITY, THE STATE OR 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 Rental Payments**

For the right to use and occupy the Property, the Lease Agreement requires the City to pay, as Additional Rental payments thereunder, in addition to the Base Rental Payments, such amounts as shall be required for the payment of the following:

(i) All taxes and assessments of any type or nature charged to the Authority or the City or affecting the Property or the respective interests or estates of the Authority or the City therein.

(ii) All reasonable administrative costs of the Authority relating to the Property including, but without limiting the generality of the foregoing, salaries, wages, fees and expenses, compensation and indemnification of the Trustee payable by the Authority under the Indenture, fees of auditors, accountants, attorneys or engineers, and all other necessary and reasonable administrative costs of the Authority or charges required to be paid by it in order to maintain its existence or to comply with the terms of

the Indenture or the Lease Agreement or to defend the Authority and its members, officers, agents and employees.

(iii) Insurance premiums for all insurance required pursuant to the Lease Agreement.

(iv) Any amounts with respect to the Lease Agreement or the Bonds required to be rebated to the federal government in accordance with section 148(f) of the Internal Revenue Code of 1986.

(v) All other payments required to be paid by the City under the provisions of the Lease Agreement or the Indenture.

Amounts constituting Additional Rental Payments payable under the Lease Agreement will be paid by the City directly to the person or persons to whom such amounts are payable. The City will pay all such amounts when due or at such later time as such amounts may be paid without penalty or, in any other case, within 60 days after notice in writing from the Trustee to the City stating the amount of Additional Rental Payments then due and payable and the purpose thereof.

### **Abatement**

Base Rental Payments and Additional Rental Payments are paid by the City in each Rental Period for and in consideration of the right to use and occupy the Property. Except as otherwise specifically provided in the Lease Agreement, during any period in which, by reason of material damage to, or destruction or condemnation of, the Property, or any defect in title to the Property, there is substantial interference with the City's right to use and occupy any portion of the Property, Rental Payments are subject to abatement proportionately, and the City waives the benefits of Civil Code Sections 1932(1), 1932(2) and 1933(4) and any and all other rights to terminate the Lease Agreement by virtue of any such interference, and the Lease Agreement will continue in full force and effect. The amount of such abatement will be agreed upon by the City and the Authority; provided, however, that the Rental Payments due for any Rental Period may not exceed the annual fair rental value of that portion of the Property available for use and occupancy by the City during such Rental Period. Any such abatement will continue for the period commencing with the date of interference resulting from such damage, destruction, condemnation or title defect and, with respect to damage to or destruction of the Property, ending with the substantial completion of the work of repair or replacement of the Property, or the portion thereof so damaged or destroyed; and the term of the Lease Agreement will be extended as provided in the Lease Agreement, except that the term will in no event be extended ten years beyond the stated termination date of the Lease Agreement. The Trustee cannot terminate the Lease Agreement in the event of such substantial interference. Abatement of Base Rental Payments and Additional Rental Payments is not an event of default under the Lease Agreement and does not permit the Trustee to take any action or avail itself of any remedy against the City. See APPENDIX B—"SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS—THE LEASE AGREEMENT—Rental Payments—Rental Abatement."

Notwithstanding the foregoing, to the extent that moneys are available for the payment of Rental Payments due under the Lease Agreement in any of the funds and accounts established under the Indenture (including as a result of the availability of insurance proceeds or amounts in certain funds and accounts pledged to the Series 2025 Bonds), such Rental 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.

The Lease Agreement provides that if the Bonds have not been fully paid or defeased by the final maturity thereof, or if the Rental Payments remain due and payable or have been abated at any time and for any reason, then the term of the Lease Agreement will be extended until the date upon which (i) all Bonds are fully paid or defeased, or (ii) the Indenture is discharged by its terms and all Rental Payments are paid in full, up to an additional ten years beyond the final maturity of the Bonds.

## **Substitution or Release of the Property**

**General.** The Authority and the City may amend the Lease Agreement to substitute alternate real property for any portion of the Property or to release a portion of the Property from the Lease Agreement, upon compliance with all of the conditions set forth in the Lease Agreement and described below. After a substitution or release, the portion of the Property for which the substitution or release has been effected will be released from the leasehold encumbrance of the Lease Agreement.

The Lease Agreement provides that there will be no reduction in or abatement of the Base Rental Payments due from the City thereunder as a result of such substitution or release. Any such substitution or release is subject to the following specific conditions precedent:

(a) the City finds (as set forth in a certificate delivered by the City to the Trustee) that the Property, as constituted after such substitution or release: (i) has an annual fair rental value at least equal to the maximum annual Base Rental Payments payable by the City in any Rental Period, during the remaining term of this Lease Agreement, as determined by the City on the basis of commercially reasonable evidence of the fair rental value of the Property, and (ii) has a useful life in excess of the final maturity of any Outstanding Bonds.

(b) the City obtains or causes to be obtained a CLTA or ALTA title insurance policy or policies with respect to any substituted property in an amount at least equal to the aggregate principal amount of any Outstanding Bonds, of the type and with the endorsements described in the Lease Agreement;

(c) the City provides the Trustee with an Opinion of Counsel to the effect that such substitution or release will not, in and of itself, cause the interest on the Bonds to be included in gross income for federal income tax purposes;

(d) the City, the Authority and the Trustee execute, and the City causes to be recorded with the Santa Cruz County Clerk-Recorder, any document necessary to reconvey to the City the portion of the Property being released and to include any substituted real property in the description of the Property contained in the Lease Agreement and in the Ground Lease;

(e) the City shall have provided notice of such substitution to each rating agency then rating the Bonds;

(f) no event of default has occurred and is continuing under the Lease Agreement;

(g) the City gives, or causes to be given, any notice of the occurrence of such substitution required to be given pursuant to the Continuing Disclosure Certificate;

(h) the City certifies to the Trustee that the City has a current need for the substituted real property; and

(i) the City certifies to the Trustee that any substitution will not cause the City to violate any of its covenants, representations and warranties made in the Lease Agreement.

See APPENDIX B—"SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS—THE LEASE AGREEMENT—No Consequential Damages; Use of Property; Substitution or Release."

## **Action on Default**

Should the City default 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 Base Rental Payments thereunder on an annual basis, and will have the right to re-enter and re-let the Property. In the event such re-letting occurs, the City would be liable for any resulting deficiency in Base Rental Payments. Base Rental Payments may not be accelerated upon a default under the Lease Agreement. See “RISK FACTORS—Limited Recourse on Default; No Acceleration of Base Rental.”

For purposes of certain actions of Bond Owners under the Indenture and the Lease Agreement, such as certain consents and amendments and the direction of remedies following default, Series 2025 Bond 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 2025 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—THE LEASE AGREEMENT—Defaults and Remedies” and “—THE INDENTURE—Default and Limitations of Liability.”

### **No Reserve Fund**

The Authority has not funded a debt service reserve fund for the Series 2025 Bonds.

### **Additional Bonds**

Pursuant to the Indenture, the Authority may issue Additional Bonds payable from the Base Rental Payments on parity with the Series 2025 Bonds upon satisfaction of certain conditions, including, but not limited to, the following:

(a) The issuance of such Additional Bonds has been authorized under and pursuant to the Indenture and provided for by a Supplemental Indenture;

(b) The Authority and the City are in compliance with all agreements, conditions, covenants and terms contained in the Indenture, the Lease Agreement and the Ground Lease required to be observed or performed by each of them;

(c) The Ground Lease has been amended, to the extent necessary, and the Lease Agreement has been amended so as to increase the Base Rental Payments payable by the City thereunder by an aggregate amount equal to the principal of and interest on such Additional Bonds, payable at such times and in such manner as may be necessary to provide for the timely payment of the principal of and interest on such Additional Bonds; provided, however, that no such amendment is permitted to be made such that the sum of Base Rental Payments, including any increase in the Base Rental Payments as a result of such amendment, plus Additional Rental Payments, in any Rental Period is in excess of the annual fair rental value of the Property after taking into account the use of the proceeds of any Additional Bonds issued in connection therewith.

See APPENDIX B—“SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS—THE INDENTURE—Issuance of Bonds; Application of Proceeds.”

### **Insurance**

The Lease Agreement requires the City to maintain or cause to be maintained fire, lightning and special extended coverage insurance (which includes coverage for vandalism and malicious mischief, but need not include coverage for earthquake damage) on all improvements constituting any part of the Property in an amount equal to the greater of 100% of the replacement cost of such improvements or 100% of the outstanding

principal amount of the Bonds. All insurance required to be maintained pursuant to the Lease Agreement may be subject to a deductible in an amount not to exceed \$500,000.

The Lease Agreement requires the City to maintain rental interruption insurance to cover the Authority's loss, total or partial, of Base Rental Payments resulting from the loss, total or partial, of the use of any part of the Property as a result of any of the hazards covered by the casualty insurance described in the preceding paragraph, in an amount sufficient at all times to pay an amount not less than the product of two times the maximum amount of Base Rental Payments scheduled to be paid during any Rental Period.

The City is also required to maintain or cause to be maintained, throughout the term of the Lease Agreement, a standard commercial general liability insurance policy or policies in protection of the City, the Authority and their respective members, officers, agents and employees, and worker's compensation insurance as described in APPENDIX B—"SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS—THE LEASE AGREEMENT—Insurance."

The City's obligation to maintain the insurance described above (including rental interruption insurance) may be satisfied by self-insurance, provided such self-insurance complies with the requirements of the Lease Agreement.

The City is required under the Lease Agreement to provide, at its own expense, one or more CLTA or ALTA title insurance policies for the Property, in the aggregate amount of not less than the initial aggregate principal amount of the Bonds (and the initial aggregate principal amount of Additional Bonds issued after the Closing Date), insuring the fee interest of the City in the Property, the Authority's leasehold estate in the Property under the Ground Lease, and the City's subleasehold estate in the Property under the Lease Agreement, subject only to Permitted Encumbrances, and providing that all proceeds thereunder are payable to the Trustee for the benefit of the Owners.

See APPENDIX B—"SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS—THE LEASE AGREEMENT—Insurance."

## SOURCES AND USES OF FUNDS

The sources and uses of funds with respect to the Series 2025 Bonds are shown below.

### ***Sources***

Principal Amount of Series 2025 Bonds	\$
Net Original Issue [Premium][Discount]	
Total Sources	<hr style="border-top: 3px double black;"/>
	\$

### ***Uses***

Project Fund	\$
Costs of Issuance <sup>(1)</sup>	
Total Uses	<hr style="border-top: 3px double black;"/>
	\$

<sup>(1)</sup> Includes legal, municipal advisory, rating agency, printing fees, underwriter's discount, and other miscellaneous costs of issuance.

## BASE RENTAL PAYMENT SCHEDULE

Following is the annual schedule of Base Rental Payments due with respect to the Series 2025 Bonds, assuming no redemption prior to maturity:

<i><b>Bond Year (Ending May 1)</b></i>	<i><b>Principal</b></i>	<i><b>Interest</b></i>	<i><b>Total</b></i>
2026	\$	\$	\$
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
Total	<u>\$</u>	<u>\$</u>	<u>\$</u>

## THE PROJECT

The Project consists of the design, acquisition, construction and/or installation of certain capital improvements in the City, including completion of the Ramsay Park Renaissance Project and City Plaza Project.

Ramsay Park is the City's largest park. The Ramsay Park Renaissance Project is anticipated to include upgrades to certain facilities, including a renovation to the Sotomayer soccer field, a redesigned multi-use sports field, an inclusive and sensory playground, small and large dog play areas, and a 3,500-square foot nature center with culturally relevant exhibits and educational programs. Other funding for the Ramsay Park Renaissance Project has included Measure R amounts, State grants, American Rescue Plan Act (ARPA) funds and amounts from the City of Watsonville. The total cost of the project is approximately \$33 million.

The City Plaza Project will include updating the gazebo in the center of the park, renovating the historic community fountain, improve landscaping and lighting throughout the park, and adding a permanent stage with seating areas, game tables, group picnic areas, a play station, public art, a circular walkway around the middle of the plaza, a drinking fountain with bottle-filling station, bicycle parking, improved electrical infrastructure to facilitate events and performances, and signage to highlight the historical elements of the park.

## THE PROPERTY

### General

The Property leased under the Ground Lease and the Lease Agreement will consist of the City's Police/Innovation Technology Building, Parks and Community Services Building, Youth Center and City Hall. The City has the right to substitute or release all or a portion of the Property subject to certain conditions precedent.

The Property is utilized exclusively by the City as a hub for its local government, where it houses various departments responsible for managing city finances, planning, police parks and recreation services and various other administrative services.

The City and the Authority have agreed and determined that based on the aggregate value of the land and improvements comprising the Property as of the date of delivery of the Series 2025 Bonds, that the annual fair rental value of the Property is not less than the maximum annual Rental Payments due in any year. In making such determination of fair rental value, consideration was given to the uses and purposes that may be served by the Property and the benefits therefrom which will accrue to the City and the general public. Payments of the Rental Payments for the Property during each Rental Period shall constitute the total rental for said Rental Period.

The City will lease the Property to the Authority pursuant to the Ground Lease. The Authority will then sublease the Property to the City pursuant to the Lease Agreement.

## The Property

The Property consists of the properties listed in the following table and described in more detail below.

<i>Facility</i>	<i>Location and Use</i>	<i>Approx. Building Square Footage</i>	<i>Approx. Land Square Footage</i>	<i>Estimated Building Value</i>	<i>Estimated Land Value</i>
Police/IT Building <sup>(1)</sup>	215 Union Street- Police and Innovate Technology Services	19,466	33,604	\$10,472,360	\$1,680,200
Parks and Community Services Building <sup>(2)</sup>	231 Union Street – Parks/Community Services Administrative Offices	3,809	84,564	\$965,823	\$2,790,612
Youth Center <sup>(3)</sup>	30 Maple Avenue – Entertainment & Recreation Center	11,178	N/A <sup>(5)</sup>	\$3,327,127	N/A <sup>(5)</sup>
City Hall <sup>(4)</sup>	250 Main Street – managing City finances, planning, public works	32,460	N/A <sup>(5)</sup>	\$10,071,084	N/A <sup>(5)</sup>
<b>Total</b>		<b>66,913</b>	<b>118,168</b>	<b>\$24,836,394</b>	<b>\$4,470,812</b>

(1) The Police/IT Building is a two-story building that was constructed in 1982. It has a steel frame construction, unreinforced masonry infill walls and a foundation of spread/strip footings. It has not been seismically retrofitted and is located on a soft soil site.

(2) Parks and Community Services Building is a one-story building that was constructed in 1959. It has not been seismically retrofitted and is located on a soft soil site.

(3) The Youth Center is a single-story building that was constructed in 1994. It has an engineered wood frame construction, bearing sheer wall masonry and a slab foundation. It has not been seismically retrofitted and is located on a soft soil site.

(4) The City Hall was constructed in 1964 with a bearing sheer wall construction, and on a foundation of spread/strip footings. It has not been seismically retrofitted and is located on a soft soil site.

(5) Included in Parks and Community Services Building land square footage.

Source: The City.

## THE AUTHORITY

The Authority was established pursuant to the provisions of Articles 1, 2 and 4 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (the “Act”) and a Joint Exercise of Powers Agreement dated as of October 24, 2017 (as amended, the “JPA Agreement”), between the City and the Industrial Development Authority of the City of Watsonville. The City Council of the City is appointed as the governing board of the Authority, and the Authority is administered by the City’s staff. Under the JPA

Agreement and Article 4 of the Act, the Authority is authorized to assist in the financing of public capital improvements.

## THE CITY OF WATSONVILLE

### General

The City is located approximately six miles inland from the Monterey Bay, ninety-five miles south of the City and County of San Francisco and forty-seven miles southwest of the City of San José. The City encompasses an area of approximately 6.8 square miles within the County of Santa Cruz. The City was incorporated in 1868 and, in 1903, became a chartered city. As of January 1, 2024, the population of the City was estimated to be 51,032. For additional economic and demographic information regarding the City, see APPENDIX A — “ECONOMIC AND DEMOGRAPHIC INFORMATION REGARDING THE CITY OF WATSONVILLE.”

### City Council

The City operates under a council-manager form of government. Policymaking and legislative authority are vested in the governing City Council, which consists of seven Council Members, one of whom serves as mayor. The mayor is appointed on sequential basis from each of the numbered City Council districts and serves for a term of one year. The City Council is elected on a non-partisan basis from seven electoral districts. Council members are elected to four-year terms. Elections are staggered with four Council Members elected during one election and three Council Members elected in the following election two years later.

The City Council is responsible, among other things, for passing ordinances, adopting the budget, appointing committees, and hiring the government's City Manager, City Clerk, and Attorney. The City Manager is responsible for carrying out the policies and ordinances of the governing council, for overseeing the day-to-day operations of the government, and for appointing the department heads.

The members of the City Council and the current expiration dates of their respective terms are set forth in the table below.

### CITY OF WATSONVILLE City Council

<u>Name and Office</u>	<u>Term Expires</u>
Maria Orozco, Mayor and District 3	December 2026
Kristal Salcido, Mayor Pro Tempore and District 4	December 2026
Eduardo Montesino, District 1	December 2028
Vanessa Quiroz-Carter, District 2	December 2028
Casey K. Clark, District 5	December 2026
Jimmy Dutra, District 6	December 2028
Ari Parker, District 7	December 2026

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Source: City of Watsonville.

### City Management

Brief biographies of the City Manager and the Administrative Services Director follow below.

***Tamara Vides, City Manager.*** Ms. Vides has worked at the City for nearly 30 years. Prior to her appointment as City Manager in 2024, she served in several roles including Interim City Manager, Assistant

City Manager and Deputy City Manager. She holds a Bachelor of Science in Business Administration and a Master of Science in Recreation Management from San José State University. As City Manager for the City, she oversees the City's departments, managing over 450 employees and a budget exceeding \$267 million. Her focus lies in advancing the City Council's strategic goals, fostering intergovernmental relations, and serving as a liaison to the community.

Ms. Vides's efforts have earned her numerous accolades, including the prestigious 2024 John H. Nail Award for Assistant City Manager of the Year and the 2023 Workforce Development Achievement Award. She has been honored with recognition for her contributions to community health, youth development, and human rights, showcasing her unwavering dedication to her community's well-being.

**Marissa Dura, Administrative Services Director.** Ms. Duran has nearly three decades of dedicated service to the City. Prior to her appointment as Administrative Services Director in 2023, she served the City as Assistant Finance Director, Sr. Financial Analyst and Accountant II. Ms. Duran has extensive operational and managerial experience in all the functional areas. She has played a key role in shaping the City's fiscal strategy and long-term planning. Ms. Vides earned a bachelor's degree in accounting from the California State University at San José.

Throughout her tenure, Ms. Vides has overseen the development and administration of over 25 Government Finance Officers Association (GFOA) award-winning budget documents and Annual Comprehensive Financial Reports (ACFRs). She currently oversees the day-to-day operations of the Finance Department.

## Employee Relations

The City had 432.25 authorized positions at the beginning of fiscal year 2024-25. The City's employees, other than the City Clerk and the City Manager, are represented by the following labor groups. In addition, the City Clerk and City Manager have contracts with the City. In the previous five years, there have not been any work stoppages by City employees.

### CITY OF WATSONVILLE City Employee Labor Groups

<u><b>Labor Group</b></u>	<u><b>Number of Budgeted Employees</b></u>	<u><b>Contract Expiration Date</b></u> <sup>(1)</sup>
OE3 - Operating Engineers Local Union No. 3	117.75	06/30/2025
POA - Police Officer's Association	56	06/30/2025
SEIU - Service Employees International Union Local 521	41.75	12/31/2025
LiUNA – Mid level Managers	80.75	06/30/2025
Management	58	06/30/2025
Executive	12	06/30/2025
Confidential	11	06/30/2025
Fire Management	4	06/30/2025
Police Management	5	06/30/2025
IAFF Local 1272 - International Association of Firefighters	34	06/30/2025
Public Safety Mid-Management	12	06/30/2025

- (1) All contracts will continue according to their terms after their respective stated expiration dates until renegotiated.

Source: City of Watsonville.

The City is currently negotiating new contracts with almost all employee units (PSMM, IAFF, POA, LiUNA, OE3 Management, Police Management, Fire Management, Confidential) and the Executive Team with contracts\compensation plans ending on June 30, 2025. The remaining bargaining unit, SEIU has a contract expiring in December 2025. It is budgeted and anticipated that all groups will be provided with salary increases in each of the next three years.

## **Risk Management**

For more information with respect to the insurance requirements under the Lease Agreement, see the caption “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2025 BONDS—Insurance” in this Official Statement.

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City also provides health insurance coverage to employees. There have been no significant reductions in insurance coverage for any risk of loss in the past fiscal year, and settled claims have not exceeded the commercial coverage in any of the past three fiscal years. The City has established a risk management fund to account for and finance its uninsured risks of loss.

The City’s risk management programs provide coverage for up to a maximum of \$150,000 for each Workers' Compensation claim; \$500,000 for each General Liability claim. The City purchases commercial insurance for claims in excess of coverage provided by the self-insurance programs. There have been no significant changes in insurance coverage as compared to last fiscal year.

All funds of the City participate in the self-insurance programs. The employee health insurance program is funded by contributions of a flat rate per employee to the self-insurance fund. Other self-insurance programs are funded by budgeted appropriations. Funding is estimated to provide the amount needed to pay prior and then current fiscal year claims and to establish reserves for catastrophic losses.

Liabilities in the self-insurance Internal services fund at June 30, 2024, totaled \$4,368,818 as follows: Health Benefits \$104,289; General Liability \$1,335,942; and Workers’ Compensation \$2,928,587.

The City is a member of the California Intergovernmental Risk Authority (“CIRA”), formerly known as Public Agency Risk Sharing Authority of California. CIRA, a consortium of municipalities, fire districts, and special districts, was established in July 2021 to pool resources, share risks, purchase excess insurance, and share costs for professional risk management and claims administration. CIRA’s Executive Committee consists of Board officers (President, Vice President, Treasurer, and Auditor/Controller) and ten members-at-large, representing both region and size. Executive Committee members are elected from the Board of Directors and serve staggered, two-year terms.

The City is self-insured for general liability claims up to \$500,000 (effective November 11, 1994) for each occurrence. Coverage for individual losses in excess of \$500,000, up to \$10,000,000, is provided through CIRA. Under this program, members share in losses between the members’ individual self-insured retention and \$1,000,000 under a risk sharing pool program; and from \$1,000,000 to \$40,000,000, coverage is provided by another risk pool, CSAC-EIA.

Estimates for all liabilities have been accrued in the Self-Insurance Internal Service Fund, which included an estimate for incurred but not reported claims. At June 30, 2024, total estimated claims payable for

General Liability were \$1,335,942. For additional information about the City insurance policies, see Note IV.B to the City’s audited financial statements for fiscal year 2023-24 attached hereto as Appendix C.

## **CITY FINANCIAL INFORMATION**

### **Accounting and Financial Reporting**

The City maintains its accounting records in accordance with Generally Accepted Accounting Principles (“GAAP”) and the standards established by the Governmental Accounting Standards Board (“GASB”). The City Council and City staff review fiscal performance against the budget at the mid-point of each fiscal year. Combined financial statements of the City and its component units are produced following the close of each fiscal year of the City ended June 30.

The City Council employs an independent certified public accountant who examines at least annually the financial statements of the City in accordance with GAAP, including tests of the accounting records and other auditing procedures as such accountant considers necessary. As soon as practicable, after the end of the fiscal year, a final audit and report is submitted by the independent accountant to the City Council. The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate.

Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The budget is adopted in accordance with GAAP. Revenues are recognized on the accrual basis (i.e., when they are earned). Expenditures are recorded when the related fund liability is incurred. See Note I to the City’s audited financial statements for fiscal year 2023-24 attached hereto as Appendix C for a description of the significant accounting policies of the City. See the caption “— Financial Statements” for a discussion of the City’s audited financial statements for fiscal year 2023-24.

The General Fund is the general operating fund of the City. It is used to account for all financial resources except those that are required to be accounted for in another fund because there are legal restrictions on their use. Information on the remaining governmental funds of the City as of June 30, 2024, is set forth in Appendix C.

### **Financial Policies**

***Fund Balance Policy.*** On February 28, 2018, the City Council adopted a Fund Balance Policy (the “Fund Balance Policy”) to establish a target minimum level of restricted reserves in the General Fund to:

- Demonstrate continued prudent fiscal management and creditworthiness.
- Mitigate financial impacts resulting from a natural disaster or other catastrophic events.
- Alleviate loss of major revenue sources.
- Respond to challenges of a changing economic environment, including prolonged downturns in the local, state, or national economy.
- Moderate unanticipated operating or capital expenditures.

***Unrestricted Reserve.*** Pursuant to the City’s Fund Balance Policy, the City is required to maintain an unrestricted fund balance in the City’s General fund of no less than 20% of General Fund operating expenses (the “Unrestricted Reserve”), which is inclusive of the reserve required under Section 1112 of the City Charter, currently set at \$2,450,000 and the Emergency Reserve described below. As of June 30, 2024, the balance in the Unrestricted Reserve was \$34,011,463, representing 48% of General Fund budgeted operating expenses for fiscal year 2023-24.



***Emergency Reserve.*** Pursuant to the City’s Fund Balance Policy, the City has adopted a goal of committing 10% of General Fund operating expenditures for emergencies and contingencies as part of the Unrestricted Reserve balance (the “Emergency Reserve”). As of June 30, 2024, the balance in the Emergency Reserve was \$5,844,487, representing 10% of General Fund budgeted operating expenses for fiscal year 2023-24. Pursuant to the City’s Fund Balance Policy, the Emergency Reserve may be used in the following circumstances:

- Disasters: An unplanned, major, catastrophic event such as declared emergencies, natural disasters or any other unforeseen event requiring expenditures over 5% of General Fund adopted appropriations in a given fiscal year.
- Revenue Shortfall: If regular General Fund revenues are projected to be will be less than the prior year's, or less than the highest of any of the prior four fiscal years' regular General Fund revenues.
- Retirement Cost Increases: In the event that the City’s anticipated payments for employee benefits are expected to be more than 5% greater than the prior year’s payments.
- Asset Failure: Should an asset of the City have an unexpected failure requiring emergency repairs of over \$100,000 that cannot be paid for out of available operating appropriations.

The City Council must act to appropriate the use of money in the Emergency Reserve except in emergency situations (i.e., when there is an urgent need to use such money in the absence of the City Council’s appropriation thereof), in which case the City Manager may authorize the use of these funds and an appropriations request must be reviewed by the City Council at their next regular meeting.

The use of the Emergency Reserve is restricted to the lower of either 50% of the available reserve in the first year of an emergency or the amount of the triggering event. In the second year of a triggering event, the remaining balance may be used.

At the end of each fiscal year, along with the Annual Comprehensive Financial Report of the City the Administrative Services Director will report on the level of unrestricted fund balance and reserves and will make recommendations for the use of any available funds.

***One-Time Reserve Policy.*** The City has adopted a policy of using one-time revenues to support one-time expenditures.

One-time revenues consist of revenues that by their nature are difficult to predict and cannot be relied upon as regular sources of operating revenue. Examples of one-time revenues include but are not limited to:

- Excess year-end unassigned fund balance resulting from revenues being greater than expenditures during the fiscal year;
- Sale of City-owned assets or property; and
- Litigation settlements.

One-time expenses consist of non-recurring and non-operational expenses, typically related to short-duration activities or one-time projects, which may include, but are not limited to, the following:

- Increasing levels of reserves;
- Paying down debt;
- Paying down unfunded CalPERS liability; and
- Funding capital or other one-time expenditures

***Investment Policy.*** Pursuant to California Government Code Section 53646, the City Treasurer prepares investment policy guidelines that are approved by the City Council annually. The City’s current investment policy was approved on January 25, 2022 (the “Investment Policy”). The Investment Policy applies

to the investment of all City funds not required for immediate expenditure, excluding proceeds from certain bond issues that are covered by bond documents. The objectives of the Investment Policy are, in order of priority, safety of principal, liquidity, and yield. All investments are made in accordance with the California Government Code Section 53601 and, in general, the Investment Policy is more restrictive than State law. The City's Administrative Services Director serves as the City Treasurer.

The Administrative Services Director, in the capacity of City Treasurer, is designated as the Chief Investment Officer of the City and is responsible for investment decisions and activities, under the direction of the City Manager. The Administrative Services Director is required under the Investment Policy develop and maintain written administrative procedures for the operation of the investment program by qualified Finance Department staff, consistent with the Investment Policy.

The Investment Policy establishes an Investment Committee, consisting of the City Manager or their designee, the Director of Finance, Assistant Director of Finance, and investment staff. Members of the Investment Committee serve without compensation and meet as needed. The Investment Committee include in its deliberations such topics as: economic outlook, portfolio diversification, maturity structure, potential risks to the City's funds, authorized depositories, and selection of banks and primary dealers.

The par value, market value, costs basis, and percent of total investments by market value for each category of the City's investments, as March 31, 2025, are set forth in the following table:

**TABLE 1**  
**CITY OF WATSONVILLE**  
**INVESTMENT PORTFOLIO AS OF MARCH 31, 2025**

<b>Investment Type</b>	<b>Cost Basis</b>	<b>Market Value</b>
Local Agency Investment Fund	\$22,047,908	\$22,066,631
California Asset Management Program	112,486,924	112,486,924

Source: City of Watsonville.

For additional information with respect to the City's cash and investments, see Note I.D to the audited financial statements for fiscal year 2023-24 attached to the Official Statement as Appendix C.

### **Budget Procedure, Proposed Budget and Historical Budget Information**

**Budget Procedure.** In accordance with the City Charter, the City Council adopts a budget on an annual basis. Each budget is biennial, which begins in the first fiscal year and covers a two-year period beginning on July 1 and running through June 30 for two years. The City's budget serves as the foundation for the City's financial planning and control. All departments of the City are required to submit requests for appropriations to the government's management on or before March 31 of each fiscal year. The Finance Department uses these requests as a starting point for developing a proposed budget. The Finance Department then presents the proposed budget to the City Council for review prior to May 31. The City Council is required to hold public hearings on the proposed budget and to adopt a final budget by no later than June 30, the close of the City's fiscal year. The appropriated budget is prepared by fund (i.e. General Fund), department (i.e., police), and division (i.e., investigation). Department directors may make transfers of appropriations within a department. Transfers of appropriations between departments, however, require the special approval of the City Manager.

Once the budget is adopted by the City Council, the responsibility of implementing each departmental budget lies with each department head, with ultimate responsibility resting with the City Manager. Department directors are expected to operate their departments within the appropriations established in the budget. Any

amendments to an adopted budget that increase expenditures within any fund require the approval of the City Council. The City Manager may transfer appropriations within a fund without increasing total expenditures when appropriate for continued operations except for contingency funds. The Administrative Services Director may transfer appropriations within a division upon request of a department head except in salary and capital accounts. The City Council will reappropriate capital improvement project budgets each year until the project is complete.

***Proposed Fiscal Year 2025-26 Budget.***

General. [To come.]

Revenues. [To come.]

Expenditures. [To come.]

***Comparison of Budget to Actual Performance.*** Set forth in the table below are the adopted General Fund budgets for fiscal years 2022-23 and 2023-24 (as originally adopted and not reflecting any mid-fiscal year budget adjustments) and the audited General Fund results for the corresponding fiscal years.

**TABLE 2**  
**CITY OF WATSONVILLE**  
**GENERAL FUND BUDGETS AND RESULTS**  
**FISCAL YEARS 2022-23 AND 2023-24**

	<i>Adopted 2022-23 Budget</i>	<i>Audited 2022-23 Results</i>	<i>Adopted 2023-24 Budget</i>	<i>Audited 2023-24 Results</i>
<b>REVENUES:</b>				
Taxes	\$34,411,245	\$36,408,419	\$41,138,2621	\$44,616,220
Licenses, permits and fees	2,941,957	2,436,035	2,731,701	3,376,598
Intergovernmental	2,915,633	3,485,959	8,506,329	5,169,535
Charges for services	3,792,770	3,910,505	4,311,708	4,431,903
Fines	647,560	530,360	647,560	455,543
Interest	2,742,507	3,365,394	3,314,505	6,091,126
Miscellaneous	1,144,112	7,732,476	1,651,577	4,825,770
Total Revenues	\$48,595,784	\$57,869,148	\$62,301,641	68,966,695
<b>EXPENDITURES:</b>				
Current:				
General government <sup>1)</sup>	22,510,787	16,430,151	29,372,569	16,180,306
Public safety	29,255,956	29,585,373	31,380,286	31,757,510
Streets	5,578,996	5,395,431	6,827,971	5,568,676
Culture and recreation	6,816,480	6,619,164	6,662,970	6,810,839
Debt service:				
Principal	--	194,812	--	201,136
Interest and fiscal charges	--	4,259	--	7,060
Total Expenditures	\$64,162,219	\$58,229,190	\$74,243,796	\$60,525,527
Excess (Deficiency) of Revenues Over (Under) Expenditures <sup>(1)</sup>	\$(15,566,435)	\$(360,042)	\$(11,942,155)	\$8,441,168
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	\$5,871,244	\$4,122,071	\$4,663,481	\$4,092,815
Transfers out	(180,956)	(364,179)	(238,211)	(148,479)
Total other sources (uses)	\$5,690,288	\$3,757,892	\$4,425,270	\$3,944,336
Net Change in Fund Balance	\$(9,876,147)	\$3,397,850	\$(7,516,885)	\$12,385,504
Fund Balance-beginning of year	\$18,228,109	\$18,228,109	\$21,625,959	\$21,625,959
Fund Balance-end of year	\$8,351,962	\$21,625,959	\$14,109,074	\$34,011,463

<sup>(1)</sup> The budgeted deficiency of revenues under expenditures for fiscal years 2022-23 and 2023-24 reflects a strategic spend-down of fund balance, primarily to fund capital improvement projects.

Source: City of Watsonville audited financial statements for fiscal years 2022-23 and 2023-24.

### **Comparative Change in Fund Balance of the City General Fund**

The table below presents the City's General Fund Statement of Revenues, Expenditures and Change in Fund Balance for fiscal years 2018-19 through 2022-23 (audited) and 2024-25 (estimated).

**TABLE 3**  
**CITY OF WATSONVILLE GENERAL FUND STATEMENT OF**  
**REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES**

	<i>Audited 2019-20</i>	<i>Audited 2020-21</i>	<i>Audited 2021-22</i>	<i>Audited 2022-23</i>	<i>Audited 2023-24</i>	<i>Estimated 2024-25<sup>(2)</sup></i>
<b>REVENUES:</b>						
Taxes <sup>(1)</sup>	\$30,265,864	\$31,696,950	\$34,344,898	\$36,408,419	\$44,616,220	\$44,712,930
Licenses, permits and fees	4,326,047	2,212,590	3,373,571	2,436,035	3,376,598	3,096,381
Intergovernmental <sup>(2)</sup>	3,696,130	3,162,931	2,472,809	3,485,959	5,169,535	3,452,244
Charges for services	3,518,050	3,353,708	3,500,499	3,910,505	4,431,903	4,261,865
Fines	671,565	462,190	592,760	530,360	455,543	515,653
Interest	2,863,834	2,481,291	2,731,729	3,365,394	6,091,126	4,816,968
Miscellaneous	1,722,526	2,515,265	2,194,199	7,732,476	4,825,770	1,585,302
Total Revenues	\$47,064,016	\$45,884,925	\$49,210,465	\$57,869,148	\$68,966,695	\$62,441,343
<b>EXPENDITURES:</b>						
Current:						
General government <sup>(3)</sup>	\$11,115,028	\$9,837,863	\$13,551,227	\$16,430,151	\$16,180,306	\$19,681,483
Public safety	26,074,152	26,404,851	28,203,017	29,585,373	31,757,510	32,231,269
Streets	4,771,141	5,317,110	5,170,149	5,395,431	5,568,676	4,758,545
Culture and recreation	5,177,931	4,708,097	6,028,429	6,619,164	6,810,839	7,290,504
Debt service:						
Principal	--	1,649,451	--	194,812	201,136	181,292
Interest and fiscal charges	--	--	--	4,259	7,060	9,773
Total Expenditures	\$47,138,252	\$47,917,372	\$52,952,822	\$58,229,190	\$60,525,527	\$64,152,866
<b>REVENUES OVER (UNDER)</b>						
<b>EXPENDITURES<sup>(1)</sup></b>	\$ (74,236)	\$ (2,032,447)	\$ (3,742,357)	\$ (360,042)	\$ 8,441,168	\$ (1,711,523)
<b>OTHER FINANCING SOURCES (USES)</b>						
Issuance of debt	\$144,201	\$1,649,451	--	--	--	--
Transfers in	3,636,287	3,729,635	\$3,783,286	\$4,122,071	\$4,092,815	\$4,067,381
Transfers out	(381,094)	(1,667,803)	(83,777)	(364,179)	(148,479)	(135,139)
Total other sources (uses)	\$3,399,394	\$3,711,283	\$3,699,509	\$3,757,892	\$3,944,336	\$3,932,242
Net Change in Fund Balance <sup>(1)</sup>	\$3,325,158	\$1,678,836	\$ (42,848)	\$3,397,850	\$12,385,504	\$2,220,719
Fund Balance-beginning of year <sup>(1)</sup>	\$13,266,963	\$16,592,121	\$18,270,957	\$18,228,109	\$21,625,959	\$34,011,463
Fund Balance-end of year <sup>(1)</sup>	\$16,592,121	\$18,270,957	\$18,228,109	\$21,625,959	\$34,011,463	\$36,232,182

<sup>(1)</sup> Increase in fiscal year 2023-24 over prior fiscal year primarily due to passage of Measure R in November 2022, which became effective on April 1, 2023. See "Sales Taxes – Measure R Sales Taxes."

<sup>(2)</sup> Estimated based on City's fiscal year 2024-25 mid-year budget update.

Source: City of Watsonville audited financial statements for fiscal years 2019-20 through 2023-24; City of Watsonville mid-year budget update for estimated fiscal year 2024-25 amounts.

### **Comparative General Fund Balance Sheets of the City**

The table below presents the City's General Fund Balance Sheets for fiscal years 2019-20 through 2023-24 (audited).

**TABLE 4**  
**CITY OF WATSONVILLE**  
**GENERAL FUND BALANCE SHEETS**  
**FIVE-YEAR COMPARISON**

	<i>Audited</i> <i>2019-20</i>	<i>Audited</i> <i>2020-21</i>	<i>Audited</i> <i>2021-22</i>	<i>Audited</i> <i>2022-23</i>	<i>Audited</i> <i>2023-24</i>
<b>ASSETS:</b>					
Cash and investments <sup>(1)</sup>	\$19,800,341	\$21,481,142	\$21,927,988	\$23,905,029	\$33,481,768
Receivables:					
Interest	242,762	92,942	138,619	409,636	481,417
Taxes	3,461,110	3,450,512	3,914,301	4,268,865	6,075,779
Accounts	735,324	1,288,593	2,024,890	1,594,197	1,526,293
Intergovernmental	1,988,724	3,137,504	2,854,378	2,506,116	3,160,583
Due from other funds	654,692	955,413	843,485	462,405	300,619
Advances receivable	101,674	--	--	--	--
Loans receivable	2,292,458	1,815,302	1,423,779	421,302	3,750
Inventories	12,100	18,282	--	--	--
Total Assets <sup>(1)</sup>	\$29,289,185	\$32,239,690	\$33,127,440	\$33,567,550	\$45,030,209
<b>LIABILITIES:</b>					
Accounts payable	\$1,064,275	\$759,039	\$1,686,110	\$1,418,928	\$2,632,984
Accrued personal costs	2,026,060	1,849,930	2,008,985	791,796	860,322
Retentions payable	14,559	87,127	105,311	111,293	57,007
Advances payable	3,978,545	3,191,066	2,368,419	1,253,516	344,747
Unearned revenue	--	--	--	--	1,465,376
Deposits payable	409,520	1,765,600	1,884,460	1,896,620	3,150,091
Total Liabilities	\$7,492,959	\$7,652,762	\$8,053,285	\$5,472,153	\$8,510,527
Deferred Inflows of Resources					
Unavailable Revenue	\$5,204,105	\$6,315,971	\$6,846,046	\$6,469,438	\$2,508,219
Total Deferred Inflows of Resources	\$5,204,105	\$6,315,971	\$6,846,046	\$6,469,438	\$2,508,219
<b>FUND BALANCES</b>					
Nonspendable	\$113,774	\$18,282	--	--	--
Unassigned <sup>(1)</sup>	16,478,347	18,252,675	\$18,228,109	\$21,625,959	\$34,011,463
Total Fund Balances	\$16,592,121	\$18,270,957	\$18,228,109	\$21,625,959	\$34,011,463
Total Liabilities, Deferred Inflow of Resources and Fund Balances	\$29,289,185	\$32,239,690	\$33,127,440	\$7,309,519	\$45,030,209

<sup>(1)</sup> Increase in fiscal year 2023-24 over prior fiscal year primarily due to passage of Measure R in November 2022, which became effective on April 1, 2023. See "Sales Taxes – Measure R Sales Taxes."

Source: City of Watsonville audited financial statements for fiscal years 2019-20 through 2023-24.



## Tax Revenues by Source

The City derives its General Fund tax revenues from a variety of sources including ad valorem property taxes, sales and use taxes, franchise taxes, a real property transfer tax and transient occupancy taxes. The City's total General Fund tax revenues by source for the five most recent fiscal years are set forth below.

**TABLE 5**  
**CITY OF WATSONVILLE**  
**GENERAL FUND TAX REVENUES BY SOURCE**

<b>Revenue Source</b>	<b><i>Audited</i> 2019-20</b>	<b><i>Audited</i> 2020-21</b>	<b><i>Audited</i> 2021-22</b>	<b><i>Audited</i> 2022-23</b>	<b><i>Audited</i> 2023-24</b>	<b><i>Estimated</i> 2024-25<sup>(1)</sup></b>	<b><i>% of</i> <i>Total</i><sup>(2)</sup></b>
Sales and use taxes	\$10,842,869	\$12,817,985	\$13,881,873	\$15,161,756	\$22,003,386 <sup>(3)</sup>	\$21,554,541 <sup>(4)</sup>	48.2%
Property taxes	12,712,164	12,585,391	13,195,357	13,766,834	14,788,668	15,036,948	33.6
Utility users' taxes	4,264,876	3,996,803	4,144,043	4,358,302	4,675,775	4,769,979	10.7
Other taxes <sup>(5)</sup>	1,454,062	1,530,145	1,390,070	1,487,003	1,677,784	1,751,462	3.9
Transient occupancy taxes	991,893	766,626	1,611,253 <sup>(4)</sup>	1,536,839	1,412,314	1,600,000	3.6
<b>Totals</b>	<b>\$30,265,864</b>	<b>\$31,696,950</b>	<b>\$34,222,596</b>	<b>\$36,310,734</b>	<b>\$44,557,927</b>	<b>\$44,712,930</b>	<b>100.0%</b>

(1) Estimated fiscal year 2024-25 figures are based on City's mid-year budget update for fiscal year 2024-25.

(2) Calculated by dividing revenue source for estimated fiscal year 2024-25 amounts divided by total of estimated fiscal year 2024-25 amounts.

(3) Increase in fiscal year 2023-24 over prior fiscal year primarily due to passage of Measure R in November 2022, which became effective on April 1, 2023. See "Sales Taxes – Measure R Sales Taxes."

(4) Decrease from fiscal year 2023-24 due to an extra month being accrued in such fiscal year.

(5) "Other taxes" consists of business licenses, franchise fees, cannabis tax and tourist assessment fees.

Source: City of Watsonville.

## Sales Taxes

**General.** As shown in Table 5, sales and use tax revenues represented the largest source of tax revenues for the City's General Fund in each of fiscal years 2020-21 through 2023-24 and are again estimated to be City's General Fund's largest source of tax revenues in fiscal year 2024-25 based on the City's fiscal year 2024-25 mid-year budget update. A sales and use tax is imposed on retail sales or consumption of personal property in the City. In fiscal year 2024-25, sales and use tax revenues is estimated to total approximately \$21.6 million, a decrease of approximately 2.04% compared to sales and use tax revenues of approximately \$22.0 million in fiscal year 2023-24.

For fiscal year 2025-26, sales tax revenues are expected at approximately \$\_\_\_\_\_ million based on the proposed fiscal year 2025-26 budget, representing an increase of approximately \$\_\_\_\_\_ million, or \_\_\_\_\_% from fiscal year 2024-25 estimated results.

The City's sales tax revenue represents the City's share of the sales and use tax imposed on taxable transactions occurring within the City's boundaries. The sales tax is governed by the Bradley-Burns Uniform Local Sales and Use Tax Law, set forth in California Revenue and Taxation Code Section 7200 et seq. The State collects and administers the tax, and makes distributions on taxes collected within the City as follows:

**TABLE 6  
CITY OF WATSONVILLE  
SALES TAX RATES**

	Rate
State	6.00%
City of Watsonville - Measure L <sup>(1)</sup>	0.25
City of Watsonville - Measures G and Y <sup>(2)</sup>	0.50
City of Watsonville – Measure R <sup>(3)</sup>	0.50
Santa Cruz County Regional Transportation Commission - Measure D <sup>(4)</sup>	0.50
Santa Cruz Metropolitan Transit District <sup>(5)</sup>	0.50
Santa Cruz County Public Library <sup>(6)</sup>	0.25
County of Santa Cruz	1.25
<b>Total</b>	<b>9.75%</b>

(1) Effective April 1, 2007; does not sunset. See “– Measure L Sales Taxes” below.

(2) Effective October 1, 2014. Extended in March 2020 pursuant to Measure Y; as extended, do not sunset. See “– Measures G and Y” below.

(3) Effective April 1, 2023; does not sunset. See “– Measure R Sales Taxes” below.

(4) Effective April 1, 2017; terminates on March 31, 2047. A portion of Measure D sale and use taxes are allocated to the City for transportation projects that are approved by the Santa Cruz County Regional Transportation Commission. Such tax revenues are not available for General Fund purposes of the City.

(5) Effective January 1, 1979; does not sunset.

(6) Effective April 1, 1997; does not sunset.

Source: California Department of Tax and Fee Administration.

As shown in the table above, the local sales tax rate in the City is 9.25%. Of the 9.25% sales tax, the City is allocated 1% under the Bradley-Burns Uniform Local Sales and Use Tax Law, 0.25% under Measure L and 0.50% under Measure G/Y (see “– *Measure L Sales Taxes*” and “– *Measure G/Y Sales Taxes*” below). In addition, a portion of Measure D sale and use taxes are allocated to the City for transportation projects that are approved by the Santa Cruz County Regional Transportation Commission. Such tax revenues are not available for General Fund purposes of the City.

The State’s actual administrative costs with respect to the portion of sales taxes allocable to the City are deducted before distribution and are determined on a quarterly basis. Sales tax revenue collected by the State is directly deposited monthly to the City’s General Fund. For a summary of historical taxable transactions in the City, see “– History of Taxable Transactions.”

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

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

This is not an exhaustive list of exempt transactions. A comprehensive list can be found in the CDTFA’s March 2018 publication entitled “Sales and Use Taxes: Exemptions and Exclusions,” which can be found on the CDTFA’s website at <http://www.cdtfa.ca.gov>. *The reference to this Internet website is shown for reference and convenience only; the information contained within the website may not be current and has not been reviewed by the City and is not incorporated in this Official Statement by reference.*

In June 2018, the United States Supreme Court published its decision in *South Dakota v. Wayfair* (the “**Wayfair Decision**”), in which the Supreme Court held that sales to a customer in a particular state alone are sufficient to create a nexus for purposes of determining whether a seller is required to collect sales taxes of the applicable state. Prior to the Wayfair Decision, courts had interpreted the dormant Commerce Clause of the United States Constitution to require that a company have physical nexus in a state in order for the seller to be liable for the collection of that state’s sales tax. Physical nexus is defined as having either property or payroll in the state, including a resident employee working from home or inventory stored in that state. The State of California has issued guidance in response to the Wayfair Decision. Under such guidance, beginning April 1, 2019, retailers located outside of the State are required to register with the California Department of Tax and Fee Administration (the “**CDTFA**”), collect the California use tax, and pay the tax to the CDTFA based on the amount of their sales into California, even if they do not have a physical presence in the state. The new collection requirements apply to retailers if during the preceding or current calendar year certain sales thresholds are met. The new collection requirements apply to taxable sales of tangible personal property to California consumers on and after April 1, 2019, and are not retroactive. Additionally, the State’s passage of Assembly Bill 147, signed by the Governor on April 25, 2019, provides the implementation rules for the Wayfair Decision in California. The City is unable to predict the impact that the Wayfair Decision will have on its sales tax revenues.

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

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

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

According to the CDTFA, it distributes quarterly tax revenues to cities, counties, and special districts using the following method. Using the prior year’s quarterly tax allocation as a starting point, the CDTFA first eliminates nonrecurring transactions such as fund transfers, audit payments, and refunds, and then adjusts for growth, to establish the estimated base amount. The CDTFA disburses 90% to each local jurisdiction in three monthly installments (advances) prior to the final computation of the quarter’s actual receipts. Ten percent is withheld as a reserve against unexpected occurrences that can affect tax collections (such as earthquakes, fire, or other natural disaster) or distributions of revenue such as unusually large refunds or negative fund transfers. The first and second advances each represent 30% of the 90% distribution, while the third advance represents 40%. One advance payment is made each month, and the quarterly reconciliation payment (clean-up) is distributed in conjunction with the first advance for the subsequent quarter. Statements showing total collections, administrative costs, prior advances, and the current advance are provided with each quarterly clean-up payment.

**Measure L Sales Taxes.** In November 2006, pursuant to Measure L, voters in the City approved the levy of an additional sales and use tax of 0.25% (the “Measure L Sales Tax”). Pursuant to Measure L, the

effectiveness of the additional sales and use tax by voters was conditioned on the approval by City voters at the November 2006 election of Measure M pursuant to which the rate of the Pension Tax Override was capped at 7.7 cents per \$100.00 of assessed value. Measure M was also approved by voters in the City at the November 2006 election, with the Measure L Sales Tax becoming effective on April 1, 2007. The Measure L Sales Tax does not sunset.

**Measure G/Y Sales Taxes.** In June 2014, pursuant to Measure G, voters in the City approved the levy of an additional sales and use tax of 0.5% to fund public safety services and the Community Services Department (the “Measure G Sales Tax”). The Measure G Sales Tax became effective October 1, 2014, and had an initial expiration date of October 1, 2021, unless extended by voters in the City. In March 2020, voters in the City renewed the Measure G Sales Tax pursuant to Measure Y. The Measure G Sales Tax as renewed by Measure Y is referred to in this Official Statement as the “Measure G/Y Sales Tax.” Measure G/Y Sales Tax revenues are apportioned as follows: 54% for funding police services, 38% for funding fire services; and 8% for funding the City’s Parks and Community Services Department. Measure G/Y Sales Tax revenues are special taxes and may be used by the City only for the foregoing purposes. The Measure G/Y Sales Tax does not sunset.

The following table shows Measure G/Y Sales Tax revenues for fiscal year 2019-20 through 2023-24.

**TABLE 7  
CITY OF WATSONVILLE  
MEASURE G/Y SALES TAX REVENUES**

<i>Fiscal Year</i>	<i>Measure G/Y Sales Tax Revenues</i>
2019-20	\$4,019,999
2020-21	4,688,779
2021-22	5,248,855
2022-23	5,151,025
2023-24	5,249,448
2024-25	5,146,000
<b>Total</b>	<b>\$29,504,106</b>

Source: City of Watsonville.

**Measure R Sales Tax.** In November 2022, voters approved Measure R (the “Measure R Sales Tax”), a half-cent sales tax on most goods sold within the City. Measure R revenues will fund community investments, including park repairs, playground expansions, trail maintenance, safe spaces for children, after-school programs, gang prevention initiatives, street maintenance, pothole repairs, library access and services for seniors, employment opportunities, and more. The Measure R Sales Tax does not sunset.

Measure R Sales Tax revenues for fiscal year 2023-24 were approximately \$6.1 million and are estimated to be \$5.5 million for fiscal year 2024-25 based on the City’s fiscal year 2024-25 mid-year budget update.

**History of Taxable Transactions.** A summary of historic taxable sales within the City for calendar years 2020 through 2024 is shown in the following table.

**TABLE 8  
CITY OF WATSONVILLE  
TAXABLE SALES BY CATEGORY  
(IN THOUSANDS)**

<b>Business</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>
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Motor Vehicle and Parts Dealers	\$174,014	\$203,371	\$228,763	\$338,754	\$373,391
Home Furnishings and Appliance Stores	10,465	12,313	12,699	9,225	8,081
Building Material, Garden Equip & Supplies	82,221	85,933	85,614	91,337	90,692
Food and Beverage Stores	55,488	58,070	59,697	62,485	64,636
Gasoline Stations	42,513	69,065	90,135	72,384	73,656
Clothing and Clothing Accessories Stores	16,628	25,514	25,240	25,965	26,219
General Merchandise Stores	50,794	51,886	53,247	51,280	57,481
Food Services and Drinking Places	86,764	108,744	119,197	122,316	121,547
Other Retail Group	42,883	48,950	54,521	49,633	43,827
Total Retail and Food Services	561,769	663,846	729,114	823,379	859,531
All Other Outlets	141,187	153,959	175,765	180,560	186,772
Total All Outlets	\$702,956	\$817,806	\$904,879	\$1,003,939	\$1,046,303

Source: California Department of Tax and Fee Administration.

### Property Taxes

**General.** Based on the fiscal year 2024-25 mid-year budget update, the City's property tax revenues are estimated at approximately \$15.0 million for fiscal year 2024-25, representing approximately 33% of the City's total budgeted General Fund revenues for such fiscal year. Since fiscal year 2015-16, assessed values within the City have increased approximately 58%.

Property taxes have been the primary revenue source affected by voter initiatives and legislative actions. With approval of Proposition 13, property tax revenues were first curtailed over 35 years ago when they were reduced by two-thirds and thereafter limited to 2% annual increases or the consumer price index, whichever was less.

**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 of California and may be sold at public auction.

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

**ERAF Shift Legislation.** Certain property taxes have been shifted from local government agencies to schools by the State Legislature for deposit in the Education Revenue Augmentation Fund (“ERAF”), a shift that has resulted in diversion of City property taxes since fiscal year 1992-93. See “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS – Proposition 1A” and “– Proposition 22.” There can be no assurance that the State will not undertake future ERAF shifts.

**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.

**Assessed Valuation History.** The following table shows the City’s assessed valuation for fiscal years 2015-16 through 2024-25.

**TABLE 9  
CITY OF WATSONVILLE  
ASSESSED VALUATION  
FISCAL YEARS 2015-16 THROUGH 2024-25  
(in thousands)**

<i>Fiscal Year Ended June 30</i>	<i>Residential Property</i>	<i>Commercial Property</i>	<i>Industrial Property</i>	<i>Other Property</i>	<i>Unsecured Property</i>	<i>Less: Tax Exempt Property</i>	<i>Taxable Assessed Value</i>
2016	\$2,456,187	\$563,026	\$115,344	\$361,791	\$235,517	\$200,675	\$3,531,190
2017	2,606,044	626,252	135,130	394,814	229,211	229,936	3,761,515
2018	2,757,691	609,505	168,676	435,526	259,425	252,874	3,977,950
2019	2,727,533	583,841	442,945	421,714	262,350	222,957	4,215,426
2020	2,858,513	618,090	470,547	459,879	277,705	246,737	4,437,997
2021	3,002,026	640,089	485,947	410,766	276,813	205,383	4,610,258
2022	3,150,126	671,837	505,514	480,908	275,929	207,448	4,810,854
2023	3,288,822	757,157	515,512	507,728	290,464	307,240	5,052,543
2024	3,445,220	808,533	538,541	530,585	315,084	337,827	5,300,136
2025	3,606,546	810,694	567,375	649,525	356,877	412,182	5,578,835

Source: HDL, Coren & Cone.

The County operates under a statutory program entitled Alternate Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the “Teeter Plan”). Under the Teeter Plan local taxing entities receive 100% of their tax levies net of delinquencies, but do not receive interest or penalties on delinquent taxes collected by the County. The City’s share of the ad valorem property tax levy is included in the County’s Teeter Plan. As a result, the City currently receives 100% of such levy and is not impacted by delinquencies in payment. However, the County may choose to discontinue the Teeter Plan at any time.

The largest property taxpayers in the City for fiscal year 2024-25 based on total assessed valuation, the land use and the percentage of the City’s total assessed value attributable to each are shown in the below table. The information in Table 9 has been obtained from third-party sources and is included for general

information purposes only. The City has not verified the information in Table 9 and does not guarantee the accuracy of such information.

**TABLE 10**  
**CITY OF WATSONVILLE**  
**TOP TEN PRINCIPAL PROPERTY TAXPAYERS**  
**FISCAL YEAR 2024-25 ASSESSED VALUATION**

	<i>Property Owner</i>	<i>Primary Land Use</i>	<i>Assessed Valuation</i>	<i>% of Total<sup>(1)</sup></i>
1.	S Martinelli and Company	Industrial	\$70,989,063	1.36%
2.	MPT of Watsonville	Institutional/Hospital	45,949,698	0.88
3.	Eden Freedom Investors	Residential Develop	36,973,607	0.71
4.	Ow Family- Lee Road LLC	Industrial	32,072,567	0.61
5.	Freedom Associates LLC	Industrial	31,819,142	0.61
6.	William J and Nava J Hansen Co Trustees	Commercial	30,293,991	0.58
7.	Blackbird Homes LLC	Residential Develop	28,843,953	0.55
8.	WRI Freedom Center LP	Commercial	28,028,806	0.54
9.	Save Mart Portfolio Owner Fund	Commercial	26,530,200	0.51
10.	111 Jennings Drive LLC	Industrial	24,645,150	0.47
	<b>Total</b>		<b>\$356,146,177</b>	<b>6.82%</b>

<sup>(1)</sup> 2024-25 Local Secured Assessed Valuation: \$5,578,835,033.  
Source: City of Watsonville.

**Redevelopment Dissolution Act.** The State’s Community Redevelopment Law (codified in Part 1 of Division 24 of the California Health and Safety Code) authorized the redevelopment agency of any city or county to receive an allocation of tax revenues resulting from increases in assessed values of properties within designated redevelopment project areas (the “incremental value”) occurring after the year the project area is formed. In effect, local taxing agencies, such as the City, realize tax revenues only in the assessed value of such property at the time the redevelopment project is created for the duration of such redevelopment project. Although Assembly Bill No. 26 (“AB X1 26”), enacted on June 29, 2011 as Chapter 5 of Statutes of 2011, statutorily dissolved redevelopment agencies as of February 1, 2012, the enforceable obligations of dissolved redevelopment agencies continue to be paid from property taxes derived from such incremental value until the enforceable obligations are paid in full in accordance with Parts 1.8 (commencing with Section 34161) and 1.85 (commencing with Section 34170) of Division 24 of the Health and Safety Code of the State, as amended on June 27, 2012, by Assembly Bill No. 1484 (“AB 1484”), enacted as Chapter 26, Statutes of 2012, and as such statutory provisions have and may further be amended from time to time (as amended, the “Dissolution Act”).

Under the Dissolution Act, taxing entities, such as the City, are to receive distributions (in proportion to such taxing entity’s share of property tax revenues in the tax rate area for the applicable fiscal year) of residual amounts of property taxes attributable to incremental value on each June 1 and January 2, commencing June 1, 2012, after payment of (i) tax sharing obligations established previously pursuant to the Community Redevelopment Law, (ii) enforceable obligations of the successor agency to the former redevelopment agency, and (iii) an administrative cost allowance to such successor agency. As enforceable obligations of the former redevelopment agency and its successor agency are paid and retired, residual amounts of property tax revenues attributable to redevelopment project area incremental value are expected to increase over time.

## Utility Users' Tax

The City imposes a utility users' tax on all users of electricity, gas, water, telecommunication services and video services within the City's limits. The tax rate for electricity, gas, and water is 6%. The tax rate for telecommunication services and video services is 5.5%. An exemption from the utility users' tax is available to certain users, including senior citizens over the age of 62 and to permanently disabled individuals, and certain low income residential users.

As provided by the State Constitution, insurance companies are exempt from the City's utility users' tax. In addition, county, state, federal and foreign governments within the City are not subject to this tax, as the City has no authority to impose a tax on these entities. Exemptions account for a minor amount of the total utility users' tax base. Utility companies collect and transmit the utility users' tax monthly to the City's Finance Department, which then deposits the tax revenues into the General Fund.

For fiscal year 2024-25, utility users' tax revenues are estimated at approximately \$4.8 million, representing an increase of approximately \$0.1 million, or 2% from fiscal year 2023-24 actual results.

In a recent unpublished opinion, *Richard Beck v. City of Canyon Lake*, filed on March 20, 2025, the California Court of Appeal, Fourth Appellate District, Division One, determined that the utility users' tax on water and sewer services of the City of Canyon Lake (the "**Canyon Lake Water/Sewer UUT**") was both a "general tax" for purposes of Article XIII C of the State Constitution and a "fee or charge" under article XIII D of the State Constitution. Although Canyon Lake Water/Sewer UUT complied with the requirements of Article XIII C, it did not comply with those of Article XIII D. The Court noted that its conclusion does not eliminate other Canyon Lake taxes and utility users' taxes or other funding sources. In accordance with the California Rules of Court, rule 8.1115, unpublished opinions are opinions that are not certified for publication and generally may not be cited or relied on by other courts or parties in other actions. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS—Article XIII C and Article XIII D of the California Constitution."

## Other Taxes

The City's General Fund tax revenues in the "other taxes" category consist of business licenses, franchise fees, cannabis tax and tourist assessment fees.

For fiscal year 2024-25, other taxes are estimated at approximately \$1.8 million representing an increase of approximately \$0.1 million, or 4% from fiscal year 2023-24 actual results.

## Transient Occupancy Tax

The City assesses a transient occupancy tax as a percentage of the rental price for transient lodging charged when the period of occupancy is 30 consecutive calendar days or less. The current rate of the transient occupancy tax is 12%. The City's Finance Director serves as the tax administrator, and proprietors of properties subject to the City's transient occupancy tax remit the tax directly to the tax administrator, together with completed reporting forms, on or before the last day of the month following the close of each calendar quarter.

A delinquent penalty of 10% attaches to delinquent transient occupancy taxes on the first day of each month after the tax is due. Any operator who fails to remit any delinquent remittance on or before a period of 30 days following the date on which the remittance first became delinquent is required to pay a second delinquency penalty in the amount of 10% of the tax in addition to the amount of the tax and the 10% penalty first imposed. In addition to the penalties imposed, any operator who shall fail to remit any tax imposed is required to pay interest at the rate of 0.5% per month, or fraction thereof, on the amount of the tax, exclusive of penalties, from the date on which the remittance first became delinquent until paid.



In fiscal year 2024-25, transient occupancy tax revenues are estimated at approximately \$1.6 million, an increase of approximately 13% from fiscal year 2023-24 actual results.

### Long-Term General Fund Obligations

The City makes scheduled periodic payments pursuant to certain other outstanding long term agreements. Below are descriptions of the City's outstanding long-term agreements, in connection with which General Fund appropriations are made annually. This excludes obligations payable by the City or its related entities from special revenues. For additional information, see the notes to the City's 2023-24 audited financial statements included in Appendix C.

For additional information regarding the City's long-term General Fund obligations as of June 30, 2024, see the note III. E to the City's fiscal year 2023-24 audited financial statements included in Appendix C.

### Overlapping Debt Statement

Set forth below is a direct and overlapping debt report (the "**Debt Report**") prepared by California Municipal Statistics, Inc. and dated April 1, 2022. This Debt Report is included for general information purposes only. The City has not reviewed the Debt Report for completeness or accuracy.

**TABLE 11**  
**CITY OF WATSONVILLE**  
**DIRECT AND OVERLAPPING Debt**

2024-25 Assessed Valuation: \$5,578,835,033

<u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 6/1/25</u>
Cabrillo Joint Community College District	9.054%	\$7,669,363
Pajaro Valley Joint Unified School District	26.600	40,450,198
Pajaro Valley Health Care District	28.046	14,962,541
Santa Cruz Libraries Facilities Financing Authority Community Facilities District No. 2016-1	0.002	695
<b>TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT</b>		<b>\$63,082,797</b>
<u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u>		
Santa Cruz County General Fund Obligations	9.131%	\$14,798,851
Santa Cruz County Pension Obligation Bonds	9.131	9,412,691
Santa Cruz County Office of Education General Fund Obligations	9.131	584,807
Pajaro Valley Joint Unified School District Certificates of Participation	26.600	2,781,030
<b>City of Watsonville General Fund Obligations</b>	<b>100.</b>	<b>1,241,807<sup>(1)(2)</sup></b>
<b>TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT</b>		<b>\$28,819,186</b>
<u>OVERLAPPING TAX INCREMENT DEBT (Successor Agency):</u>	100. %	\$3,085,000
<b>COMBINED TOTAL DEBT</b>		<b>\$94,986,983<sup>(3)</sup></b>

(1) Excludes issue to be sold.

(2) Includes share of Santa Cruz County Emergency Communications Center obligations (\$392,713).

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

Ratios to 2024-25 Assessed Valuation:

Total Overlapping Tax and Assessment Debt.....	1.13%
<b>Total Direct Debt (\$1,241,807) .....</b>	<b>0.02%</b>
Combined Total Debt.....	1.70%

Ratios to Redevelopment Successor Agency Incremental Valuation (\$1,557,706,265):

Total Overlapping Tax Increment Debt ..... 0.20%

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(1) Excludes the Bonds.

(2) Includes share of Santa Cruz County Emergency Communications Center obligations (\$480,963).

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

Source: California Municipal Statistics, Inc.

## Retirement System

This section contains certain information relating to CalPERS. The information is primarily derived from information produced by CalPERS, its independent accountants and actuaries. The City has not independently verified the information provided by CalPERS and makes no representations and expresses no opinion as to the accuracy of the information provided by CalPERS.

The financial reports of CalPERS are available on its Internet website at [www.calpers.ca.gov](http://www.calpers.ca.gov). The CalPERS website also contains CalPERS' most recent actuarial valuation reports and other information concerning benefits and other matters. Such information is not incorporated by reference in this Official Statement. Neither the City nor the Underwriter can guarantee the accuracy of such information. Actuarial assessments are "forward-looking" statements that reflect the judgment of the fiduciaries of the pension plans, and are based upon a variety of assumptions, one or more of which may not materialize or may be changed in the future. Actuarial assessments will change with the future experience of the pension plans.

As previously described, the City will use the net proceeds of the Bonds to prepay a portion of the City's UAL with respect to its pension plans. See "REFINANCING PLAN." Except with respect the summary of the application of the net proceeds to the refunding of the City's obligations to CalPERS under the CalPERS Contracts evidencing the City's UAL under the caption "– Funded Status," the following information does not reflect the refunding of such obligations. In addition, it is possible that CalPERS will determine at a future date that an additional unfunded liability exists that is attributable to the City if actual plans experience differs from the current actuarial estimates. See "– Funded Status" below for additional information regarding the refunding of the UAL with the net proceeds of the Bonds.

**Description of Plans.** The City participates in CalPERS, a defined benefit public employee retirement system, under which CalPERS acts as a common investment and administrative agent for local and state governmental agencies within the State. The City maintains two defined benefit plans (collectively, the "Plans") consisting of the Miscellaneous Plan and the Safety Plan. The Safety Plan consists of a plan for police personnel (the "Safety Police Plan") and a plan for fire personnel (the "Safety Fire Plan"). The Safety Police Plan and Safety Fire Plan are referred to collectively in this Official Statement as the "Safety Plan." The Safety plan is a risk pool for which CalPERS provides separate valuation reports for each benefit tier. Benefit provisions under the Plans are established by State statute and City resolution.

**Benefits Provided.** All qualified permanent and probationary are eligible to participate in the Plans. 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 with statutorily reduced benefits. All members are eligible for nonduty disability benefits after 10 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. The cost of living adjustments for each plan are applied as specified by the California Public Employees' Retirement Law (the "Retirement Law").

The provisions and benefits of the Plans that were in effect at June 30, 2024, are summarized as follows:

<b>Miscellaneous Plan</b>			
	<b>Tier 1 Prior to July 1, 2011</b>	<b>Tier 2 On or after July 1, 2011</b>	<b>Tier 3 On or after January 1, 2013</b>
Hire Date			
Benefit Formula	2.0% @ 55	2.0% @ 60	2.0% @ 62
Benefit Vesting Schedule	5 Years Service	5 Years Service	5 Years Service
Benefit Payments	Monthly for life	Monthly for life	Monthly for life
Retirement Age	50-63	50-63	52-67
Monthly benefits, as a % of eligible compensation	1.426% to 2.418%	1.092% to 2.418%	1% - 2.5%
Required Employee Contribution Rates	7.00%	7.00%	7.50%
Required Employer Contributions Rates	8.93%	8.93%	14.880%

<b>Safety Plan</b>			
	<b>Tier 1 Prior to July 1, 2011</b>	<b>Tier 2 After July 1, 2011</b>	<b>Tier 3 After July 1, 2013</b>
Hire Date			
Benefit Formula	3.0% @ 50	3.0% @ 55	2.7% @ 57
Benefit Vesting Schedule	5 Years Service	5 Years Service	5 Years Service
Benefit Payments	Monthly for life	Monthly for life	Monthly for life
Retirement Age	50	50-55	50-57
Monthly benefits, as a % of eligible compensation	3.0%	2.4% to 3.0%	2.0% - 2.7%
Required Employee Contribution Rates	9.0%	9.0%	13.75%
Required Employer Contributions Rates	27.11%	22.83%	13.54%

Source: City of Watsonville audited financial statements for the fiscal year ended June 30, 2024.

**California Public Employees' Pension Reform Act of 2013.** Employees hired prior to January 1, 2013, and that have remained under continuous employment with a CalPERS agency are considered "Classic" employees. California Public Employees' Pension Reform Act of 2013 ("PEPRA"), which was signed by the State Governor on September 12, 2012, established a new pension benefit tier for employees who were hired on and after January 1, 2013, who were not previously CalPERS members or have left employment with a CalPERS agency for more than 6 months.

PEPRA adjusted the benefit formulas, required employee contribution, calculation of benefits and maximum pay, as well as other benefits. PEPRA employees receive the following benefit formulas: (i) 2.0% at age 62 formula for Miscellaneous employees; and (ii) 2.7% at age 57 for Safety employees. Employees are required to pay at least 50% of the total (annual) normal cost rate and are required to make the full amount of required employee contributions themselves under PEPRA. Retirement benefits for such employees are calculated on the highest average annual compensation over a consecutive 36-month period. Accordingly, retirement benefits for PEPRA miscellaneous employees are calculated as 2% of the average final 36 months compensation and retirement benefits for PEPRA safety employees are calculated as 2.7% of the average final 36 months of compensation. Retirement benefits for Classic miscellaneous employees are calculated as 2% of the average final 12 months of compensation, and retirement benefits for Classic safety employees are calculated as 3% of the average final 12 months compensation. Retroactive benefits increases are also prohibited, as are contribution holidays and purchases of additional non-qualified service credit.

PEPRA also capped pensionable income as noted below. Maximum amounts are set annually, subject to adjustment in accord with the Consumer Price Index.

**CalPERS Pension Compensation Limits for  
Calendar Year 2024 (Classic and PEPRA members)**

	<i>Classic</i>	<i>PEPRA</i>
Maximum Pensionable Income	\$345,000	\$181,734 <sup>(1)</sup>

(1) The Maximum Pensionable income for PEPRA members employed at agencies that participate in Social Security is \$151,446.

Source: CalPERS Payroll Circular Letter dated January 2, 2024.

Additional employee contributions, limits on pensionable compensation and higher retirement ages for new members as a result of the passage of PEPRA are expected to reduce the City's unfunded pension liability and potentially reduce City contribution levels in the long term.

**Required Contributions.** Section 20814(c) of the Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on July 1 following notice of a change in the rate. Funding contributions for both plans 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.

CalPERS collects employer contributions for each plan as a percentage of payroll for the normal cost portion and as a dollar amount for contributions toward the UAL. The dollar amounts are billed on an annual basis. The City may elect a lump sum payment option. In fiscal year 2023-24, the City's contributions to the Miscellaneous Plan and the Safety Plan totaled \$4,083,668 and \$3,739,251, respectively.

The actuarially determined normal cost rates and UAL contribution amounts for each Plan for fiscal years 2023-24 through 2025-26 are as follows:

	<b>Fiscal Year 2023-24</b>		<b>Fiscal Year 2024-25</b>		<b>Fiscal Year 2025-26</b>	
	<b>Employer Normal Cost Rate</b>	<b>Employer Payment of UAL</b>	<b>Employer Normal Cost Rate</b>	<b>Employer Payment of UAL</b>	<b>Employer Normal Cost Rate</b>	<b>Employer Payment of UAL</b>
Miscellaneous	8.93%	\$4,220,229	8.89%	\$4,907,733	8.89%	\$4,890,490
Safety (Classic - Tier 1) Fire	27.11	1,412,207	27.32	1,662,266	27.38	1,874,011
Safety Tier 2 Fire	22.83	0	23.00	6,167	23.06	7,121
Safety Fire PEPRA	13.54	0	13.76	45,077	13.99	51,655
Safety (Classic - Tier 1) Police	27.11	2,452,088	27.32	2,934,799	27.38	3,344,273
Safety Tier 2 Police	22.83	0	23.00	35,504	23.06	40,549
Safety PEPRA Police	13.54	0	13.76	51,196	13.99	58,562

Source: CalPERS Actuarial Reports as of June 30, 2023.

**Projected Employer Contributions.** The following tables show the City's actuarially-determined required employer contribution for fiscal year 2025-26 and projected employer contributions (before cost sharing) for fiscal years 2026-27 through 2030-31 for each Plan by normal cost (expressed as a percentage of total active payroll) and amortization of the unfunded accrued liability (expressed as a dollar amount).

**Miscellaneous**

	Required Contribution	Projected Future Employer Contributions (Assumes 6.80% Return for Fiscal Year 2023-24)				
Fiscal Year	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Normal Cost %	8.89%	8.8%	8.8%	8.7%	8.7%	8.6%
UAL Payment	\$4,890,490	\$5,295,000	\$5,598,000	\$6,250,000	\$6,392,000	\$6,513,000

**Safety (Classic - Tier 1) Fire**

	Required Contribution	Projected Future Employer Contributions (Assumes 6.80% Return for Fiscal Year 2023-24)				
Fiscal Year	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Normal Cost %	27.38%	27.4%	27.4%	27.4%	27.4%	27.4%
UAL Payment	\$1,874,011	\$1,997,000	\$2,099,000	\$2,310,000	\$2,363,000	\$2,411,000

**Safety Tier 2 Fire**

	Required Contribution	Projected Future Employer Contributions (Assumes 6.80% Return for Fiscal Year 2023-24)				
Fiscal Year	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Normal Cost %	23.06%	23.1%	23.1%	23.1%	23.1%	23.1%
UAL Payment	\$7,121	\$7,200	\$7,300	\$7,400	\$7,500	\$7,500

**Safety Fire PEPR**

	Required Contribution	Projected Future Employer Contributions (Assumes 6.80% Return for Fiscal Year 2023-24)				
Fiscal Year	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Normal Cost %	13.99%	14.0%	14.0%	14.0%	14.0%	14.0%
UAL Payment	\$51,655	\$52,000	\$53,000	\$54,000	\$54,000	\$54,000

**Safety (Classic - Tier 1) Police**

	Required Contribution	Projected Future Employer Contributions (Assumes 6.80% Return for Fiscal Year 2023-24)				
Fiscal Year	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Normal Cost %	27.38%	27.4%	27.4%	27.4%	27.4%	27.4%
UAL Payment	\$3,344,273	\$3,580,000	\$3,775,000	\$4,189,000	\$4,284,000	\$4,367,000

**Safety Tier 2 Police**

	Required Contribution	Projected Future Employer Contributions (Assumes 6.80% Return for Fiscal Year 2023-24)				
Fiscal Year	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Normal Cost %	23.06%	23.1%	23.1%	23.1%	23.1%	23.1%
UAL Payment	\$40,549	\$41,000	\$42,000	\$42,000	\$42,000	\$42,000

**Safety PEPRA Police**

	Required Contribution	Projected Future Employer Contributions (Assumes 6.80% Return for Fiscal Year 2023-24)				
Fiscal Year	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Normal Cost %	13.99%	14.0%	14.0%	14.0%	14.0%	14.0%
UAL Payment	\$58,562	\$59,000	\$60,000	\$61,000	\$61,000	\$61,000

Source: CalPERS Actuarial Reports as of June 30, 2023.

The projections assume that all CalPERS actuarial assumptions will be realized and that no further changes to assumptions, contributions, benefits, or funding will occur during the projection period. In particular, the projections assume a 6.80% annual rate of return for fiscal year 2023-24 but do not include any reductions in the normal cost that will occur over time as new employees are hired into PEPRA or other lower cost benefit tiers, investment returns for fiscal year 2023-24 or any other future fiscal years.

**Funded Status.** The following table sets forth the schedule of funding for the Plans for the valuation dates of June 30, 2021, 2022, and 2023.

<i>Valuation Date Ended June 30</i>	<i>Accrued Liability</i>	<i>Market Value of Assets</i>	<i>Unfunded Accrued Liability</i>	<i>Funded Ratio<sup>(1)</sup></i>	<i>Annual Covered Payroll</i>
<b>Miscellaneous Plan</b>					
2021	\$180,260,720	\$144,652,442	\$35,608,278	80.2%	\$22,735,951
2022	190,453,714	132,705,318	57,748,396	69.7%	23,810,278
2023	199,811,341	139,991,052	59,820,289	70.1%	25,201,816
<b>Safety (Classic - Tier 1) Fire</b>					
2021	\$59,495,694	\$45,737,097	\$13,758,597	76.9%	\$1,808,005
2022	61,898,551	41,036,974	20,861,577	66.3%	1,934,431
2023	63,781,656	41,822,057	21,959,599	65.6%	1,718,716
<b>Safety Tier 2 Fire</b>					
2021	\$398,658	\$413,093	\$(14,435)	103.6%	\$239,100
2022	512,208	450,537	61,671	88.0%	257,754
2023	642,298	565,955	76,343	88.1%	276,357
<b>Safety Fire PEPR</b>					
2021	\$2,731,313	\$2,830,962	\$(99,649)	103.6%	\$1,706,137
2022	3,534,818	3,097,495	437,323	87.6%	2,044,451
2023	4,429,037	3,876,226	552,811	87.5%	2,108,397
<b>Safety (Classic - Tier 1) Police</b>					
2021	\$113,952,722	\$90,815,063	\$23,137,659	79.7%	\$4,585,930
2022	120,258,257	82,783,034	37,475,223	68.8%	4,592,246
2023	123,829,361	84,088,826	39,740,535	67.9%	4,431,074
<b>Safety Tier 2 Police</b>					
2021	\$2,535,249	\$2,658,370	\$(123,121)	104.9%	\$1,277,391
2022	3,055,110	2,710,970	344,140	88.7%	1,141,995
2023	3,398,630	2,964,976	433,654	87.2%	1,186,446
<b>Safety PEPR Police</b>					
2021	\$2,844,761	\$2,971,647	\$(126,886)	104.5%	\$2,641,812
2022	3,758,961	3,288,994	469,967	87.5%	2,969,861
2023	4,961,080	4,334,584	626,496	87.4%	3,439,692

(1) Based on the market value of assets.

Source: CalPERS Actuarial Reports as of June 30, 2023.

There is a two-year lag between the valuation date and the start of the contribution fiscal year. This two-year lag is necessary due to the amount of time needed to extract and test the membership and financial data, and the need to provide public agencies with their required employer contribution well in advance of the start of the fiscal year.

See Note IV.E in Appendix C for additional information regarding the Plans, including a description of the actuarial methods and assumptions used to measure the City's net pension liability as of the June 30, 2023, measurement date.

#### **Other Post-Employment Benefits (OPEB)**

Starting July 1, 2015, the City ceased to pay cash subsidies for retirees. The retirees pay the full amount of their premiums to California State Association of Counties – Excess Insurance Authority (“CSAC-EIA”). The medical/drug implicit subsidy was the only source of liability related for OPEB. Since there is no cash subsidy, as of June 30, 2024, the net OPEB liability was calculated to be immaterial for financial reporting purposes. As of June 30, 2024, the City’s net OPEB liability totaled \$5,056,400.

### **State Budget Information**

Information about the State budget is regularly available at various State-maintained websites. The Fiscal Year 2023-24 State budget and the 2024-25 State budget may be found at the website of the Department of Finance, [www.dof.ca.gov](http://www.dof.ca.gov), under the heading “California Budget.” Additionally, an impartial analysis of the budget is posted by the Office of the Legislative Analyst at [www.lao.ca.gov](http://www.lao.ca.gov). The Office of the Legislative Analyst is located at 925 L Street, Suite 1000, Sacramento, CA 95814. To request publications call (916) 445-4656. The information referred to is prepared by the respective State agency maintaining each website and not by the City, and the City takes no responsibility for the continued accuracy of the internet addresses or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated herein by these references.

### **Changes in State Budget**

Each year, the final State Budget, which requires approval by a two-thirds vote of each house of the State Legislature, may differ substantially from the Governor’s original budget proposal. The State Budget will be affected by State and national economic conditions and other factors over which the City will have no control. The City cannot predict the impact that subsequent State budgets will have on its finances and operations.

## **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 2025 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 2025 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 2025 Bonds**

The Series 2025 Bonds are special obligations of the Authority, payable solely from Base Rental Payments 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 2025 Bonds. The Authority has no taxing power.

The obligation of the City to make the Base Rental Payments does not constitute a debt of the City, 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 Base Rental Payments and Additional Rental Payments from any source of legally available funds and the City has covenanted in the Lease Agreement that it will take such action as may be necessary to include all Base Rental Payments and Additional Rental Payments due under the Lease Agreement as a separate line item in its biennial 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 FINANCIAL INFORMATION—Indebtedness.”

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 Base Rental 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 Base Rental Payments and other payments due under the Lease Agreement. The same result could occur if, because of California Constitutional limits on expenditures, the City is not permitted to appropriate and spend all of its available revenues. However, the City’s appropriations have never exceeded the limitation on appropriations under Article XIII B of the California Constitution. See “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS—Article XIII B of the California Constitution.”

### **Abatements**

In the event of substantial interference with the City’s right to use and occupy any portion of the Property by reason of damage to, or destruction or condemnation of the Property, or any defects in title to the Property, Base Rental Payments will be subject to abatement. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2025 BONDS—Abatement.” In the event that a portion of the 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 Base Rental Payments, plus the period for which funds are available from the funds and accounts established 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 Property or redemption of the Series 2025 Bonds, there could be insufficient funds to make payments to Owners in full. The Authority has not funded a reserve fund for the Series 2025 Bonds.

It is not always possible to predict the circumstances under which abatement of rental may occur. In addition, there is no statute, case or other law specifying how such an abatement of rental should be measured. For example, it is not clear whether fair rental value is established as of commencement of the lease or at the time of the abatement. If the latter, it may be that the value of the Property is substantially higher or lower than its value at the time of the execution and delivery of the Series 2025 Bonds. Abatement, therefore, could have an uncertain and material adverse effect on the security for and payment of the Series 2025 Bonds.

The City is required under the Lease Agreement to maintain property insurance and rental interruption insurance with respect to the Property, as well as a policy of title insurance (which is obtained at Closing). See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2025 BONDS—Insurance.” If damage, destruction, title defect or eminent domain proceedings with respect to the Property results in abatement of the Base Rental Payments related to such Property and if such abated Base Rental 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 2025 Bonds during the period that the 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 Series 2025 Bond Owners for nonpayment under such circumstances.

Any such abatement will continue for the period commencing with the date of interference resulting from such damage, destruction, condemnation or title defect and, with respect to damage to or destruction of the Property, ending with the substantial completion of the work of repair or replacement of the Property, or the portion thereof so damaged or destroyed; and the term of the Lease Agreement will be extended as provided in the Lease Agreement, up to a maximum of ten years beyond the stated termination date of the Lease Agreement.

## **No Reserve Fund**

The Authority has not funded a debt service reserve fund for the Series 2025 Bonds.

## **Effect of Economy on Revenues**

The City relies heavily on property taxes and sales taxes. These revenues can be negatively affected by economic downturns in various ways. Property taxes are directly linked to the assessed value of property in the City and an economic recession affecting real estate markets can cause a significant decline in the City's property tax revenues. Similarly, a recession could cause a reduction in consumer spending and travel, which would have a material adverse impact on the City's sales tax. The City can provide no assurance that economic factors affecting the City, the State, or the nation will not cause a reduction in the City's General Fund tax revenues and a material adverse effect on the City's ability to pay Base Rental Payments.

## **Natural Disasters**

The occurrence of any natural disaster in the City, including, without limitation, fire, windstorm, drought, earthquake, landslide, mudslide, flood or a rise in sea levels as result of climate change, could have an adverse material impact on the economy within the City, its General Fund and the revenues available for the payment of Base Rental Payments.

***Seismic.*** The City, like most regions in the State, is located in an area of seismic activity and, therefore, could be subject to potentially destructive earthquakes. The City lies between two major fault zones: the San Andreas to the north and east and the San Gregorio offshore to the west. Other active or potentially active fault zones that could affect the City include the Zayante-Vergeles in Pajaro Valley and the Monterey Bay to the west. The proximity of these faults makes the City, including in the vicinity of the Property, subject to the hazards associated with ground shaking, surface rupture, and soil instability. In the case of surface rupture, properties along the rupture could be red-tagged and may not be rebuilt. If an earthquake were to substantially damage or destroy taxable property within the City and in the vicinity of the Property, the assessed valuation of such property would be reduced.

While the City and greater County have experienced numerous earthquakes, the Loma Prieta earthquake is the most recent notable earthquake, resulting in a major disaster declaration for the area. It struck the County and the greater San Francisco Bay region on October 17, 1989, registering as 6.9 magnitude. The epicenter was in the Santa Cruz Mountains along the San Andreas Fault, and the most intense shaking lasted for 20 seconds.

Seismic hazards encompass ground rupture, shaking, lurching, blind thrust faults that lack surface breaks, liquefaction, and ground failure. The occurrence of one or more natural disasters could occur and could result in damage to improvements and property within the City of varying seriousness. The damage may entail significant repair or replacement costs and that repair or replacement may never occur either because of the cost, or because repair or replacement will not facilitate habitability or other use, or because other considerations preclude such repair or replacement.

The City is not obligated under the Lease Agreement to maintain earthquake insurance on the Property. In the event of damage or destruction to the Property caused by perils for which the City does not provide insurance and is not required to provide insurance under the Lease Agreement, the City is not obligated to repair, replace, or reconstruct the Property. If an earthquake were to cause serious damage to the Property during any period when such facilities were not insured for earthquake damage, or if the proceeds of any earthquake insurance were insufficient to replace or repair the damaged Property, the City would be limited to its General Fund, reserves, and emergency grants, if any, in seeking to make appropriate repairs. Pending such repairs, the City's obligation to make Base Rental Payments would be subject to abatement and rental interruption insurance proceeds likely would not cover losses caused by earthquakes. The City will not

be obligated to repair or restore the Property in the event of uninsured damage caused by an earthquake. See “RISK FACTORS – Abatements.”

**Flood.** The City is in portions of two major drainage basins: Pajaro River Basin and the Watsonville Slough watershed. The eastern and downtown areas of the City drain to the Pajaro River and its tributaries, Salsipuedes and Corralitos Creeks. The central and western areas of the City drain to the Watsonville Slough and its tributaries, Harkins Slough, Struve Slough, and West Struve Slough. The Pajaro River Basin covers approximately 1,300 square miles and spans the Counties of San Benito, Santa Clara, Santa Cruz, and Monterey. The Pajaro River, Salsipuedes Creek, and Corralitos Creek are channelized with levee improvements in the eastern and downtown areas of the City.

High-intensity storms occur most often from December through April, although they can occur as early as September and as late as May. Storms occurring early in the season are unlikely to result in excessive runoff because infiltration and surface storage capacities are high.

The City contains flood plain areas, identified by the Federal Emergency Management Agency (“FEMA”), indicating that several areas of the City are subject to 100-year floods. The Property is located in a 100-year flood zone.

**Wildfire.** In recent years, wildfires have caused extensive damage throughout the State, including within the County. 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 that occurred in recent years damaged or destroyed property in areas that were not previously considered to be at risk from such events. There is a risk of property within the City being destroyed by wildfires, and no assurance can be given as to the severity or frequency of wildfires within the City or its vicinity. In addition to their direct impact on health and safety and property damage in California, the smoke from wildfires has impacted the quality of life in Northern California and the City and may have short-term and future impacts on commercial activity in the City. The fires have been driven in large measure by drought conditions and low humidity. Experts expect that California will continue to be subject to wildfire conditions year over year as a result in changing weather patterns due to climate change.

The Property is not in a fire hazard severity zone.

**Drought.** On October 19, 2021, the Governor declared a drought emergency for the entire State. After two wet winters, the Governor lifted the drought state of emergency for 19 coastal and desert counties, including Santa Clara and San Francisco counties, on September 4, 2024. The drought emergency remains in effect for the remaining 39 counties. There can be no assurance that subsequent declarations will not impose mandatory water use restrictions should dry conditions persist in 2025 or future years.

**Climate Change.** Climate change caused by human activities may have adverse effects on the City. Climate change can also result in more variable weather patterns throughout the State, which can lead to longer and more severe droughts as well as increased risk of flooding and a rise in sea levels. The City considers the potential effects of climate change in its planning.

Projections of the impacts of global climate change on the City are complex and depend on many factors that are outside the City’s control. The various scientific studies that forecast the amount and timing of adverse impacts of climate change are based on assumptions contained in such studies, but actual events may vary materially. Also, the scientific understanding of climate change and its effects continues to evolve. Accordingly, the City is unable to forecast with certainty when adverse impacts of climate change will occur or the extent of such impacts.

The City prepared a Local Hazard Mitigation Plan (“LHMP”) dated September 2020 to help the City plan for natural disasters and hazard events. The LHMP indicates that the City is vulnerable to numerous

hazards, including earthquakes, drought, flood, high winds and wildfire. Climate change can exacerbate these hazards. While the impacts of climate change may be mitigated by the City's past and future investment in adaptation strategies, the City can give no assurance about the net effects of those strategies and whether the City will be required to take additional adaptive mitigation measures.

The occurrence of natural disasters in the City could result in substantial damage to the City and the Property which, in turn, could substantially reduce General Fund revenues and affect the ability of the City to make Base Rental Payments or cause an abatement in Base Rental Payments. Reduced ability to pay Base Rental Payments could affect the payment of the principal of and interest on the Series 2025 Bonds. The City maintains liability insurance and property casualty insurance (for losses other than from seismic events) for the Premises. See the caption "THE CITY OF WATSONVILLE—Risk Management." However, there can be no assurance that specific losses will be covered by insurance or, if covered, that claims will be paid in full by the applicable insurers.

### **Public Health Emergencies**

A pandemic, epidemic or outbreak of an infectious disease can have significant adverse health and financial impacts on global and local economies. For example, beginning in 2020, the COVID-19 pandemic negatively affected economic activity throughout the world, including the United States and the State of California. The initial impacts of stay-at home orders globally were unprecedented, with commerce, travel, asset values and financial markets experiencing disruptions worldwide. The COVID-19 pandemic had material adverse impacts on the City's economy and certain aspects of the City's financial condition.

While the declarations of COVID-19 as a public health emergency have been lifted, future pandemics and other widespread public health emergencies can and do arise from time to time. The City cannot predict whether another national or localized outbreak of highly contagious or epidemic disease in the future could negatively impact the City's economy or finances.

### **Hazardous Substances**

An additional environmental condition that may result in the reduction in the assessed value of property, and therefore property tax revenue available to make Base Rental Payments, would be the discovery of a hazardous substance that would limit the beneficial use of taxable property within the City. In general, the owners and operators of a property may be required by law to remedy conditions of the property relating to releases or threatened releases of hazardous substances. The owner or operator may be required to remedy a hazardous substance condition of property whether or not the owner or operator has anything to do with creating or handling the hazardous substance. The effect, therefore, should any of the property within the City be affected by a hazardous substance, could be to reduce the marketability and value of the property by the costs of remedying the condition. The City is not aware of any hazardous substances located on the Property.

### **Other Financial Matters**

Due to weakness in the economy of the State and the United States, it is possible that the general revenues of the City will decline. Such financial matters may have a detrimental impact on the City's General Fund, and, accordingly, may reduce the City's ability to make Base Rental Payments. See "THE CITY OF WATSONVILLE" and "CITY FINANCIAL INFORMATION."

### **Substitution, Addition and Removal of Property; Additional Bonds**

The Authority and the City may amend the Lease Agreement to substitute alternate real property for any portion of or add additional real property to the Property or to release a portion of the Property from the Lease Agreement, upon compliance with all of the conditions set forth in the Lease Agreement. After a substitution or release, the portion of the Property for which the substitution or release has been effected will

be released from the leasehold encumbrance of the Lease Agreement. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2025 BONDS—Substitution or Release of the Property.” Moreover, the Authority may issue Additional Bonds secured by Base Rental Payments which are increased from current levels. See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2025 BONDS—Additional Bonds.”

Although the Lease Agreement requires, among other things, that the Property, as constituted after such substitution or release, have an annual fair rental value at least equal to the maximum Base Rental Payments payable by the City in any Rental Period, it does not require that such Property have an annual fair rental value equal to the annual fair rental value of the Property at the time of substitution or release. Thus, a portion of the Property could be replaced with less valuable real property or could be released altogether. Such a replacement or release could have an adverse impact on the security for the Series 2025 Bonds, particularly if an event requiring abatement of Base Rental Payments were to occur subsequent to such substitution or release. See APPENDIX B—“SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS—THE LEASE AGREEMENT—No Consequential Damages; Use of the Property; Substitution or Release.”

The Indenture requires, among other things, that upon the issuance of Additional Bonds, the Ground Lease and the Lease Agreement will be amended, to the extent necessary, so as to increase the Base Rental Payments payable by the City thereunder by an aggregate amount equal to the principal of and interest on such Additional Bonds; provided, however, that no such amendment will be made such that the sum of Base Rental Payments, including any increase in the Base Rental Payments as a result of such amendment, plus Additional Rental Payments, in any Rental Period is in excess of the annual fair rental value of the Property after taking into account the use of the proceeds of any Additional Bonds issued in connection therewith. See APPENDIX B—“SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS—THE INDENTURE—Issuance of Bonds; Application of Proceeds.”

#### **Limited Recourse on Default; No Acceleration of Base Rental**

Failure by the City to make Base Rental Payments or other 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 Base Rental Payments or otherwise declare any Base Rental Payments not then in default to be immediately due and payable, nor do the Authority or the Trustee have any right to re-enter or re-let the Property except as described in the Lease Agreement.

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 Base Rental Payments with respect to the Property, the Trustee, as assignee of the Authority, may retain the Lease Agreement and hold the City liable for all Base Rental 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.

Alternatively, the Authority or the Trustee may terminate the Lease Agreement, retake possession of the Property and proceed against the City to recover damages pursuant to the Lease Agreement. Due to the specialized nature of the Property or any property substituted therefor pursuant to the Lease Agreement and the restrictions on its use, no assurance can be given that the Trustee will be able to re-let the Property so as to provide rental income sufficient to make all payments of principal of, interest and premium, if any, on the Series 2025 Bonds when due, and the Trustee is not empowered to sell the Property for the benefit of the Owners of the Series 2025 Bonds. 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

### **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 Base Rental Payments for the benefit of the Owners of the Bonds, but such security interest arises only when the Base Rental Payments are actually received by the Trustee following payment by the City. The 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 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 2025 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 2025 Bonds. In a bankruptcy case, the amount recovered by Owners of the Series 2025 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 Base Rental 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 2025 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 Base Rental 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 Base Rental Payments held by the Trustee. In addition, there can be a substantial disparity in treatment based on the nature of the 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 2025 Bonds.

The opinions of counsel, including Bond Counsel, delivered in connection with the issuance of the Series 2025 Bonds will be so qualified. Bankruptcy proceedings, or the exercising of powers by the federal or state government, if initiated, could subject the Owners to judicial discretion and interpretation of their rights in bankruptcy or otherwise and consequently may entail risks of delay, limitation, or modification of their rights.

### **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 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 2025 Bonds when due. In addition, certain risks, such as earthquakes and floods, are not required to be insured under the Lease Agreement, and therefore, are not carried by the City. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2025 BONDS—Insurance.”

### **Loss of Tax Exemption**

As discussed under the heading “TAX MATTERS,” the interest on the Series 2025 Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date of delivery of the Series 2025 Bonds, as a result of acts or omissions of the Authority or the City in violation of its covenants in the Indenture and the Lease Agreement. Should such an event of taxability occur, the Series 2025 Bonds 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.

In addition, subsequent to the issuance of the Series 2025 Bonds there might be federal, state or local statutory changes (or judicial or regulatory changes to or interpretations of federal, state or local law) that affect the federal, state or local tax treatment of the Series 2025 Bonds, including the imposition of additional federal income or state taxes on owners of tax-exempt state or local obligations, such as the Series 2025 Bonds. These changes could adversely affect the market value or liquidity of the Series 2025 Bonds. No assurance can be given that subsequent to the issuance of the Series 2025 Bonds statutory changes will not be introduced or enacted or judicial or regulatory interpretations will not occur having the effects described above. Before purchasing any of the Series 2025 Bonds, all potential purchasers should consult their tax advisors regarding possible statutory changes or judicial or regulatory changes or interpretations, and their collateral tax consequences relating to the Series 2025 Bonds.

### **Federal Funding Risks**

Federal policies on the federal debt ceiling, taxes, foreign trade and tariffs, immigration, climate change, clean energy, and other topics can shift dramatically from one administration to another. From time to time, such changes can result in dramatic shifts in the level of federal funding for various policy priorities, leading to unpredictability in near-term and future federal funding. The City can provide no certain assurances with respect to continued grant funding or other direct payments to the City and County in support of governmental services, whether previously made directly or by pass-through to the State.

### **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 2025 Bonds with respect to the payment when due of the Base Rental 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.

### **Cybersecurity**

The City, like many other public and private entities, relies on a large and complex technology environment to conduct its operations. As a recipient and provider of personal, private, or sensitive information, the City is subject to multiple cyber threats including, but not limited to, hacking, viruses, malware and other attacks on computer and other sensitive digital networks and systems. Entities or individuals may attempt to gain unauthorized access to the City's digital systems for the purposes of misappropriating assets or information or causing operational disruption and damage. No assurance can be given that the City's efforts to manage cyber threats and attacks will be successful in all cases, or that any such attack will not materially impact the operations or finances of the City. Additionally, the City carries cybersecurity insurance.

## **CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS**

Principal of and interest on the Series 2025 Bonds are payable from Base Rental Payments made from the City's General Fund. See the caption "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2025 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 October 1, 1979, or subsequently authorized by the voters (such as the Bonds), appropriations required to comply with mandates of courts or the federal government, appropriations for qualified capital outlay projects, and appropriation by the State of revenues derived from any increase in gasoline taxes and motor vehicle weight fees above January 1, 1990 levels. The appropriations limit may also be exceeded in case of emergency; however, the appropriations limit for the next three years following such emergency appropriation must be reduced to the extent by which it was exceeded, unless the emergency arises from civil disturbance or natural disaster declared by the Governor, and the expenditure is approved by two-thirds of the legislative body of the local government.

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

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

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

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

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

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

Article XIII D 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 XIII D, 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 XIII C 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.

Although a portion of the City's General Fund revenues are derived from taxes purported to be governed by Proposition 218, all of such taxes were imposed in accordance with the requirements of Proposition 218. 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 which support the City's General Fund.

## **Proposition 62**

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

sale of real property by local governmental entities; and (f) requires that any tax imposed by a local governmental entity on or after July 1, 1985, be ratified by a majority vote of the voters voting in an election on the tax within two years of the adoption of the initiative or be terminated by November 15, 1988.

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

### **Proposition 1A**

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

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

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 XIID 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**

### **General**

In the opinion of Anzel Galvan LLP, San Francisco, California, Bond Counsel, under existing law and subject to certain qualifications described below, interest on the Series 2025 Bonds is excludable from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Tax Code"). Interest on the Series 2025 Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals; however, such interest is taken into account in determining the annual adjusted financial statement income for the purpose of computing the alternative minimum tax imposed on certain corporations. In the further opinion of Bond Counsel, interest on the Series 2025 Bonds is exempt from California personal income taxes. The proposed form of

opinion of Bond Counsel with respect to the Series 2025 Bonds to be delivered on the date of issuance of the Series 2025 Bonds is set forth in Appendix D.

The Tax Code contains a number of requirements that apply to the Series 2025 Bonds, and the Authority has made certain representations and has covenanted to comply with each such requirement. Bond Counsel's opinion assumes the accuracy of the representations made by the Authority and is subject to the condition that the Authority comply with the above-referenced covenants. If the Authority fails to comply with such covenants or if the Authority's representations are inaccurate or incomplete, interest on the Series 2025 Bonds could be included in gross income for federal income tax purposes retroactively to the date of issuance of the Series 2025 Bonds.

Except as expressly stated herein, Bond Counsel expresses no opinion regarding any tax consequences related to the ownership, sale or disposition of the Series 2025 Bonds, or the amount, accrual or receipt of interest on, the Series 2025 Bonds. Owners of the Series 2025 Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Series 2025 Bonds.

### **Original Issue Premium and Discount**

If the initial offering price to the public at which a Bond is sold is less than the amount payable at maturity thereof, then such difference constitutes "original issue discount" for purposes of federal income taxes. If the initial offering price to the public at which a Bond is sold is greater than the amount payable at maturity thereof, then such difference constitutes "original issue premium" for purposes of federal income taxes.

Under the Tax Code, original issue discount is treated as interest excluded from federal gross income to the extent properly allocable to each owner thereof subject to the limitations described in the limitation described herein. The original issue discount accrues over the term to maturity of the Series 2025 Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). The amount of original issue discount accruing during each period is added to the adjusted basis of such Bonds to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such Bond. The Tax Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the Series 2025 Bonds who purchase the Series 2025 Bonds after the initial offering of a substantial amount of such maturity. Owners of such Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of purchasers who do not purchase in the original offering, the allowance of a deduction for any loss on a sale or other disposition, and the treatment of accrued original issue discount on such Bonds under the federal alternative minimum tax.

Under the Tax Code, original issue premium is amortized on an annual basis over the term of the Series 2025 Bond (said term being the shorter of the Series 2025 Bond's maturity date or its call date). The amount of original issue premium amortized each year reduces the adjusted basis of the owner of the Series 2025 Bond for purposes of determining taxable gain or loss upon disposition. The amount of original issue premium on a Bond is amortized each year over the term to maturity of the Series 2025 Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). Amortized Bond premium is not deductible for federal income tax purposes. Owners of premium Bonds, including purchasers who do not purchase in the original offering, should consult their own tax advisors with respect to federal income tax consequences of owning such Bonds.

## **Post Issuance Matters**

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Series 2025 Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Authority, or about the effect of future changes in the Tax Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS.

Bond Counsel's engagement with respect to the Series 2025 Bonds ends with the issuance of the Series 2025 Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Authority or the Owners regarding the tax-exempt status of the Series 2025 Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Authority and its appointed counsel, including the Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Authority legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Series 2025 Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Series 2025 Bonds, and may cause the Authority or the Owners to incur significant expense.

Current and future legislative proposals, if enacted into law, clarification of the Tax Code or court decisions may cause interest on the Series 2025 Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals, clarification of the Tax Code or court decisions may also affect the market price for, or marketability of, the Series 2025 Bonds. Prospective purchasers of the Series 2025 Bonds should consult their own tax advisors regarding any pending or proposed legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

## **Not Bank Qualified**

The Authority has not designated the Series 2025 Bonds as "qualified tax-exempt obligations" within the meaning of Section 265(b)(3)(B) of the Code.

## **CERTAIN LEGAL MATTERS**

The validity of the Series 2025 Bonds and certain other legal matters are subject to the approving opinion of Anzel Galvan LLP, Bond Counsel. Anzel Galvan LLP is also acting as Disclosure Counsel for the City and represented the City in connection with negotiation of the Project Agreement. A complete copy of the proposed form of Bond Counsel opinion is contained in Appendix D hereto. Bond and Disclosure Counsel will receive compensation from the City contingent upon the sale and delivery of the Series 2025 Bonds. From time to time, Bond Counsel and Disclosure Counsel represent the Underwriter on matters unrelated to the Series 2025 Bonds. Certain legal matters will be passed upon for the Underwriter by Anzel Galvan LLP. Counsel to the Underwriter will receive compensation contingent upon the issuance of the Series 2025 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 2025 Bonds, the Lease Agreement, the Ground Lease 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 2025 Bonds are being purchased by Samuel A. Ramirez & Co. (the “Underwriter”). The Underwriter will purchase the Series 2025 Bonds from the Authority at an aggregate purchase price of \$ \_\_\_\_\_ (representing the principal amount of the Series 2025 Bonds, [plus][minus] a net original issue [premium][discount] of \$ \_\_\_\_\_ and less an Underwriter’s discount of \$ \_\_\_\_\_)

The purchase agreement relating to the Series 2025 Bonds provides that the Underwriter will purchase all of the Series 2025 Bonds if any are purchased. The obligation to make such purchase is subject to certain terms and conditions set forth in such purchase agreement, the approval of certain legal matters by counsel and certain other conditions.

The initial offering prices that are stated on the inside front cover page of this Official Statement may be changed from time to time by the Underwriter. The Underwriter may offer and sell the Series 2025 Bonds to certain dealers (including dealers depositing Series 2025 Bonds into investment trusts), dealer banks, banks acting as agent and others at prices lower than said public offering prices.

## RATINGS

S&P Global Ratings, a Standard & Poor’s Financial Services LLC business (“S&P”) has assigned an issuer credit rating of “\_\_\_\_\_” with a stable outlook to the Series 2025 Bonds. Such rating reflects only the views of S&P and any desired explanation of the significance of such rating should be obtained from the rating agency furnishing the same. 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 rating will continue for any given period of time or that such rating 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 the rating may have an adverse effect on the market price of the Series 2025 Bonds. None of the Authority, the City, or the Underwriter has undertaken any responsibility either to bring to the attention of the owners of the Series 2025 Bonds a proposed change in or withdrawal of any ratings or to oppose any such proposed revision or withdrawal.

## MUNICIPAL ADVISOR

Urban Futures, Inc., has acted as municipal advisor (the “Municipal Advisor”) to the Authority and City in conjunction with the issuance of the Series 2025 Bonds. The Municipal Advisor has assisted in matters related to the planning, structuring, execution, and delivery of the Series 2025 Bonds. The Municipal Advisor will receive compensation contingent upon the sale and delivery of the Series 2025 Bonds. The Municipal Advisor has not audited, authenticated, or otherwise independently verified the information set forth in this Official Statement, or any other related information available, with respect to accuracy and completeness of disclosure of such information. Because of this limited participation, the Municipal Advisor makes no guaranty, warranty, or other representation with respect to the accuracy or completeness of this Official Statement, or any other matter related to this Official Statement.

## CONTINUING DISCLOSURE

The City has covenanted for the benefit of the Owners of the Series 2025 Bonds to provide annually certain financial information and operating data relating to the Series 2025 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 fiscal year 2024-25.

The 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 Rule 15c2-12.

Within the last five years, the City and its related entities have not failed to timely file all required information pursuant to its existing continuing disclosure undertakings pursuant to Rule 15c2-12.

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

Included herein as Appendix C are the audited financial statements of the City for the year ended June 30, 2025, together with the report thereon dated December 26, 2024, of Maze & Associates, Pleasant Hill, California, certified public accountants (the “Auditor”). Such audited financial statements have been included herein in reliance upon the report of the Auditor. The City’s financial statements are public documents and are included within this Official Statement without the prior approval of the Auditor. Accordingly, the Auditor has not performed any post-audit review of the financial condition of the City and also has not performed any procedures relating to this Official Statement. The Auditor has not undertaken to update the audited financial statements of the City or its report, and no opinion is expressed by the Auditor with respect to any event subsequent to its report dated December 26, 2024.

### **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 Ground 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 Watsonville, 275 Main Street, Suite 400, Watsonville, California 95076.

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 2025 Bonds.

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

### **WATSONVILLE PUBLIC FINANCE AUTHORITY**

By: \_\_\_\_\_  
Executive Director

### **CITY OF CITY OF WATSONVILLE**

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



## APPENDIX A

### ECONOMIC AND DEMOGRAPHIC INFORMATION REGARDING THE CITY OF WATSONVILLE

#### Population

The following table summarizes population estimates for the City, the County and the State from 2020 through 2024.

#### POPULATION ESTIMATES City of Watsonville, County of Santa Cruz and State of California 2020-2024<sup>(1)</sup>

<i>Year (January 1)</i>	<i>City of Watsonville</i>	<i>County of Santa Cruz</i>	<i>State of California</i>
2020 <sup>(1)</sup>	51,809	270,861	39,538,223
2021	52,315	265,533	39,327,868
2022	51,096	264,495	39,114,785
2023	50,820	263,338	39,061,058
2024	51,032	262,572	39,128,162

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<sup>(1)</sup> April 1 data.

Source: California State Department of Finance, Demographic Research Unit, *E-4 Population Estimates for Cities, Counties, and the State, 2021-2024, with 2020 Benchmark*.

#### Personal Income

Personal Income is the income that is received by all persons from all sources. It is calculated as the sum of wage and salary disbursements, supplements to wages and salaries, proprietors' income with inventory valuation and capital consumption adjustments, rental income of persons with capital consumption adjustment, personal dividend income, personal interest income, and personal current transfer receipts, less contributions for government social insurance.

The personal income of an area is the income that is received by, or on behalf of, all the individuals who live in the area; therefore, the estimates of personal income are presented by the place of residence of the income recipients.

The following table summarizes per capita personal income for the City, the County, the State of California and the United States for the years 2014 through 2023. This measure of income is calculated as the personal income of the residents of the area divided by the resident population of the area.

**PER CAPITA PERSONAL INCOME<sup>(1)</sup>**  
**County of Santa Cruz, State of California, and United States**  
**2014-2023**

<i>Year</i>	<i>County of Santa Cruz</i>	<i>California</i>	<i>United States</i>
2014	54,097	50,617	46,289
2015	56,935	53,816	48,062
2016	58,545	55,862	48,974
2017	62,116	58,214	51,006
2018	64,095	60,984	53,311
2019	69,475	64,219	55,567
2020	77,231	70,065	59,114
2021	88,329	76,887	64,450
2022	88,277	76,741	66,096
2023	88,581	80,771	69,418

<sup>(1)</sup> Per capita personal income is the total personal income divided by the total mid-year population estimates of the U.S. Bureau of the Census. All dollar estimates are in current dollars (not adjusted for inflation).

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

## **Employment**

The following table summarizes the labor force, employment and unemployment figures for the past five years of data currently available for the City, the County and the State.

**CIVILIAN LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT**  
**2020 through 2024<sup>(1)</sup>**  
**City of Watsonville, Santa Cruz County and the State of California**

<i>Year and Area</i>	<i>Labor Force</i>	<i>Employment<sup>(2)</sup></i>	<i>Unemployment</i>	<i>Unemployment Rate (%)<sup>(3)</sup></i>
<b><u>2020</u></b>				
City of Watsonville	24,400	20,600	3,800	15.6%
Santa Cruz County	135,700	122,700	13,000	9.6
State of California	18,956,600	17,039,800	1,916,800	10.1
<b><u>2021</u></b>				
City of Watsonville	24,200	20,900	3,300	13.5%
Santa Cruz County	133,000	124,000	8,900	6.7
State of California	18,954,600	17,564,900	1,389,700	7.3
<b><u>2022</u></b>				
City of Watsonville	23,900	21,400	2,500	10.5%
Santa Cruz County	133,900	127,500	6,400	4.8
State of California	19,218,300	18,393,900	824,400	4.3
<b><u>2023</u></b>				
City of Watsonville	23,900	21,200	2,600	11.0%
Santa Cruz County	135,100	127,700	7,500	5.5
State of California	19,471,000	18,551,800	919,200	4.7
<b><u>2024</u></b>				
City of Watsonville	[25,600]	[21,000]	[4,500]	[17.7%]
Santa Cruz County	136,100	128,000	8,100	5.9
State of California	19,644,100	18,600,900	1,043,100	5.3

Note: Data is not seasonally adjusted.

(1) Annual averages, unless otherwise specified.

(2) Includes persons involved in labor-management trade disputes.

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

Source: California Employment Development Department. March 2024 Benchmark.

## Industry

The County is included in the Santa Cruz-Watsonville Metropolitan Statistical Area (the “MSA”). The distribution of employment in the MSA is presented in the following table for the past five calendar years. These figures are multi county-wide statistics and may not necessarily accurately reflect employment trends in the County.

### INDUSTRY EMPLOYMENT & LABOR FORCE ANNUAL AVERAGES Santa Cruz-Watsonville MSA (Santa Cruz County) 2020-2024<sup>(1)</sup>

	2020	2021	2022	2023	2024
Farming	8,000	7,200	7,100	6,900	7,400
Mining, Logging and Construction	4,400	4,800	5,000	5,100	5,100
Manufacturing	6,800	7,500	7,900	7,900	8,200
Wholesale Trade	3,300	3,300	3,500	3,200	2,900
Retail Trade	10,800	11,000	11,000	10,800	10,600
Transportation, Warehousing and Utilities	1,700	2,000	2,200	2,100	2,100
Information	600	600	700	700	700
Financial Activities	3,200	3,200	3,300	3,300	3,400
Professional and Business Services	10,400	10,600	10,700	9,900	9,500
Private Education and Health Services	17,100	17,200	17,700	18,600	19,400
Leisure and Hospitality	10,300	11,800	14,000	14,400	14,400
Other Services	4,400	4,300	4,700	4,700	4,700
Government	<u>21,100</u>	<u>20,200</u>	<u>18,800</u>	<u>19,100</u>	<u>19,100</u>
Total:	102,100	103,700	106,600	106,700	107,500

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

<sup>(1)</sup> Employment is reported by place of work; it does not include persons involved in labor-management disputes. Figures are rounded to the nearest hundred. Columns may not add to totals due to rounding.

Source: State of California, Employment Development Department, *Industry Employment & Labor Force by Annual Average, March 2024 Benchmark*.

## Principal Employers

The following tables list the principal employers located in the City and the County for the periods shown below.

### PRINCIPAL EMPLOYERS City of Watsonville 2024

<i>Rank</i>	<i>Name of Business</i>	<i>Employees</i>	<i>Percent of Total City Employment</i>
1.	Pajaro Valley Unified School District	2,269	9.78%
2.	Watsonville Community Hospital	638	2.75
3.	Granite Construction	521	2.25
4.	Del Mar Food Products, Inc.	450	1.94
5.	City of Watsonville	406	1.75
6.	Lakeside Organic Gardens LLC	276	1.19
7.	Nordic Naturals, Inc.	263	1.13
8.	S Martinelli & Co.	241	1.04
9.	FedEx Ground Package Systems, Inc.	240	1.03
10.	A & I Transport Inc.	227	0.98

Source: City of Watsonville Annual Comprehensive Financial Report for the year ending June 30, 2024.

### PRINCIPAL EMPLOYERS 2024 Santa Cruz County

<i>Rank:</i>	<i>Employer</i>	<i>Employees</i>
1.	University of California at Santa Cruz	2.00%
2.	Santa Cruz Government Center	2.00
3.	Dominican Hospital	2.00
4.	Santa Cruz Health Center	0.59
5.	Granite Rock	0.59
6.	Plantronics Inc.	0.59
7.	Watsonville City Sewer Dept.	0.59
8.	Source Naturals	0.59
9.	Cabrillo Senson House 1	0.59
10.	Monterey Mushrooms	0.59
11.	Larse Farms Inc.	0.59
12.	Ameri-Kleen	0.59

Source: County of Orange, Annual Comprehensive Financial Report for Fiscal Year Ended June 30, 2024.

## Education

Public education in the City is provided by the Watsonville Unified School District. Within the City, there are sixteen elementary schools, six middle schools, three high schools, three alternative education schools and 5 private schools.

## Transportation

Five major State highways connect Santa Cruz with adjacent counties. Highway 1 leads along the coast from San Francisco south to the City of Santa Cruz and on to Monterey. Highways 9 and 17 traverse the

County from the City of Santa Cruz across the Santa Cruz mountains into Santa Clara County. Watsonville is joined with Santa Clara County by Highway 152 and with San Benito County by Highway 129. Highways 17, 152 and 129 connect with U.S. 101, a major north-south route.

Air cargo and passenger flight services are provided at the San José Metropolitan Airport, 32 miles east; Monterey Airport, 43 miles south; San Francisco International Airport, 60 miles northeast; and Watsonville Municipal Airport. Watsonville Municipal Airport provides private and executive air transportation facilities. Bus transportation is provided through the Santa Cruz Metropolitan Transit District for inter-urban and local inter-community service. Greyhound and Peerless Bus Lines provide service to other local areas and additional transcontinental service. Commercial and passenger rail services are provided by the Southern Pacific and Amtrak lines. Southern Pacific Transportation Company provides freight service for the coastal part of the County and the Watsonville area. Freight transportation is also provided through numerous common and contract carriers.

## APPENDIX B

### SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS

*The following is a summary of certain provisions of the Lease Agreement and the Indenture which are not described elsewhere in this Official Statement. This summary does not purport to be comprehensive and reference should be made to the respective document for a full and complete statement of the provisions thereof.*

### INDENTURE

#### DEFINITIONS; EQUAL SECURITY

Definitions. Unless the context otherwise requires, the terms defined in the Indenture for all purposes thereof and of any amendment thereof or supplement thereto and of the Bonds and of any certificate, opinion, request or other document mentioned in the Indenture or any amendment thereof or supplement thereto have the meanings defined in the Indenture, the following definitions to be equally applicable to both the singular and plural forms of any of the terms defined in the Indenture. Capitalized terms not otherwise defined in the Indenture have the meanings assigned to such terms in the Lease Agreement.

“Additional Bonds” means Bonds other than the Series 2025 Bonds issued under the Indenture in accordance with the provisions described under the captions “ISSUANCE OF BONDS; APPLICATION OF PROCEEDS—Conditions for the Issuance of Additional Bonds” and “—Procedure for the Issuance of Additional Bonds.”

“Act” means the Marks-Roos Local Bond Pooling Act of 1985, commencing with Section 6584 of the California Government Code.

“Additional Rental Payments” means all amounts payable by the City as Additional Rental Payments pursuant to the Lease Agreement.

“Assignment Agreement” means the Assignment Agreement, dated as of the date of the Indenture, by and between the Authority and the Trustee, as amended and supplemented from time to time.

“Authority” means the Watsonville Public Finance Authority, a joint exercise of powers entity organized and existing under and by virtue of the laws of the State of California.

“Authorized Authority Representative” means the Chair, Vice Chair, Executive Director, Treasurer and Secretary of the Authority, or any other person authorized by the Board of Directors of the Authority to act on behalf of the Authority under or with respect to the Indenture.

“Authorized City Representative” means the Mayor of the City, the Mayor Pro Tempore of the City, the City Manager of the City, the Administrative Services Director of the City or the City Clerk, or any other person authorized by the City Council of the City to act on behalf of the City under or with respect to the Indenture.

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

“Base Rental Payment Fund” means the fund by that name established in accordance with the Indenture.

“Base Rental Payments” means all amounts payable to the Authority by the City as Base Rental Payments pursuant to the Lease Agreement.

“Beneficial Owner” means, whenever used with respect to a Book-Entry Bond, the person whose name is recorded as the beneficial owner of such Book-Entry Bond or a portion of such Book-Entry Bond by a Participant on the records of such Participant or such person’s subrogee.

“Bonds” means the Series 2025 Bonds and any Additional Bonds issued under the Indenture.

“Book-Entry Bonds” means the Bonds of a Series registered in the name of the nominee of DTC, or any successor securities depository for such Series of Bonds, as the registered owner thereof pursuant to the terms and provisions of the Indenture.

“Business Day” means a day which is not (a) a Saturday, Sunday or legal holiday, (b) a day on which banking institutions in the State of California, or in any state in which the Office of the Trustee is located, are required or authorized by law (including executive order) to close, or (c) a day on which the New York Stock Exchange is closed or the payment system of the Federal Reserve System is not operational.

“Cede & Co.” means Cede & Co., the nominee of DTC, and any successor nominee of DTC with respect to a Series of Book-Entry Bonds.

“City” means the City of Watsonville, a charter city and municipal corporation duly organized and existing under and by virtue of the Constitution and laws of the State of California.

“Closing Date” means \_\_\_\_\_, 2025.

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

“Continuing Disclosure Certificate” means the Continuing Disclosure Certificate, dated as of the date of the Indenture, executed by the City, as originally executed and as it may from time to time be amended in accordance with the provisions thereof.

“Costs of Issuance” means all the costs of issuing and delivering the Bonds, including, but not limited to, all printing and document preparation expenses in connection with the Indenture, the Lease Agreement, the Ground Lease, the Assignment Agreement, the Bonds and any preliminary official statement and final official statement pertaining to the Bonds, rating agency fees, CUSIP Service Bureau charges, market study fees, legal fees and expenses of counsel with the issuance and delivery of the Bonds, the initial fees and expenses of the Trustee and its counsel, the initial fees and expenses of any bond insurer or reserve fund credit facility provider, and other fees and expenses incurred in connection with the issuance and delivery of the Bonds, to the extent such fees and expenses are approved by the City.

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

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

“Electronic Means” shall mean the following communications methods: e-mail, secure electronic transmission containing applicable authorization codes, passwords and/or authentication keys issued by the Trustee, or another method or system specified by the Trustee as available for use in connection with its services hereunder.

“Federal Securities” means: (a) direct general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America); and (b) obligations of any agency, department or instrumentality of the United States of



America the timely payment of principal of and interest on which are fully guaranteed by the United States of America.

“Ground Lease” means the Ground Lease, dated as of the date of the Indenture, by and between the City and the Authority, as originally executed and as it may from time to time be amended in accordance with the provisions thereof and of the Lease Agreement.

“Indenture” means the Indenture, as originally executed and as it may be amended or supplemented from time to time by any Supplemental Indenture.

“Information Services” means Municipal Securities Rulemaking Board through the Electronic Municipal Marketplace Access (EMMA) website; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other services providing information with respect to called bonds as the Authority may designate in a Written Certificate of the Authority delivered to the Trustee.

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

“Interest Payment Date” means May 1 and November 1 of each year, commencing on November 1, 2025.

“Lease Agreement” means the Lease Agreement, dated as of June 1, 2025, by and between the City and the Authority, as originally executed and as it may be from time to time amended in accordance with the provisions thereof.

“Moody’s” means Moody’s Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, except that if such corporation no longer performs the function of a securities rating agency for any reason, the term “Moody’s” will be deemed to refer to any other nationally recognized securities rating agency selected by the Authority.

“Office of the Trustee” means the principal corporate trust office of the Trustee in San Francisco, California, or such other office as may be specified to the Authority and the City by the Trustee in writing, except that with respect to presentation of Bonds for payment or for registration of transfer and exchange such term means the office or the agency of the Trustee at which, at any particular time, its corporate trust agency is conducted as specified to the Authority and the City by the Trustee in writing.

“Opinion of Counsel” means a written opinion of Anzel Galvan LLP, or other counsel of recognized national standing in the field of law relating to municipal bonds, appointed and paid by the Authority or the City and which written opinion is satisfactory to the Trustee.

“Outstanding,” when used as of any particular time with reference to Bonds, means (subject to the provisions of the Indenture described under the caption “MISCELLANEOUS—Disqualified Bonds”) all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under the Indenture except:

(a) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation;

(b) Bonds with respect to which all liability of the Authority has been discharged in accordance with the provisions of the Indenture described under the caption “DEFEASANCE—Discharge of Indenture;” and

(c) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds have been authenticated and delivered by the Trustee pursuant to the Indenture.

“Owner” means, with respect to a Bond, the Person in whose name such Bond is registered on the Registration Books.

“Participant” means any entity which is recognized as a participant by DTC in the book-entry system of maintaining records with respect to Book-Entry Bonds.

“Participating Underwriter” has the meaning ascribed thereto in the Continuing Disclosure Certificate.

“Permitted Investments” means any of the following to the extent then permitted by the general laws of the State of California:

(1) (a) Direct obligations (other than an obligation subject to —variation in principal repayment) of the United States of America (“United States Treasury Obligations”), (b) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by the United States of America, (c) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by any agency or instrumentality of the United States of America when such obligations are backed by the full faith and credit of the United States of America, or (d) evidences of ownership of proportionate interests in future interest and principal payments on obligations described above held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying government obligations are not available to any person claiming through the custodian or to whom the custodian may be obligated (collectively “United States Obligations”). These include, but are not necessarily limited to:

- U.S. Treasury obligations
  - All direct or fully guaranteed obligations
- Farmers Home Administration
  - Certificates of beneficial ownership
- General Services Administration
  - Participation certificates
- U.S. Maritime Administration
  - Guaranteed Title XI financing
- Small Business Administration
  - Guaranteed participation certificates
  - Guaranteed pool certificates
- Government National Mortgage Association (GNMA)
  - GNMA-guaranteed mortgage-backed securities
  - GNMA-guaranteed participation certificates
- U.S. Department of Housing & Urban Development
  - Local authority bonds
- Washington Metropolitan Area Transit Authority
  - Guaranteed transit bonds

(2) Federal Housing Administration debentures.

(3) The listed obligations of government-sponsored agencies which are not backed by the full faith and credit of the United States of America:

- Federal Home Loan Mortgage Corporation (FHLMC)
  - Participation certificates (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts)
  - Senior debt obligations

- Farm Credit Banks (formerly: Federal Land Banks, Federal intermediate Credit Banks and Banks for Cooperatives)  
Consolidated systemwide bonds and notes
- Federal Home Loan Banks (FHL Banks)  
Consolidated debt obligations
- Federal National Mortgage Association (FNMA)  
Senior debt obligations  
Mortgage-backed securities (excluded are stripped mortgages securities which are purchased at prices exceeding their principal amounts)
- Financing Corporation (FICO)  
Debt obligations
- Resolution Funding Corporation (REFCORP)  
Debt obligations

(4) Bank deposit products, unsecured certificates of deposit (including those placed by a third party pursuant to an agreement between the City and the Trustee), trust funds, trust accounts, overnight banking deposits, interest bearing deposits, interest bearing money market accounts, time deposits, demand deposits, other deposit products, and bankers' acceptances (having maturities of not more than 30 days) of any bank (including the Trustee and any affiliate) the short-term obligations of which are rated "A-1" or "A-2" without regard to qualifier by S&P.

(5) Deposits the aggregate amount of which are fully insured by the Federal Deposit Insurance Corporation (FDIC), in banks, including the Trustee and its affiliates, which have capital and surplus of at least \$5 million.

(6) Commercial paper (having original maturities of not more than 270 days) rated, at the time of purchase, "A-1" or better by S&P and "Prime-1" by Moody's.

(7) Money market mutual funds rated in the highest investment category granted thereby from S&P and Moody's (including those for which the Trustee or its affiliates receives and retains a fee for services provided to the fund, whether as a custodian, transfer agent, investment advisor or otherwise) but excluding such funds with a floating net asset value.

(8) Repurchase agreements:

With (1) any domestic bank, or domestic branch of a foreign bank or any non-bank financial institution or primary dealer as designated by the Federal Reserve the long term debt of which is rated at least "BBB+" by Standard & Poor's or Moody's (including the Trustee or any of its affiliates); or (2) any broker-dealer with "retail customers" or a related affiliate thereof which broker-dealer has, or the parent company (which guarantees the provider) of which has, long-term debt rated at least "BBB+" by Standard & Poor's or Moody's, which broker-dealer falls under the jurisdiction of the Securities Investors Protection Corporation; or (3) any other entity rated "BBB+" or better by Standard & Poor's or Moody's, provided that:

(a) The collateral is securities described in clause 1(a), (b) or (c) of this subsection, and the market value of the collateral is maintained at levels equal to 104% of the amount of cash transferred by the Trustee or the City to the provider of the repurchase agreement plus accrued interest with the collateral being valued weekly and marked-to-market at current market price plus accrued interest;

(b) The Trustee or a third party acting solely as agent therefor or for the City (the "Holder of the Collateral") has possession of the collateral or the collateral has been

transferred to the Holder of the Collateral in accordance with applicable state and federal laws (other than by means of entries on the transferor's books);

(c) The repurchase or reverse repurchase agreement states and an opinion of counsel is rendered at the time such collateral is delivered that the Holder of the Collateral has a first priority security interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the Holder of the Collateral is in possession);

(d) The repurchase or reverse repurchase agreement provides that if during its term the provider's rating by either Moody's or Standard & Poor's is withdrawn or suspended or falls below "BBB" by Standard & Poor's or "Baa2" by Moody's, as appropriate, the provider must, at the direction of Trustee, within 10 days of receipt of such direction, repurchase all collateral and terminate the agreement, with no penalty or premium to the Trustee or the City.

Notwithstanding the above, if a repurchase agreement has a term of 270 days or less (with no evergreen provision), collateral levels need not be as specified in (a) above, so long as such collateral levels are 103% or better and the provider is rated at least "A" by Standard & Poor's or Moody's, respectively.

(9) State Obligations

(a) Direct general obligations of any state of the United States or any subdivision or agency thereof to which is pledged the full faith and credit of a state the unsecured general obligation debt of which is rated "A2" by Moody's and "A" by S&P, or better, or any obligation fully and unconditionally guaranteed by any state, subdivision or agency whose unsecured general obligation debt is so rated.

(b) Direct, general short-term obligations of any state agency or subdivision described in (a) above and rated "A-1+" by S&P and "Prime-1" by Moody's.

(c) Special Revenue Bonds (as defined in the United States Bankruptcy Code) of any state, state agency or subdivision described in (a) above and rated "AA" or better by S&P and "Aa" or better by Moody's.

(10) Local Agency Investment Fund of the State of California.

(11) Investment agreements, including guaranteed investment contracts, repurchase agreements and forward delivery agreements, that are obligations of an entity rated, or whose obligations are rated, or guaranteed by an entity which is rated or whose obligations are rated, (at the time the investment is entered into) not lower than "A-" by S&P or Fitch, or "A3" by Moody's.

(12) Pre-refunded municipal obligations rated "AAA" by S&P and "Aaa" by Moody's meeting the following requirements:

(a) the municipal obligations are (1) not subject to redemption prior to maturity or (2) the trustee for the municipal obligations has been given irrevocable instructions concerning their call and redemption and the issuer of the municipal obligations has covenanted not to redeem such municipal obligations other than as set forth in such instructions;

(b) the municipal obligations are secured by cash or United States Treasury Obligations which may be applied only to payment of the principal of, interest and premium on such municipal obligations;

(c) the principal of and interest on the United States Treasury Obligations (plus any cash in the escrow) has been verified by the report of independent certified public accountants to be sufficient to pay in full all principal of, interest, and premium, if any, due and to become due on the municipal obligations (“Verification”);

(d) the cash or United States Treasury Obligations serving as security for the municipal obligations are held by an escrow agent or trustee in trust for owners of the municipal obligations;

(e) no substitution of a United States Treasury Obligation is permitted except with another United States Treasury Obligation and upon delivery of a new Verification; and

(f) the cash or United States Treasury Obligations are not available to satisfy any other claims, including those by or against the trustee or escrow agent.

The Trustee has no responsibility to monitor the ratings of Permitted Investments after the initial purchase of such Permitted Investments.

“Person” means an individual, corporation, firm, association, partnership, trust, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

“Project” means the design, acquisition, construction and installation of certain public capital improvements to be located at the City’s Ramsay Park and City Plaza, and related infrastructure improvements as further described in Exhibit B to the Lease Agreement.

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

“Principal Fund” means the account by that name established in accordance with the Indenture.

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

“Rebate Requirement” has the meaning ascribed thereto in the Tax Certificate.

“Record Date” means the fifteenth day of the month next preceding an 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.

“Redemption Price” means the aggregate amount of principal of and premium, if any, on the Bonds upon the redemption thereof pursuant to the Indenture.

“Registration Books” means the records maintained by the Trustee for the registration of ownership and registration of transfer of the Bonds pursuant to the Indenture.

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

“Rental Period” means the period from the Closing Date through April 30, 2026, and, thereafter, the twelve-month period commencing on May 1 of each year during the term of the Lease Agreement.

“Representation Letter” means the Letter of Representations from the Authority to DTC, or any successor securities depository for any Series of Book-Entry Bonds, in which the Authority makes certain representations with respect to issues of its securities for deposit by DTC or such successor depository.

“S&P” means S&P Global Ratings, a Standard & Poor’s Financial Services LLC business, its successors and assigns, except that if such entity no longer performs the functions of a securities rating agency for any reason, the term “S&P” will be deemed to refer to any other nationally recognized securities rating agency selected by the Authority.

“Securities Depositories” means The Depository Trust Company; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other securities depositories as the Authority may designate in a Written Certificate of the Authority delivered to the Trustee.

“Security Documents” means the Indenture, the Lease Agreement and the Assignment Agreement.

“Series” means the Series 2025 Bonds executed, authenticated and delivered on the Closing Date and identified pursuant to the Indenture and any Additional Bonds issued pursuant to a Supplemental Indenture and identified as a separate Series of Bonds.

“Series 2025 Bonds” means the Watsonville Public Finance Authority Lease Revenue Bonds, Series 2025 issued under the Indenture.

“Supplemental Indenture” means any supplemental indenture amendatory of or supplemental to the Indenture, but only if and to the extent that such Supplemental Indenture is specifically authorized under the Indenture.

“Tax Certificate” means the Tax Certificate executed by the Authority and the City at the time of issuance of the Series 2025 Bonds relating to the requirements of Section 148 of the Code, as originally executed and as it may from time to time be amended in accordance with the provisions thereof.

“Trustee” means U.S. Bank Trust Company, National Association, a national banking association duly organized and existing under and by virtue of the laws of the United States, or any successor thereto as Trustee under the Indenture, appointed as provided therein.

“Written Certificate of the Authority” and “Written Request of the Authority” mean, respectively, a written certificate or written request signed in the name of the Authority by an Authorized Authority Representative. Any such certificate or request 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

“Written Certificate of the City” and “Written Request of the City” mean, respectively, a written certificate or written request signed in the name of the City by an Authorized City Representative. Any such certificate or request 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.

Equal Security. In consideration of the acceptance of the Bonds by the Owners thereof, the Indenture will be deemed to be and will constitute a contract among the Authority, the City, the Trustee and the Owners from time to time of all Bonds authorized, executed, issued and delivered thereunder and then Outstanding to secure the full and final payment of the principal of, premium, if any, and interest on all Bonds which may from time to time be authorized, executed, issued and delivered thereunder, subject to the agreements, conditions, covenants and provisions contained therein; and all agreements and covenants set forth therein to be performed by or on behalf of the Authority or the City are for the equal and proportionate benefit, protection and security of all Owners of the Bonds without distinction, preference or priority as to security or

otherwise of any Bonds over any other Bonds by reason of the number or date thereof or the time of authorization, sale, execution, issuance or delivery thereof or for any cause whatsoever, except as expressly provided in the Indenture.

## THE BONDS

Form of Series 2025 Bonds. The Series 2025 Bonds will be in substantially the form set forth in the Indenture, with appropriate or necessary insertions, omissions and variations as permitted or required by the Indenture.

Transfer and Exchange of Bonds. Any Bond may, in accordance with its terms, be transferred upon the Registration Books by the Person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form acceptable to the Trustee. Whenever any Bond or Bonds are surrendered for transfer, the Authority will execute and the Trustee will authenticate and deliver a new Bond or Bonds of the same Series in a like aggregate principal amount, in any Authorized Denomination. The Trustee will require the Bond Owner requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer.

The transferor shall also provide or cause to be provided to the Trustee all information necessary to allow the Trustee to comply with any applicable tax reporting obligations, including without limitation any cost basis reporting obligations under Internal Revenue Code Section 6045. The Trustee may rely on the information provided to it and shall have no responsibility to verify or ensure the accuracy of such information.

The Bonds may be exchanged at the Office of the Trustee for a like aggregate principal amount of Bonds of the same Series of other authorized denominations. The Trustee will require the payment by the Bond Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange.

The Trustee will not be obligated to make any transfer or exchange of Bonds of a Series pursuant to the Indenture during the period established by the Trustee for the selection of Bonds of such Series for redemption, or with respect to any Bonds of such Series selected for redemption.

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

Execution of Bonds. The Bonds will be executed in the name and on behalf of the Authority with the manual or facsimile signature of an Authorized Authority Representative attested by the manual or facsimile signature of the Secretary or any duly authorized deputy secretary of the Authority. The Bonds will then be delivered to the Trustee for authentication by it. In case any of such officers of the Authority who will have signed or attested any of the Bonds will cease to be such officers of the Authority before the Bonds so signed or attested will have been authenticated or delivered by the Trustee, or issued by the Authority, such Bonds may nevertheless be authenticated, delivered and issued and, upon such authentication, delivery and issue, will be as binding upon the Authority as though those who signed and attested the same had continued to be such officers of the Authority, and also any Bonds may be signed and attested on behalf of the Authority by such Persons as at the actual date of execution of such Bonds will be the proper officers of the Authority although at the nominal date of such Bonds any such Person will not have been such officer of the Authority.

Authentication of Bonds. Only such of the Bonds as will bear thereon a certificate of authentication substantially in the form as that set forth in the Indenture, manually executed by the Trustee, will be valid or

obligatory for any purpose or entitled to the benefits of the Indenture, and such certificate of or on behalf of the Trustee will be conclusive evidence that the Bonds so authenticated have been duly executed, authenticated and delivered under the Indenture and are entitled to the benefits of the Indenture.

Temporary Bonds. The Bonds of a Series may be issued in temporary form exchangeable for definitive Bonds of such Series when ready for delivery. Any temporary Bonds may be printed, lithographed or typewritten, will be of such authorized denominations as may be determined by the Authority, will be in fully registered form without coupons and may contain such reference to any of the provisions of the Indenture as may be appropriate. Every temporary Bond will be executed by the Authority and authenticated by the Trustee upon the same conditions and in substantially the same manner as the definitive Bonds. If the Authority issues temporary Bonds of a Series it will execute and deliver definitive Bonds of such Series as promptly thereafter as practicable, and thereupon the temporary Bonds of such Series, may be surrendered, for cancellation, at the Office of the Trustee and the Trustee will authenticate and deliver in exchange for such temporary Bonds an equal aggregate principal amount of definitive Bonds of such Series in Authorized Denominations. Until so exchanged, the temporary Bonds of such Series are entitled to the same benefits under the Indenture as definitive Bonds of such Series authenticated and delivered under the Indenture.

Bonds Mutilated, Lost, Destroyed or Stolen. If any Bond becomes mutilated, the Authority, at the expense of the Owner of said Bond, will execute, and the Trustee will thereupon authenticate and deliver, a new Bond of like tenor and Series in exchange and substitution for the Bond so mutilated, but only upon surrender to the Trustee of the Bond so mutilated. Every mutilated Bond so surrendered to the Trustee will be canceled by it and delivered to, or in accordance with the order of, the Authority. If any Bond is lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee and, if such evidence and indemnity satisfactory to the Trustee is given, the Authority, at the expense of the Owner, will execute, and the Trustee will thereupon authenticate and deliver, a new Bond of like tenor and Series in lieu of and in replacement for the Bond so lost, destroyed or stolen (or if any such Bond has matured or has been selected for redemption, instead of issuing a replacement Bond, the Trustee may pay the same without surrender thereof). The Authority may require payment by the Owner of a sum not exceeding the actual cost of preparing each replacement Bond issued under the Indenture and of the expenses which may be incurred by the Authority and the Trustee. Any Bond of a Series issued under the provisions of the Indenture in lieu of any Bond of such Series alleged to be lost, destroyed or stolen will constitute an original additional contractual obligation on the part of the Authority whether or not the Bond so alleged to be lost, destroyed or stolen be at any time enforceable by anyone, and will be entitled to the benefits of the Indenture with all other Bonds of such Series secured by the Indenture.

Book-Entry Bonds.

(a) Prior to the issuance of a Series of Bonds, the Authority may provide that such Series of Bonds will initially be issued as Book-Entry Bonds and, in such event, the Bonds of such Series for each maturity will be in the form of a separate single fully registered Bond (which may be typewritten). The Series 2025 Bonds will initially be issued as Book-Entry Bonds.

Except as provided in the Indenture, the registered Owner of all of the Book-Entry Bonds will be Cede & Co., as nominee of DTC. Notwithstanding anything to the contrary contained in the Indenture, payment of interest with respect to any Book-Entry Bond registered as of each Record Date in the name of Cede & Co. will be made by wire transfer of same-day funds to the account of Cede & Co. on the Interest Payment Date at the address indicated on the Record Date for Cede & Co. in the Registration Books or as otherwise provided in the Representation Letter.

(b) The Trustee and the Authority may treat DTC (or its nominee) as the sole and exclusive Owner of Book-Entry Bonds registered in its name for the purposes of payment of the principal, premium, if any, or interest with respect to Book-Entry Bonds, selecting Book-Entry Bonds or portions thereof to be redeemed, giving any notice permitted or required to be given to Owners of Book-Entry Bonds under the



Indenture, registering the transfer of Book-Entry Bonds, obtaining any consent or other action to be taken by Owners of Book-Entry Bonds and for all other purposes whatsoever, and neither the Trustee nor the Authority will be affected by any notice to the contrary. Neither the Trustee nor the Authority have any responsibility or obligation to any Participant, any person claiming a beneficial ownership interest in Book-Entry Bonds under or through DTC or any Participant, or any other person which is not shown on the Registration Books as being an Owner, with respect to the accuracy of any records maintained by DTC or any Participant, the payment by DTC or any Participant of any amount in respect of the principal, premium, if any, or interest with respect to Book-Entry Bonds, any notice which is permitted or required to be given to Owners of Book-Entry Bonds under the Indenture, the selection by DTC or any Participant of any person to receive payment in the event of a partial redemption of Book-Entry Bonds, or any consent given or other action taken by DTC as Owner of Book-Entry Bonds. The Trustee will pay all principal, premium, if any and interest with respect to Book-Entry Bonds, only to DTC, and all such payments will be valid and effective to fully satisfy and discharge the Authority's obligations with respect to the principal, premium, if any, and interest with respect to the Book-Entry Bonds to the extent of the sum or sums so paid. Except under the conditions of subsection (c) below, no person other than DTC will receive an executed Book-Entry Bond for each separate stated maturity. Upon delivery by DTC to the Trustee of written notice to the effect that DTC has determined to substitute a new nominee in place of Cede & Co., and subject to the provisions in the Indenture with respect to record dates, the term "Cede & Co." in the Indenture will refer to such new nominee of DTC.

(c) In the event (i) DTC, including any successor as securities depository for a Series of Bonds, determines not to continue to act as securities depository for such Series of Bonds; or (ii) the Authority determines that the incumbent securities depository will no longer so act, and delivers a written certificate to the Trustee to that effect, then the Authority will discontinue the book-entry system with the incumbent securities depository for such Series of Bonds. If the Authority determines to replace the incumbent securities depository for such Series of Bonds with another qualified securities depository, the Authority will prepare or direct the preparation of a new single, separate fully registered Bond of such Series for the aggregate outstanding principal amount of Bonds of such Series of each maturity, registered in the name of such successor or substitute qualified securities depository, or its nominee, or make such other arrangement acceptable to the Authority, the Trustee and the successor securities depository for the Bonds of such Series as are not inconsistent with the terms of the Indenture. If the Authority fails to identify another qualified successor securities depository for such Series of Bonds to replace the incumbent securities depository, then the Bonds of such Series will no longer be restricted to being registered in the Registration Books in the name of the incumbent securities depository or its nominee, but will be registered in whatever name or names the incumbent securities depository for such Series of Bonds, or its nominee, designate. In such event the Authority will execute, and deliver to the Trustee, a sufficient quantity of Bonds of such Series to carry out the transfers and exchanges provided in the Indenture. All such Bonds of such Series will be in fully registered form in Authorized Denominations.

(d) Notwithstanding any other provision of the Indenture to the contrary, so long as any Book-Entry Bond is registered in the name of DTC, or its nominee, all payments with respect to the principal, premium, if any, and interest with respect to such Book-Entry Bond and all notices with respect to such Book-Entry Bond will be made and given, respectively, as provided in the Representation Letter.

(e) In connection with any notice or other communication to be provided to Owners of Book-Entry Bonds pursuant to the Indenture by the Authority, the City or the Trustee with respect to any consent or other action to be taken by Owners, the Authority, the City or the Trustee, as the case may be, will establish a record date for such consent or other action and give DTC notice of such record date not less than 15 calendar days in advance of such record date to the extent possible.

In connection with any proposed transfer outside the Book-Entry Only system, the Authority, the City or DTC shall provide or cause to be provided to the Trustee all information necessary to allow the Trustee to comply with any applicable tax reporting obligations, including without limitation any cost basis reporting

obligations under Internal Revenue Code Section 6045. The Trustee may rely on the information provided to it and shall have no responsibility to verify or ensure the accuracy of such information.

#### ISSUANCE OF BONDS; APPLICATION OF PROCEEDS

Issuance of Series 2025 Bonds. The Authority may, at any time, execute the Series 2025 Bonds for issuance pursuant to the Indenture and deliver the same to the Trustee. The Trustee will authenticate the Series 2025 Bonds and deliver the Series 2025 Bonds to the original purchaser thereof upon receipt of a Written Request of the Authority and upon receipt of the purchase price therefor.

Conditions for the Issuance of Additional Bonds. The Authority may at any time issue one or more Series of Additional Bonds (in addition to the Series 2025 Bonds) payable from Base Rental Payments as provided in the Indenture on a parity with all other Bonds theretofore issued thereunder, but only subject to the following conditions, which are conditions precedent to the issuance of such Additional Bonds:

(a) The issuance of such Additional Bonds has been authorized under and pursuant to the Indenture and has been provided for by a Supplemental Indenture which specifies the following:

(i) The application of the proceeds of the sale of such Additional Bonds;

(ii) The principal amount and designation of such Series of Additional Bonds and the denomination or denominations of the Additional Bonds;

(iii) The date, the maturity date or dates, the interest payment dates and the dates on which mandatory sinking fund redemptions, if any, are to be made for such Additional Bonds; provided, however, that (i) the serial Bonds of such Series of Additional Bonds are payable as to principal annually on May 1 of each year in which principal falls due, and the term Bonds of such Series of Additional Bonds have annual mandatory sinking fund redemptions on May 1, (ii) the Additional Bonds are payable as to interest semiannually on May 1 and November 1 of each year, except that the first installment of interest may be payable on either May 1 or November 1 and will be for a period of not longer than twelve months and the interest will be payable thereafter semiannually on May 1 and November 1, (iii) all Additional Bonds of a Series of like maturity will be identical in all respects, except as to number or denomination, and (iv) serial maturities of serial Bonds or mandatory sinking fund redemptions for term Bonds, or any combination thereof, will be established to provide for the redemption or payment of such Additional Bonds on or before their respective maturity dates;

(iv) The redemption premiums and terms, if any, for such Additional Bonds;

(v) The form of such Additional Bonds; and

(vi) If a reserve fund is to be established and maintained for such Series of Additional Bonds, the applicable reserve requirement and the amount, if any, to be deposited from the proceeds of sale of such Additional Bonds in such reserve fund to be held as separate security for such Series of Additional Bonds;

(vii) Designate accounts in the Interest Fund, the Principal Fund, the Redemption Fund, the Rebate Fund and the reserve fund (if any) to be applicable to such Additional Bonds; and

(viii) Such other provisions that are appropriate or necessary and are not inconsistent with the provisions of the Indenture; including the establishment of a capitalized interest fund for the Additional Bonds, if appropriate;

(b) The Authority is in compliance with all agreements, conditions, covenants and terms contained in the Indenture, the Lease Agreement and in the Ground Lease required to be observed or performed by it;

(c) The City is in compliance with all agreements, conditions, covenants and terms contained in the Indenture, the Lease Agreement and in the Ground Lease required to be observed or performed by it; and

(d) The Ground Lease has been amended, to the extent necessary, and the Lease Agreement has been amended so as to increase the Base Rental Payments payable by the City thereunder by an aggregate amount equal to the principal of and interest on such Additional Bonds, payable at such times and in such manner as may be necessary to provide for the timely payment of the principal of and interest on such Additional Bonds; provided, however, that no such amendment will be made such that the sum of Base Rental Payments, including any increase in the Base Rental Payments as a result of such amendment, plus Additional Rental Payments, in any Rental Period is in excess of the annual fair rental value of the Property after taking into account the use of the proceeds of any Additional Bonds issued in connection therewith (evidence of the satisfaction of such condition is to be made by a Written Certificate of the City). Nothing contained in the Indenture limit the issuance of any bonds or other obligations payable from Base Rental Payments if, after the issuance and delivery of such bonds or other obligations, none of the Bonds theretofore issued under the Indenture will be Outstanding.

Procedure for the Issuance of Additional Bonds. At any time after the sale of any Additional Bonds in accordance with the Act, such Additional Bonds will be executed by the Authority for issuance under the Indenture and will be delivered to the Trustee and thereupon will be authenticated and delivered by the Trustee, but only upon receipt by the Trustee of the following:

(a) Certified copies of the Supplemental Indenture authorizing the issuance of such Additional Bonds, the amendment to the Lease Agreement required by the Indenture and the amendment to the Ground Lease, if any, required by the Indenture, together with satisfactory evidence that such amendment to the Lease Agreement and such amendment to the Ground Lease, if any, have been (or will be immediately upon issuance of such Additional Bonds) duly recorded in the Official Records of the Santa Cruz County, California, Recorder's office;

(b) A Written Request of the Authority as to the delivery of such Additional Bonds;

(c) An opinion of Bond Counsel substantially to the effect that: (i) the Indenture (including all Supplemental Indentures), the Lease Agreement (including the amendment thereto required by the Indenture) and the Ground Lease (including any amendment thereto required by the Indenture) have been duly authorized, executed and delivered by, and constitute the valid and binding obligations of, the Authority and the City, enforceable in accordance with their terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights and by the application of equitable principles and by the exercise of judicial discretion in appropriate cases and subject to the limitations on legal remedies against political subdivisions in the State of California); (ii) such Additional Bonds constitute valid and binding special obligations of the Authority payable solely from Base Rental Payments as provided in the Indenture and are enforceable in accordance with their terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights and by the application of equitable principles and by the exercise of judicial discretion in appropriate cases and subject to the limitations on legal remedies against political subdivisions in the State of California); and (iii) the issuance of such Additional Bonds, in and of itself, will not adversely affect the exclusion of interest on any tax-exempt Bonds Outstanding prior to the issuance of such Additional Bonds from gross income for federal income tax purposes;

(d) a Written Certificate of the Authority that the requirements of the Indenture have been met;

(e) a Written Certificate of the City that the requirements set forth under the captions “—Conditions for the Issuance of Additional Bonds,” “COVENANTS—Compliance with Agreements,” and “—Compliance with Ground Lease and Lease Agreement” and the Lease Agreement have been met, and a Written Certificate of the City directing the application of the proceeds of such Additional Bonds; and

(f) Such further documents as are required by the provisions of the Indenture or by the provisions of the Supplemental Indenture authorizing the issuance of such Additional Bonds.

Additional Bonds. So long as any of the Bonds remain Outstanding, the Authority may not issue any Additional Bonds or obligations payable from the Base Rental Payments, except pursuant to the provisions of the Indenture described under the captions “—Conditions for the Issuance of Additional Bonds” and “—Procedure for the Issuance of Additional Bonds.”

#### SECURITY FOR BONDS; FLOW OF FUNDS; INVESTMENTS

Pledge; Special Obligations. Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein, all of the Base Rental Payments and any other amounts (including proceeds of the sale of the Bonds) held in the Base Rental Payment Fund, the Interest Fund, the Principal Fund and the Redemption Fund have been pledged to secure the payment of the principal of, premium, if any, and interest on the Bonds in accordance with their terms, the provisions of the Indenture and the Act. Said pledge constitutes a first lien on such assets. This pledge shall secure the payment of such Bonds and shall be effective, binding, and enforceable against the Authority, its successors, creditors and all others irrespective of whether those parties have notice of the pledge or grant and without the need of any physical delivery, recordation, filing, or further act. The pledge and grant is an agreement between the Authority and the Owners of Bonds to provide security for the Bonds in addition to any statutory lien that may exist.

All obligations of the Authority under the Indenture are special obligations of the Authority, payable solely from Rental Payments and the other assets pledged therefor under the Indenture; provided, however, that all obligations of the Authority under the Bonds are special obligations of the Authority, payable solely from Base Rental Payments 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 Bonds.

#### Flow of Funds.

(a) The Trustee will establish and maintain separate funds designated the “Base Rental Payment Fund,” the “Interest Fund,” the “Principal Fund” and the “Redemption Fund.” If Additional Bonds are issued, the Trustee will establish subaccounts within each fund for each Series of Additional Bonds.

All Base Rental Payments will be paid directly by the City to the Trustee, and if received by the Authority at any time will be transferred by the Authority to the Trustee within one Business Day after the receipt thereof. All Base Rental Payments received by the Trustee will be deposited by the Trustee in the Base Rental Payment Fund.

(b) The Trustee will transfer the amounts on deposit in the Base Rental Payment Fund, at the times and in the manner provided in the Indenture, to the following respective funds in the following order of priority:

(1) Interest Fund. On the Business Day immediately preceding each Interest Payment Date, the Trustee will transfer from the Base Rental Payment Fund to the Interest Fund the amount, if any, necessary to cause the amount on deposit in the Interest Fund to be equal to the interest due on the Bonds on such Interest Payment Date. Moneys in the Interest Fund will be used by the Trustee to pay interest due on the Bonds on each Interest Payment Date.

(2) Principal Fund. On the Business Day immediately preceding each May 1, commencing May 1, [2026], the Trustee will transfer from the Base Rental Payment Fund to the Principal Fund the amount, if any, necessary to cause the amount on deposit in the Principal Fund to be equal to the principal amount of the Bonds due on such May 1 either as a result of the maturity thereof or mandatory sinking fund redemption payments required to be made with respect thereto. Moneys in the Principal Fund will be used by the Trustee for the purpose of paying the principal of the Bonds when due and payable at their maturity dates or upon earlier mandatory sinking fund redemption.

(3) Redemption Fund. The Trustee will deposit in the Redemption Fund any amounts required to be deposited therein pursuant to the Indenture. Moneys in the Redemption Fund will be used by the Trustee for the purpose of paying the principal of and interest and premium, if any, on Series 2025 Bonds redeemed pursuant to the provisions of the Indenture and Additional Bonds redeemed pursuant to the corresponding provisions of the Supplemental Indenture pursuant to which such Additional Bonds are issued.

Application of Net Insurance Proceeds. If the Property or any portion thereof is damaged or destroyed, subject to the further requirements of the Indenture, the City will, as expeditiously as possible, continuously and diligently prosecute or cause to be prosecuted the repair or replacement thereof, unless the City elects not to repair or replace the Property or the affected portion thereof in accordance with the provisions of the Indenture.

The Net Insurance Proceeds (other than Net Insurance Proceeds of rental interruption insurance), including the proceeds of any self-insurance, received on account of any damage or destruction of the Property or a portion thereof will as soon as possible be deposited with the Trustee and be held by the Trustee in a special account and made available for and, to the extent necessary, will be applied to the cost of repair or replacement of the Property or the affected portion thereof upon receipt of a Written Request of the City, together with invoices therefor. Pending such application, such proceeds may be invested by the Trustee as directed by the City in Permitted Investments that mature not later than such times moneys are expected to be needed to pay such costs of repair or replacement.

Notwithstanding the foregoing, the City will, within 60 days of the occurrence of the event of damage or destruction, notify the Trustee in writing as to whether the City intends to replace or repair the Property or the portions of the Property which were damaged or destroyed. If the City does intend to replace or repair the Property or portions thereof, the City will deposit with the Trustee the full amount of any insurance deductible to be credited to the special account.

In the event of any damage to or destruction of the Property caused by one of the perils covered by the insurance required by the Lease Agreement which would result in an abatement of rental payments or any portion thereof pursuant to the Lease Agreement, then the City will apply the Net Insurance Proceeds (other than Net Insurance Proceeds of rental interruption insurance), together with other legally available funds that the City elects to contribute, to the repair, reconstruction or replacement of the damaged or destroyed portions of the Property; provided, however, that the City is not required to repair or replace any portion of the Property pursuant to the Indenture if such Net Insurance Proceeds, together with any other amounts held under the Indenture and any other legally available funds made available by the City at its election, are sufficient to prepay (i) all of the Outstanding Bonds, or (ii) a portion of the Outstanding Bonds such that the resulting Base Rental Payments in any Rental Period following such partial prepayment are sufficient to pay in such Rental

Period the principal of and interest on all Bonds to remain Outstanding immediately after such partial redemption. If the City is not required to replace or repair the Property, or the affected portion thereof, or to use such amounts to redeem Bonds, in each case as set forth in the Indenture, then such proceeds (and rental interruption insurance proceeds not applied pursuant to the next paragraph) will, if there is first delivered to the Trustee a Written Certificate of the City to the effect that the annual fair rental value of the Property after such damage or destruction, and after any repairs or replacements made as a result of such damage or destruction, is at least equal to 100% of the maximum amount of Base Rental Payments becoming due under the Lease Agreement in the then current Rental Period or any subsequent Rental Period and the fair replacement value of the Property after such damage or destruction is at least equal to the principal amount of the Outstanding Bonds, be paid to the City to be used for any lawful purpose.

Proceeds of rental interruption insurance will be deposited to the Base Rental Payment Fund and applied to the payment of Base Rental Payments to the extent of any abatement thereof pursuant to the Lease Agreement, and otherwise as directed by the City.

The proceeds of any award in eminent domain received in respect to the Property will be deposited by the Trustee in the Redemption Fund and applied to the redemption of Bonds pursuant to the Indenture and the corresponding provisions of any Supplemental Indenture pursuant to which Additional Bonds are issued.

Title Insurance. Proceeds of any policy of title insurance received by the Trustee in respect of the Property will be applied and disbursed by the Trustee as follows:

(a) if the City determines that the title defect giving rise to such proceeds has not substantially interfered with its use and occupancy of the 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 the City determines that the title defect giving rise to such proceeds has substantially interfered with its use and occupancy of the Property and will result in an abatement of Rental Payments payable by the City under the Lease Agreement, then the Trustee 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 and the corresponding provisions of any Supplemental Indenture pursuant to which Additional Bonds are issued.

Rebate Fund.

(a) Establishment. The Trustee will establish a fund for the Bonds designated the “Rebate Fund” when required in accordance with the Indenture. Absent an Opinion of Counsel that the exclusion from gross income for federal income tax purposes of interest on the Series 2025 Bonds will not be adversely affected, the Authority will cause to be deposited in the Rebate Fund such amounts as are required to be deposited therein pursuant to the Indenture and the Tax Certificate. All money at any time deposited in the Rebate Fund will be held by the Trustee in trust for payment to the United States Treasury. All amounts on deposit in the Rebate Fund for the Series 2025 Bonds will be governed by the Indenture and the Tax Certificate, unless and to the extent that the Authority delivers to the Trustee an opinion of Bond Counsel that the exclusion from gross income for federal income tax purposes of interest on the Bonds will not be adversely affected if such requirements are not satisfied. Notwithstanding anything to the contrary contained in the Indenture or in the Tax Certificate, the Trustee: (1) will be deemed conclusively to have complied with the Indenture if it follows all Written Requests of the Authority or Written Requests of the City; (2) will have no liability or responsibility to enforce compliance by the Authority or the City with the terms of the Tax Certificate and will not be deemed to have knowledge of the terms thereof; (3) may rely conclusively on the Authority’s or the City’s calculations and determinations and certifications relating to rebate matters; and (4) will have no responsibility to independently make any calculations or determinations or to review the Authority’s or the City’s calculations or determinations thereunder.

(i) Annual Computation. Within 55 days of the end of each fifth Bond Year (as such term is defined in the Tax Certificate), the Authority will calculate or cause to be calculated the amount of rebatable arbitrage, in accordance with Section 148(f)(2) of the Code and Section 1.148-3 of the Treasury Regulations (taking into account any applicable exceptions with respect to the computation of the rebatable arbitrage, described, if applicable, in the Tax Certificate (e.g., the temporary investments exceptions of Section 148(f)(4)(B) and the construction expenditures exception of Section 148(f)(4)(C) of the Code), and taking into account whether the election pursuant to Section 148(f)(4)(C)(vii) of the Code (the “1½% Penalty”) has been made), for this purpose treating the last day of the applicable Bond Year as a computation date, within the meaning of Section 1.148-1(b) of the Treasury Regulations (the “Rebatable Arbitrage”). The Authority will obtain expert advice as to the amount of the Rebatable Arbitrage to comply with the Indenture.

(ii) Annual Transfer. Within 55 days of the end of each fifth Bond Year, upon the Written Request of the Authority or Written Request of the City, an amount will be deposited to the Rebate Fund by the Trustee from any Rental Payments legally available for such purpose (as specified by the Authority or the City in the aforesaid Written Request), if and to the extent required, so that the balance in the Rebate Fund will equal the amount of Rebatable Arbitrage so calculated in accordance with clause (i) above. In the event that immediately following the transfer required by the previous sentence, the amount then on deposit to the credit of the Rebate Fund exceeds the amount required to be on deposit therein, upon Written Request of the Authority or Written Request of the City, the Trustee will withdraw the excess from the Rebate Fund and then credit the excess to the Base Rental Payment Fund.

(iii) Payment to the Treasury. The Trustee will pay, as directed by Written Request of the Authority, to the United States Treasury, out of amounts in the Rebate Fund:

(A) Not later than 60 days after the end of: (X) the fifth Bond Year; and (Y) each applicable fifth Bond Year thereafter, an amount equal to at least 90% of the Rebatable Arbitrage calculated as of the end of such Bond Year; and

(B) Not later than 60 days after the payment of all of the Bonds, an amount equal to 100% of the Rebatable Arbitrage calculated as of the end of such applicable Bond Year, and any income attributable to the Rebatable Arbitrage, computed in accordance with Section 148(f) of the Code and Section 1.148-3 of the Treasury Regulations.

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

(b) Disposition of Unexpended Funds. Any funds remaining in the Rebate Fund after redemption and payment of the Series 2025 Bonds and the payments described in the Indenture (a) above being made may be withdrawn by the Authority and utilized in any manner by the Authority.

(c) Survival of Defeasance. Notwithstanding anything in the Indenture to the contrary, the obligation to comply with the requirements of the Indenture will survive the defeasance or payment in full of the Series 2025 Bonds.

Investment of Moneys. Except as otherwise provided in the Indenture, all moneys in any of the funds or accounts established pursuant to the Indenture and held by the Trustee will be invested by the Trustee solely

in Permitted Investments, as directed in writing by the Authority. The Trustee may conclusively rely upon the Authority's written instructions as to both suitability and legality of Permitted Investments. Moneys in all funds and accounts held by the Trustee will be invested in Permitted Investments maturing not later than the date on which it is estimated that such moneys will be required for the purposes specified in the Indenture. Absent timely written direction from the Authority, the Trustee will hold any funds held by it uninvested.

Subject to the provisions of the Indenture, all interest, profits and other income received from the investment of moneys in any fund or account established pursuant to the Indenture will be retained in such fund or account.

Permitted Investments acquired as an investment of moneys in any fund established under the Indenture will be credited to such fund. For the purpose of determining the amount in any fund, all Permitted Investments credited to such fund will be valued by the Trustee at the fair market value thereof, such valuation to be performed not less frequently than semiannually on or before each May 15 and November 15. In determining fair market value, the Trustee may use and rely conclusively on any generally recognized securities pricing service available to it (including brokers and dealers in securities).

The Trustee may act as principal or agent in the making or disposing of any investment. Upon the Written Request of the Authority, the Trustee will sell or present for redemption any Permitted Investments so purchased whenever necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund to which such Permitted Investments is credited, and the Trustee will not be liable or responsible for any loss resulting from any investment made or sold pursuant to the Indenture. The Trustee shall have no liability in respect of losses incurred as a result of the liquidation of any investment prior to its stated maturity or failure of the Authority to provide timely written investment direction. Ratings of permitted investments shall be determined at the time of purchase of such permitted investments and without regard to ratings subcategories. For purposes of investment, the Trustee may commingle moneys in any of the funds and accounts established under the Indenture.

The Trustee may make any investments under the Indenture through the bond or investment department or trust investment department of the entity acting as Trustee thereunder, or those of such entity's parent or any affiliate, and such entity, or its parent or affiliate, as applicable, is entitled to its normal, customary and reasonable compensation for such services.

The entity acting as Trustee under the Indenture, or any of its affiliates, may act as sponsor, advisor or manager in connection with any investments made by the Trustee thereunder and such entity, or its affiliate, as applicable, is entitled to its normal, customary and reasonable compensation for such services, including account maintenance fees.

The Authority and the City have acknowledged that, to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the Authority and the City the right to receive brokerage confirmations of security transactions as they occur, at no additional cost, the Authority and the City have specifically waived receipt of such confirmations to the extent permitted by law.

## COVENANTS

Compliance with Agreements. The Trustee will not authenticate or deliver any Bonds in any manner other than in accordance with the provisions of the Indenture, and the Authority and the City will not suffer or permit any default by them to occur thereunder, but will faithfully comply with, keep, observe and perform all the agreements, conditions, covenants and terms thereof required to be complied with, kept, observed and performed by them.

Compliance with Ground Lease and Lease Agreement. The Authority and the City will faithfully comply with, keep, observe and perform all the agreements, conditions, covenants and terms contained in the



Ground Lease and the Lease Agreement required to be complied with, kept, observed and performed by them and, together with the Trustee, will enforce the Ground Lease and the Lease Agreement against the other party thereto in accordance with their respective terms.

Observance of Laws and Regulations. The Authority, the City and the Trustee will faithfully comply with, keep, observe and perform all valid and lawful obligations or regulations now or later 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 later 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 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, and free from any claim or liability which materially impairs the City in conducting its business or utilizing the 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 so comply within such ten-day period) may, but is in no event obligated to, defend against any and all actions or proceedings, 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 thereunder and to perform such agreements and covenants.

So long as any Bonds are Outstanding, none of the Trustee, the Authority or the City will create or suffer to be created any pledge of or lien the amounts on deposit in any of the funds or accounts created under the Indenture, other than the pledge and lien thereof.

The Authority, the City and the Trustee will not encumber the Property other than in accordance with the Ground Lease, the Lease Agreement, the Indenture and the Assignment Agreement.

Prosecution and Defense of Suits. The City will promptly, upon request of the Trustee (which request the Trustee is not required to make), take such action from time to time as may be necessary or proper to remedy or cure any cloud upon or defect in the title to the Property or any part thereof, whether now existing or later developing, will prosecute all actions, suits or other proceedings as may be appropriate for such purpose and will indemnify and save the Trustee harmless from all cost, damage, expense or loss, including attorneys' fees and expenses, which it or the Owners may incur by reason of any such cloud, defect, action, suit or other proceeding.

Accounting Records and Statements. The Trustee will keep proper accounting records in which complete and correct entries are made of all transactions relating to the receipt, deposit and disbursement of the Base Rental Payments, and such accounting records will be available for inspection by the Authority and the City at reasonable hours and under reasonable conditions, including, without limitation, reasonable prior written notice of inspection.

Recordation and Filing. The City will record, or cause to be recorded, with the appropriate county recorder, the Lease Agreement, the Ground Lease and the Assignment Agreement, or memoranda thereof.

Tax Covenants. Notwithstanding any other provision of the Indenture, absent an Opinion of Counsel that the exclusion from gross income of the interest on the Series 2025 Bonds will not be adversely affected for federal income tax purposes, the City and the Authority covenant to comply with all applicable requirements of the Code necessary to preserve such exclusion from gross income with respect to the Series 2025 Bonds and specifically covenant, without limiting the generality of the foregoing, as follows:

(a) (a) No Arbitrage. The City and the Authority will not take, or permit or suffer to be taken by the Fiscal Agent or otherwise, any action with respect to the proceeds of the Series 2025A Bonds which, if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the date of issuance of the Series 2025A Bonds would have caused the Series 2025A Bonds to be “arbitrage bonds” within the meaning of section 148 of the Code.

(b) Rebate Requirement. The City and the Authority will take any and all actions necessary to assure compliance with section 148(f) of the Code, relating to the rebate of excess investment earnings, if any, to the federal government, to the extent that such section is applicable to the Series 2025A Bonds.

(c) Private Activity Bond Limitation. The City and the Authority will assure that the proceeds of the Series 2025A Bonds are not so used as to cause the Series 2025A Bonds to satisfy the private business tests of section 141(b) of the Code or the private loan financing test of section 141(c) of the Code.

(d) Federal Guarantee Prohibition. The City and the Authority will not take any action or permit or suffer any action to be taken if the result of such action would be to cause any of the Series 2025A Bonds to be “federally guaranteed” within the meaning of section 149(b) of the Code.

(e) Maintenance of Tax-Exemption. The City and the Authority will take all actions necessary to assure the exclusion of interest on the Series 2025A Bonds from the gross income of the Owners of the Series 2025A Bonds to the same extent as such interest is permitted to be excluded from gross income under the Code as in effect on the date of issuance of the Series 2025A Bonds.

(f) Record Retention. The City and the Authority will retain its records of all accounting and monitoring they carry out with respect to the Series 2025A Bonds for at least 3 years after the Series 2025A Bonds mature or are redeemed (whichever is earlier); however, if the Series 2025A Bonds are redeemed and refunded, the City and the Authority will retain their records of accounting and monitoring at least 3 years after the earlier of the maturity or redemption of the obligations that refunded the Series 2025A Bonds.

(g) Compliance with Tax Certificate. The City and the Authority will comply with the provisions of the Tax Certificate with respect to the Series 2025A Bonds, which are incorporated herein as if fully set forth herein.

The covenants above will survive payment in full or defeasance of the Series 2025A Bonds. The Indenture and the covenants set forth therein will not be applicable to, and nothing contained therein will be deemed to prevent the City and the Authority from causing the Trustee to issue revenue bonds or to execute and deliver contracts payable on a parity with the Series 2025 Bonds, the interest with respect to which has been determined by an Opinion of Counsel to be subject to federal income taxation.

Continuing Disclosure. The City 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 does not constitute an event of default under the Indenture; provided, however, that the Trustee may (and, at the written direction of any Participating Underwriter or the holders of at least 25% of the aggregate principal amount of Outstanding Bonds, and upon being indemnified to its reasonable satisfaction therefor, will) or any holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate to compel performance, including seeking mandate or specific performance by court order.

Further Assurances. Whenever and so often as requested to do so by the Trustee, the Authority and the City 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 all advantages, benefits, interests, powers, privileges and rights conferred or intended to be conferred upon it by the Indenture, the Assignment Agreement, the Ground Lease or the Lease Agreement.

#### DEFAULT AND LIMITATIONS OF LIABILITY

Action on Default. If an event of default (within the meaning of the Lease Agreement) happens, then such event of default will constitute an event of default under the Indenture. The Trustee will give notice, as assignee of the Authority, will give notice to the City of an event of default under the Lease Agreement. In each and every case during the continuance of an event of default, the Trustee may upon notice in writing to the City and the Authority, exercise any of the remedies granted to the Authority under the Lease Agreement and, in addition, 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 the caption “—Other Remedies of the Trustee.”

Other Remedies of the Trustee. Subject to the provisions of the Indenture, the Trustee has the right:

(a) by mandamus or other action or proceeding or suit at law or in equity to enforce its rights against the Authority or the City or any member, director, officer or employee thereof, and to compel the Authority or the City or any such member, 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 event of default under the Indenture to require the Authority and the City to account as the trustee of an express trust.

Nothing in the Indenture will be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Owner any plan of reorganization, arrangement, adjustment or composition affecting the Bonds or the rights of any Owner thereof, or to authorize the Trustee to vote in respect of the claim of any Owner in any such proceeding without the approval of the Owners so affected.

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 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 the Indenture may be enforced and exercised from time to time and as often the Trustee deems 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, then subject to any adverse determination, the Trustee, such Owner, the Authority and the City 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. Subject to the provisions of the Indenture, no remedy conferred upon or reserved to the Trustee therein is intended to be exclusive of any other remedy, and each such remedy will be cumulative and in addition to every other remedy given thereunder or now or later existing in 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, does 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 has no obligation or liability to the Owners with respect to the payment when due of the Base Rental 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 the Indenture, or with respect to the performance by the Trustee of any right or obligation required to be performed by it contained therein.

No Liability by the City to the Owners. Except for the payment when due of the Base Rental Payments and the performance of the other agreements and covenants required to be performed by it contained in the Lease Agreement, the Ground Lease or the Indenture, the City has no obligation or liability to the Owners with respect to the Trust Indenture or the preparation, execution, delivery or transfer of the Bonds or the disbursement of the Base Rental Payments 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 of the Trustee to the Owners. Except as expressly provided in the Indenture, the Trustee has no obligation or liability to the Owners with respect to the payment when due of the Base Rental Payments by the City, or with respect to the performance by the Authority or the City of the other agreements and covenants required to be performed by them contained in the Lease Agreement, the Ground Lease or the Indenture.

Application of Amounts After Default. All payments received by the Trustee with respect to the rental of the Property after a default by the City pursuant to the Lease Agreement (including, without limitation, any proceeds received in connection with the sale, assignment or sublease of the Authority's right, title and interest in the Ground Lease), 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 Base Rental Payment Fund and as soon as practicable thereafter applied, together with all other funds held under the Indenture (except funds in the Rebate Fund):

- (a) to the payment of all amounts due the Trustee under the Indenture;
- (b) to the payment of all amounts then due for interest on the Bonds, in respect of which, or for the benefit of which, money has been collected (other than Bonds which have 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 of interest on such Bonds due and payable; and
- (c) to the payment of all amounts then due for principal of the Bonds, in respect of which, or for the benefit of which, money has been collected (other than Bonds which have 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 of principal of such Bonds due and payable.

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 in respect of which such judgment has been recovered.

Limitation on Suits. No Owner of any Bond has 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 thereunder, unless (a) such Owner has previously given written notice to the Trustee of a continuing event of default, (b) the Owners of not less than 25% of the aggregate principal amount of Bonds then Outstanding 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, (c) 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, (d) the Trustee for 60 days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceedings, and (e) no direction inconsistent with such written request has been given to the Trustee during such 60 day period by the Owners of a majority of the aggregate principal amount of Bonds then Outstanding; it being understood and intended that no one or more Owners 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, 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.

## THE TRUSTEE

Employment of the Trustee. The Authority has appointed and employed the Trustee to receive, deposit and disburse the Base Rental Payments, to authenticate, deliver and transfer the Bonds and to perform the other functions contained in the Indenture, all in the manner provided therein and subject to the conditions and terms thereof. By executing and delivering the Indenture, the Trustee has accepted the appointment and employment referred to in the Indenture and accepts the rights and obligations of the Trustee provided therein, subject to the conditions and terms thereof. Other than when an event of default has occurred and is continuing, 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 his own affairs. The Trustee has covenanted and agreed that it will not encumber the Property other than in accordance with the Indenture or the Assignment Agreement.

Duties, Removal and Resignation of the Trustee. The Authority will remove the Trustee initially a party thereto and any successor thereto if at any time (a) requested to do so by an instrument or concurrent instruments in writing signed by the Owners of a majority of the aggregate principal amount of Bonds at the time Outstanding (or their attorneys duly authorized in writing), or (b) the Trustee will cease to be eligible in accordance with the following sentence, and will appoint a successor Trustee. The Trustee and any successor Trustee will be: (i) a national banking association in good standing authorized to exercise trust powers or having the powers of a trust company and duly authorized to exercise trust powers within the State having a combined capital and surplus of at least \$250,000,000, and subject to supervision or examination by federal or state authority, or (ii) a state-chartered commercial bank that is a member of the Federal Reserve System having at least \$1,000,000,000 of assets. No removal, resignation or termination of the Trustee will take effect until a successor, meeting the requirements above, will be qualified and appointed. If such entity 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 the Indenture the combined capital and surplus of such entity will be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

The Authority shall provide 30 days written notice to the Trustee of the removal of the Trustee and the removal of the Trustee by the Authority shall be subject to such party not being in default under the transaction documents.

The Trustee may at any time resign by giving written notice of such resignation to the Authority and the City and by giving notice, by first class mail, postage prepaid, of such resignation to the Owners at their addresses appearing on the Registration Books. Upon receiving such notice of resignation, the Authority will promptly appoint a successor Trustee by an instrument in writing; provided, however, that in the event the Authority does not appoint a successor Trustee within 30 days following receipt of such notice of resignation, the resigning Trustee may, at the expense of the Authority, 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.

Any corporation, association or agency into which the Trustee may be converted or merged, or with which it may be consolidated, or to which it may sell or transfer its corporate trust business and assets as a whole or substantially as a whole, or any corporation or association resulting from any such conversion, sale, merger, consolidation or transfer to which it is a party, provided that such entity meets the combined capital and surplus requirements of the Indenture, ipso facto, will be and become successor trustee under the Indenture and vested with all the trusts, powers, discretions, immunities, privileges and all other matters as was its predecessor, without the execution or filing of any instrument or any further act, deed or conveyance on the part of any of the parties to the Indenture, anything therein to the contrary notwithstanding.

Compensation of the Trustee. The City will from time to time, subject to any written agreement then in effect with the Trustee, pay the Trustee reasonable compensation for all its services rendered under the Indenture and reimburse the Trustee for all its reasonable advances and expenditures (which will not include “overhead expenses” except as such expenses are included as a component of the Trustee’s stated annual fees) thereunder, including but not limited to advances to and reasonable fees and reasonable expenses of accountants, agents, appraisers, consultants or other experts, and counsel not directly employed by the Trustee but an attorney or firm of attorneys retained by the Trustee, employed by it in the exercise and performance of its rights and obligations thereunder. The Trustee may take whatever legal actions are lawfully available to it directly against the Authority or the City.

The City will, to the extent permitted by law, indemnify and save the Trustee harmless against any loss, damage, liabilities, costs, claims or expenses, including those of its attorneys, which it may incur in the exercise and performance of its powers and duties under the Indenture, under the Lease Agreement, or in connection with any document or transaction contemplated thereunder, including the enforcement of any remedies and the defense of any suit, and which are not due to its negligence or its willful misconduct as finally adjudicated by a court of competent jurisdiction. The duty of the City to indemnify the Trustee will survive the termination and discharge of the Indenture and the earlier removal or resignation of the Trustee.

If the Trustee renders any service hereunder not provided for in the Indenture or related financing documents, or the Trustee is made a party to or intervenes in any litigation pertaining to the Indenture or related financing documents or institutes interpleader proceedings relative hereto, the Trustee shall be compensated reasonably by the Authority for such extraordinary services and reimbursed for any and all claims, liabilities, losses, damages, fines, penalties, and expenses, including out-of-pocket and incidental expenses and legal fees and expenses occasioned thereby.

No provision of the Indenture requires the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties thereunder or in the exercise of any of its rights or powers thereunder. The Trustee may refuse to perform any duty or exercise any right or power which would require it to expend its own funds or risk any liability if it shall reasonably believe that repayment of such funds or adequate indemnity against such risk is not reasonably assured to it.

Upon an Event of Default, and only upon an Event of Default, the Trustee will have a first lien with right of payment prior to payment on account of principal of and premium, if any, and interest on any Bond, upon the trust estate for the foregoing fees, charges and expenses incurred by it. When the Trustee incurs expenses or renders services after the occurrence of an Event of Default, such expenses and the compensation

for such services are intended to constitute expenses of administration under any federal or state bankruptcy, insolvency, arrangement, moratorium, reorganization or other debtor relief law.

Protection of the Trustee. The Trustee will be protected and incur no liability in acting or proceeding in good faith upon any affidavit, bond, certificate, consent, notice, request, requisition, resolution, statement, telegram, voucher, waiver or other paper or document which it in good faith believes 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 is 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 is 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 have offered to the Trustee security or indemnity, reasonably satisfactory to the Trustee, against the reasonable costs, expenses and liabilities which might be incurred by it in compliance with such request or direction. The Trustee may consult with counsel, who may be counsel to the Authority or the City, 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 is not responsible for the sufficiency of the Bonds or the Lease Agreement, or of the assignment made to it by the Assignment Agreement, or for statements made in any preliminary or final official statement or any other disclosure material prepared or distributed relating to the Bonds, or of the title to the Property. The Trustee shall have no responsibility for compliance with any state or federal securities laws in connection with the Bonds.

Whenever in the administration of its rights and obligations under the Indenture the Trustee deems it necessary or desirable that a matter be proved or established prior to taking or suffering any action thereunder, such matter (unless other evidence in respect thereof is specifically prescribed) may be deemed to be conclusively proved and established by a Written Certificate of the City or a Written Certificate of the Authority, 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 in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as it deems 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 Authority or the City, 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 hereof and perform any rights and obligations required of it hereunder either directly or by or through agents, attorneys, custodians, nominees or receivers appointed with due care, and shall be entitled to advice of counsel concerning all matters of trust and its rights and obligations hereunder, and the Trustee shall not be answerable for the negligence or misconduct of any such agent, attorney, custodian, nominee or receiver selected by it with reasonable care. The Trustee shall not be liable for any error of judgment made by it in good faith unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts.

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

The Trustee will not be deemed to have knowledge of an event of default unless it has actual knowledge thereof.

The Trustee may, on behalf of the Owners, intervene in any judicial proceeding to which the Authority or the City is a party and which, in the opinion of the Trustee and its counsel, affects the Bonds or the security therefor, and will do so if requested in writing by the Owners of at least 5% of the aggregate principal amount of Bonds then Outstanding, provided that the Trustee has no duty to take such action unless it has been indemnified to its reasonable satisfaction against all risk or liability arising from such action.

The Trustee's rights to immunities and protection from liability under the Indenture and its rights to payment of its fees and expenses will survive its resignation or removal and final payment or defeasance of the Bonds.

All indemnifications and releases from liability granted to the Trustee in the Indenture extend to the directors, officers, employees and agents of the Trustee.

The permissive right of the Trustee to do things enumerated in the Indenture will not be construed as a duty, and the Trustee will not be answerable for other than its negligence or willful default. The Trustee has no responsibility or liability with respect to any information, statements or recitals in any offering memorandum or other disclosure material prepared or distributed with respect to the issuance of these Bonds. The Trustee is not accountable for the use or application by the Borrower of any of the Bonds or the proceeds thereof or for the use or application of any money paid over by the Trustee in accordance with the provisions of the Indenture or for the use and application of money received by any paying agent.

In no event is the Trustee responsible or liable for special, indirect, consequential, punitive or incidental loss or damage of any kind whatsoever (including, but not limited to, loss of profit) irrespective of whether the Trustee has been advised of the likelihood of such loss or damage and regardless of the form of action.

In no event is the Trustee responsible or liable for any failure or delay in the performance of its obligations under the Indenture arising out of or caused by, directly or indirectly, forces beyond its control, including, without limitation, strikes, work stoppages, accidents, acts of war or terrorism, civil or military disturbances, pandemics, epidemics, recognized public emergencies, quarantine restrictions, nuclear or natural catastrophes or acts of God, interruptions, loss or malfunctions of utilities, communications or computer (software and hardware) services, and hacking, cyber-attacks, or other use or infiltration of the Trustee's technological infrastructure exceeding authorized access; it being understood that the Trustee will use reasonable efforts that are consistent with accepted practices in the banking industry to resume performance as soon as practicable under the circumstances.

The Trustee will have the right to accept and act upon instructions, including funds transfer instructions ("Instructions") given pursuant to the Indenture and related financing documents and delivered using Electronic Means; provided, however, that the Authority or the City, as applicable, shall provide to the Trustee an incumbency certificate listing officers with the authority to provide such Instructions ("Authorized Officers") and containing specimen signatures of such Authorized Officers, which incumbency certificate shall be amended by the Authority or the City, as applicable, whenever a person is to be added or deleted from the listing. If the Authority or the City, as applicable, elects to give the Trustee Instructions using Electronic Means and the Trustee in its discretion elects to act upon such Instructions, the Trustee's understanding of such Instructions shall be deemed controlling. The Authority and the City understand and agree that the Trustee cannot determine the identity of the actual sender of such Instructions and that the Trustee shall conclusively presume that directions that purport to have been sent by an Authorized Officer listed on the incumbency certificate provided to the Trustee have been sent by such Authorized Officer. The Authority and the City shall be responsible for ensuring that only Authorized Officers transmit such Instructions to the Trustee and that the Authority, the City and all Authorized Officers are solely responsible to safeguard the use and confidentiality of applicable user and authorization codes, passwords and/or authentication keys upon receipt by the Authority and/or the City, as applicable. The Trustee shall not be liable for any losses, costs or expenses arising directly or indirectly from the Trustee's reliance upon and compliance with such Instructions.



notwithstanding such directions conflict or are inconsistent with a subsequent written instruction. The Authority and the City agree: (i) to assume all risks arising out of the use of Electronic Means to submit Instructions to the Trustee, including, without limitation, the risk of the Trustee acting on unauthorized Instructions, and the risk of interception and misuse by third parties; (ii) that it is fully informed of the protections and risks associated with the various methods of transmitting Instructions to the Trustee and that there may be more secure methods of transmitting Instructions than the method(s) selected by the Authority and/or the City, as applicable; (iii) that the security procedures (if any) to be followed in connection with its transmission of Instructions provide to it a commercially reasonable degree of protection in light of its particular needs and circumstances; and (iv) to notify the Trustee immediately upon learning of any compromise or unauthorized use of the security procedures.

In acting or omitting to act pursuant to the Lease Agreement or Ground Lease, the Trustee is entitled to all of the rights, immunities and indemnities accorded to it under the Indenture and the Lease Agreement.

## MODIFICATION OR AMENDMENTS

### Modifications and Amendments Permitted.

(a) The Indenture and the rights and obligations of the Authority, the City, the Owners of the Bonds and the Trustee may be modified or amended from time to time and at any time by a Supplemental Indenture, which the Authority, the City and the Trustee may enter into with the prior written consent of the Owners of a majority in aggregate principal amount of all Bonds then Outstanding, which has been filed with the Trustee. No such modification or amendment may: (i) extend the fixed maturity of any Bonds, or reduce the amount of principal thereof or the rate of interest thereon, or extend the time of payment, without the consent of the Owner of each Bond so affected, or (ii) reduce the aforesaid percentage of Bonds the consent of the Owners of which is required to effect any such modification or amendment, or (iii) permit the creation of any lien on the Base Rental Payments and other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture or deprive the Owners of the Bonds of the lien created by the Indenture on such Base Rental Payments and other assets (except as expressly provided in the Indenture), without the consent of the Owners of all of the Bonds then Outstanding. It is not necessary for the consent of the Bond Owners to approve the particular form of any Supplemental Indenture, but it is sufficient if such consent approves the substance thereof.

(b) The Indenture and the rights and obligations of the Authority, the City, the Trustee and the Owners of the Bonds may also be modified or amended from time to time and at any time by a Supplemental Indenture, which the Authority, the City and the Trustee may enter into without the consent of any Bond Owners for any one or more of the following purposes:

(1) to add to the covenants and agreements of the Authority or the City contained in the Indenture other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power therein reserved to or conferred upon the Authority or the City;

(2) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision contained in the Indenture;

(3) to provide for the issuance of one or more Series of Additional Bonds, and to provide the terms and conditions under which such Series of Additional Bonds may be issued, subject to and in accordance with the provisions of the Indenture;

(4) to modify, amend or supplement the Indenture in such manner as to permit the qualification thereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute later

in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute;

(5) to modify, amend or supplement the Indenture in such manner as to cause interest on the Bonds to be excludable from gross income for purposes of federal income taxation by the United States of America; and

(6) in any other respect whatsoever as the Authority and the City may deem necessary or desirable, provided that such modification or amendment does not materially adversely affect the interests of the Bond Owners under the Indenture.

(c) Promptly after the execution by the Authority, the City and the Trustee of any Supplemental Indenture, the Trustee will mail a notice (the form of which will be furnished to the Trustee by the Authority), by first class mail postage prepaid, setting forth in general terms the substance of such Supplemental Indenture, to the Owners of the Bonds at the respective addresses shown on the Registration Books. Any failure to give such notice, or any defect therein, will not, however, in any way impair or affect the validity of any such Supplemental Indenture.

(d) No Supplemental Indenture will modify any of the rights or obligations of the Trustee without the Trustee's prior written consent.

The Authority or the City will send copies of any Supplemental Indenture to any rating agency which maintains a rating with respect to any Series 2025 Bonds.

Effect of Supplemental Indenture. Upon the execution of any Supplemental Indenture pursuant to the Indenture, the Indenture will be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations thereunder of the Authority, the City, the Trustee and all Owners of Bonds Outstanding will thereafter be determined, exercised and enforced thereunder subject in all respects to such modification and amendment, and all the terms and conditions of any such Supplemental Indenture will be deemed to be part of the terms and conditions of the Indenture for any and all purposes.

In executing, or accepting the additional trusts created by any supplemental indenture permitted by this Article or the modification thereby of the trusts created by the Indenture, the Trustee shall be entitled to receive, and shall be fully protected in relying upon, an opinion of counsel stating that the execution of such supplemental indenture is authorized or permitted by the Indenture and complies with the terms hereof.

Endorsement of Bonds; Preparation of New Bonds. Bonds delivered after the execution of any Supplemental Indenture pursuant to the Indenture may, and if the Authority so determines will, bear a notation by endorsement or otherwise in form approved by the Authority and the Trustee as to any modification or amendment provided for in such Supplemental Indenture, and, in that case, upon demand of the Owner of any Bonds Outstanding at the time of such execution and presentation of their Bonds for the purpose at the Office of the Trustee a suitable notation will be made on such Bonds. If the Supplemental Indenture so provides, new Bonds so modified as to conform, in the opinion of the Authority and the Trustee, to any modification or amendment contained in such Supplemental Indenture, will be prepared and executed by the Authority and authenticated by the Trustee, and upon demand of the Owners of any Bonds then Outstanding will be exchanged at the Office of the Trustee, without cost to any Bond Owner, for Bonds then Outstanding, upon surrender for cancellation of such Bonds, in equal aggregate principal amount of the same interest rate and maturity.

Amendment of Particular Bonds. The provisions of the Indenture do not prevent any Bond Owner from accepting any amendment as to the particular Bonds held by such Owner.

## DEFEASANCE

Discharge of Indenture. If the Authority pays or cause to be paid or there is otherwise paid to the Owners of all Outstanding Bonds the principal thereof and the interest and premium, if any, thereon at the times and in the manner stipulated in the Indenture and the Bonds, then the Owners of such Bonds will cease to be entitled to the pledge of the Base Rental Payments and the other assets as provided in the Indenture, and all agreements, covenants and other obligations of the Authority and the City to the Owners of such Bonds thereunder will thereupon cease, terminate and become void and be discharged and satisfied. In such event, the Trustee will execute and deliver to the Authority and the City all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee will pay over or deliver to the City all money or securities held by it pursuant to the Indenture which are not required for the payment of the principal of and interest and premium, if any, on such Bonds.

Subject to the provisions of the above paragraph, when any of the Bonds have been paid and if, at the time of such payment, the Authority and the City have kept, performed and observed all of the covenants and promises in such Bonds and in the Indenture required or contemplated to be kept, performed and observed by them on or prior to that time, then the Indenture will be considered to have been discharged in respect of such Bonds and such Bonds will cease to be entitled to the lien of the Indenture and such lien and all covenants, agreements and other obligations of the Authority and the City thereunder will cease, terminate become void and be completely discharged as to such Bonds.

Notwithstanding the satisfaction and discharge of the Indenture or the discharge of the Indenture in respect of any Bonds, those provisions of the Indenture relating to the maturity of the Bonds, interest payments and dates thereof, exchange and transfer of Bonds, replacement of mutilated, destroyed, lost or stolen Bonds, the safekeeping and cancellation of Bonds, non-presentment of Bonds, and the duties of the Trustee in connection with all of the foregoing, will remain in effect and will be binding upon the Trustee and the Owners of the Bonds and the Trustee will continue to be obligated to hold in trust any moneys or investments then held by the Trustee for the payment of the principal of and interest and premium, if any, on the Bonds, to pay to the Owners of Bonds the funds so held by the Trustee as and when such payment becomes due. Notwithstanding the satisfaction and discharge of the Indenture or the discharge of the Indenture in respect of any Bonds, those provisions of the Indenture relating to the compensation and indemnity of the Trustee will remain in effect and be binding upon the Trustee, the City and the Authority.

Bonds Deemed to Have Been Paid. If moneys have been set aside and held by the Trustee (or an escrow agent or other fiduciary) for the payment or redemption of any Bonds and the interest thereon at the maturity or redemption date thereof, such Bonds will be deemed to have been paid within the meaning and with the effect provided in the Indenture. Any Outstanding Bonds will, prior to the maturity date or redemption date thereof, be deemed to have been paid within the meaning of and with the effect expressed in the Indenture if (a) in case any of such Bonds are to be redeemed on any date prior to their maturity date, the Authority has given to the Trustee in form satisfactory to it irrevocable instructions to mail, on a date in accordance with the provisions of the Indenture, notice of redemption of such Bonds on said redemption date, said notice to be given in accordance with the Indenture, (b) there has been deposited with the Trustee (or an escrow agent or other fiduciary) either (i) money in an amount which is sufficient, or (ii) Federal Securities that are not subject to redemption other than at the option of the holder thereof, the interest on and principal of which when paid will provide money which, together with the money, if any deposited or on deposit with the Trustee at the same time, will, as verified by an independent certified public accountant, be sufficient to pay when due the interest to become due on such Bonds on and prior to the maturity date or redemption date thereof, as the case may be, and the principal of and premium, if any, on such Bonds, and (c) in the event such Bonds are not by their terms subject to redemption within the next succeeding 60 days, the Authority will have given the Trustee in form satisfactory to it irrevocable instructions to mail as soon as practicable, a notice to the owners of such Bonds that the deposit required by clause (b) above has been made with the Trustee (or an escrow agent or other fiduciary) and that such Bonds, are deemed to have been paid in accordance with the

Indenture and stating the maturity date or redemption date upon which money is to be available for the payment of the principal of and premium, if any, on such Bonds.

Payment of Bonds After Discharge of Indenture. Notwithstanding any provisions of the Indenture, to the extent permitted by law, any moneys held by the Trustee in trust for the payment of the principal of, or premium or interest on, any Bonds and remaining unclaimed for two years after the date of deposit of such moneys, will be repaid to the Authority (without liability for interest) free from the trusts created by the Indenture, and all liability of the Trustee with respect to such moneys will thereupon cease; provided, however, that before the repayment of such moneys to the Authority as aforesaid, the Trustee may (at the cost of the Authority) first mail, by first class mail postage prepaid, to the Owners of Bonds which have not yet been paid, at the respective addresses shown on the Registration Books, a notice, in such form as may be deemed appropriate by the Trustee with respect to the Bonds so payable and not presented and with respect to the provisions relating to the repayment to the Authority of the moneys held for the payment thereof. Any money held by the Trustee pursuant to this paragraph shall be held uninvested and without any liability for interest.

#### MISCELLANEOUS

Benefits of Indenture Limited to Parties. Nothing contained in the Indenture, expressed or implied, is intended to give to any person other than the Authority, the City, the Trustee and the Owners any claim, remedy or right under or pursuant thereto, and any agreement, condition, covenant or term required therein to be observed or performed by or on behalf of the Authority or the City is for the sole and exclusive benefit of the Trustee and the Owners.

Successor Deemed Included in all References to Predecessor. Whenever the Authority, the City or the Trustee, or any officer thereof, is named or referred to in the Indenture, such reference will be deemed to include the successor to the powers, duties and functions that are presently vested in the Authority, the City or the Trustee, or such officer, and all agreements, conditions, covenants and terms required by the Indenture to be observed or performed by or on behalf of the Authority, the City or the Trustee, or any officer thereof, will bind and inure to the benefit of the respective successors thereof whether so expressed or not.

Execution of Documents by Owners. Any declaration, request or other instrument which is permitted or required in the Indenture to be executed by Owners may be in one or more instruments of similar tenor and may be executed by Owners in person or by their attorneys appointed in writing. The fact and date of the execution by any Owner or his attorney of any declaration, request or other instrument or of any writing appointing such attorney may be proved by the certificate of any notary public or other officer authorized to take acknowledgments of deeds to be recorded in the state or territory in which he purports to act that the person signing such declaration, request or other instrument or writing acknowledged to him the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer, or by such other proof as the Trustee may accept which it may deem sufficient.

The ownership of any Bonds and the amount, payment date, number and date of owning the same may be proved by the Registration Books.

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

Waiver of Personal Liability. Notwithstanding anything contained in the Indenture to the contrary, no member, officer or employee of the Authority or the City will be individually or personally liable for the payment of any moneys, including without limitation, the principal of or interest on the Bonds, but nothing contained in the Indenture relieves any member, officer or employee of the City or the Authority from the performance of any official duty provided by any applicable provisions of law, by the Lease Agreement or the Indenture.

Destruction of Bonds. Whenever in the Indenture provision is made for the cancellation by the Trustee and the delivery to the Authority of any Bonds, the Trustee may, in lieu of such cancellation and delivery, destroy such Bonds.

Funds and Accounts. Any fund or account required to be established and maintained in the Indenture by the Trustee may be established and maintained in the accounting records of 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 and accounts will at an 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 commingle any of the moneys held by it under the Indenture for investment purposes only; provided, however, that the Trustee will account separately for the moneys in each fund or account established pursuant to the Indenture. The Trustee may establish such funds and accounts as it deems necessary or appropriate to perform its obligations thereunder.

Partial Invalidity. If any one or more of the agreements, conditions, covenants or terms required in the Indenture to be observed or performed by or on the part of the Authority, the City or the Trustee is contrary to law, then such agreement or agreements, such condition or conditions, such covenant or covenants or such term or terms will be null and void to the extent contrary to law and will be deemed separable from the remaining agreements, conditions, covenants and terms of the Indenture and will in no way affect the validity of the Indenture or the Bonds, and the Owners will retain all the benefit, protection and security afforded to them under any applicable provisions of law. The Authority, the City and the Trustee have declared that they would have executed the Indenture, and each and every Article, Section, paragraph, subsection, sentence, clause and phrase thereof and would have authorized the execution and delivery of the Bonds pursuant thereto irrespective of the fact that any one or more Articles, Sections, paragraphs, subsections, sentences, clauses or phrases thereof or the application thereof to any person or circumstance may be held to be unconstitutional, unenforceable or invalid.

Disqualified Bonds. In determining whether the Owners of the requisite aggregate principal amount of Bonds have concurred in any demand, request, direction, consent or waiver under the Indenture, Bonds which are actually known by the Trustee to be owned or held by or for the account of the Authority or the City, or by any Person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the Authority or the City, will be disregarded and deemed not to be Outstanding for the purpose of any such determination; except that, in determining whether the Trustee is protected in relying upon any such demand, request, direction, consent or waiver of an Owner, only Bonds which the Trustee actually knows to be owned or held by or for the account of the Authority or the City, or by any Person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the Authority or the City, will be disregarded unless all Bonds are so owned or held, in which case such Bonds will be considered Outstanding for the purpose of such determination. Bonds so owned which have been pledged in good faith may be regarded as Outstanding for the purposes of the Indenture if the pledgee establishes to the satisfaction of the Trustee the pledgee's right to vote such Bonds and that the pledgee is not a Person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the Authority or the City. In case of a dispute as to such right, any decision by the Trustee taken upon the advice of counsel will be full protection to the Trustee. Upon request of the Trustee, the Authority and the City will specify in a Written Certificate of the City and Authority those Bonds disqualified pursuant to the Indenture and the Trustee may conclusively rely on such Certificate.

Money Held for Particular Bonds. The money held by the Trustee for the payment of the interest, principal or premium due on any date with respect to particular Bonds (or portions of Bonds in the case of Bonds redeemed in part only) will, on and after such date and pending such payment, be set aside on its books and held in trust by it for the Owners of the Bonds entitled thereto, subject, however, to the provisions of the Indenture but without any liability for interest thereon.

Payment on Non-Business Days. In the event any payment is required to be made under the Indenture on a day which is not a Business Day, such payment will be made on the next succeeding Business Day with the same effect as if made on such non-Business Day.

California Law. The Indenture will be construed and governed in accordance with the laws of the State of California.

Notice to Rating Agencies. The Trustee will provide S&P, if the Bonds are then rated by S&P, and Moody's, if the Bonds are then rated by Moody's, with prompt notice of any substitution or release of property pursuant to the Lease Agreement.

## **LEASE AGREEMENT**

### **DEFINITIONS**

Definitions. Unless the context otherwise requires, the terms defined in the Lease Agreement, for all purposes of the Lease Agreement, have the meanings therein specified, which meanings are equally applicable to both the singular and plural forms of any of the terms therein defined. Capitalized terms not otherwise defined in the Lease Agreement have the meanings assigned to such terms in the Indenture.

"Additional Bonds" means bonds other than the Series 2025 Bonds issued under the Indenture in accordance with the provisions thereof

"Additional Rental Payments" means all amounts payable by the City as Additional Rental Payments pursuant to the Lease Agreement.

"Authority" means the Watsonville Public Finance Authority, a joint exercise of powers authority organized and existing under the laws of the State of California.

"Base Rental Deposit Date" means the fifth Business Day next preceding each Interest Payment Date.

"Base Rental Payments" means all amounts payable to the Authority from the City as Base Rental Payments pursuant to the Indenture.

"Base Rental Payment Schedule" means the schedule of Base Rental Payments payable to the Authority from the City pursuant to the Lease Agreement and attached thereto.

"Bonds" means the Series 2025 Bonds, and any Additional Bonds.

"City" means the City of Watsonville, a charter city and municipal corporation duly organized and existing under and by virtue of the Constitution and laws of the State of California.

"Costs" means, with respect to the Project, together with any other proper item of cost not specifically mentioned in the Indenture, (a) costs of payment of, or reimbursement for, acquisition, design, construction, rehabilitation, installation, delivery and financing of the Project, including, but not limited to, the payment of real property rental, administrative costs and capital expenditures relating to acquisition, construction, installation, and demolition, inspection costs, filing and recording costs, printing costs, reproduction and binding costs, fees and charges of the Trustee pursuant to the Indenture and other financing documents, legal fees and charges, financial, accounting and other professional consultant fees, costs of rating agencies or credit ratings, fees for the printing, execution, transportation and safekeeping of the Series 2025 Bonds; (b) all other costs which the City will be required to pay under the terms of any contract or contracts for the acquisition, construction, delivery and installation of the Project, and demolition work required for the Project, including, but not limited to, the cost of insurance; (c) any sums required to reimburse the City for advances made for any

of the above items, or for any other costs incurred and for work done, which is properly chargeable to the Project; (d) any costs paid from the Net Insurance Proceeds to repair, restore or replace the Project; and (e) such other expenses not specified in the Indenture as may be necessary or incidental to the acquisition, construction, delivery and installation of the Project, the financing thereof and the placing of the same in use and operation. Costs, as defined in the Lease Agreement, will be deemed to include the cost and expenses incurred by any agent of the City for any of the above mentioned items.

“Ground Lease” means the Ground Lease, dated as of the Lease Agreement, by and between the City and the Authority, as originally executed and as it may from time to time be amended in accordance with the provisions thereof and of the Lease Agreement.

“Indenture” means the Indenture, dated as of the Lease Agreement, by and among the Authority, the City and the Trustee, as originally executed and as it may from time to time be amended or supplemented in accordance with the provisions thereof.

“Joint Powers Agreement” means the Joint Exercise of Powers Agreement, dated as of October 24, 2017, between the City and the Industrial Development Authority of the City of Watsonville, pursuant to which the Authority is established, as originally executed and as it may from time to time be amended in accordance with the provisions thereof.

“Lease Agreement” means the Lease Agreement, as originally executed and as it may from time to time be amended in accordance with the provisions thereof.

“Net Insurance Proceeds” means any insurance proceeds, condemnation award paid with respect to any of the Property, remaining after payment therefrom of all reasonable expenses incurred in the collection thereof.

“Permitted Encumbrances” means, with respect to the Property, as of any particular time (a) liens for general ad valorem taxes and assessments, if any, not then delinquent, or which the City may, pursuant to provisions of the Lease Agreement, permit to remain unpaid, (b) the Assignment Agreement, (c) the Lease Agreement, (d) the Ground Lease, (e) any right or claim of any mechanic, laborer, materialman, supplier or vendor not filed or perfected in the manner prescribed by law as normally exist with respect to properties similar to the Property for the purposes for which it was acquired or is held by the City, (f) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions which exist of record as of the Closing Date which the City certifies in writing will not affect the intended use of the Property or impair the security granted to the Trustee for the benefit of the Owners of the Bonds by the Indenture and the Assignment Agreement and to which the Authority and the City consent in writing, (g) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions established following the Closing Date which the City certifies in writing do not affect the intended use of the Property or impair the security granted to the Trustee for the benefit of the Owners of the Bonds by the Indenture and the Assignment Agreement and to which the Authority and the City consent in writing, and (h) future subleases of the Property entered into by the City, as sublessor, and third party tenants, as sublessee, so long as such subleases are entered into in compliance with the Lease Agreement.

“Project” is defined in the Lease Agreement.

“Property” means certain real property and improvements located thereon owned by the City and described in Exhibit A attached hereto and incorporated herein, commonly referred to as the \_\_\_\_\_, located at \_\_\_\_\_.

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

“Rental Period” means the twelve-month period commencing on May 1 of each year during the term of the Lease Agreement.

“Series 2025 Bonds” means the Watsonville Public Finance Authority Lease Revenue Bonds, Series 2025 issued under the Indenture.

“Termination Date” means May 1, 20[ ], unless extended or sooner terminated as provided in the Lease Agreement.

“Trustee” means the trustee appointed under the Indenture and referred to therein as the Trustee.

## LEASE OF PROPERTY; TERM

### Lease of Property.

(a) The Authority has leased to the City and the City has leased from the Authority the Property, on the terms and conditions set forth in the Lease Agreement, subject to all Permitted Encumbrances.

(b) The leasing of the Property by the City to the Authority pursuant to the Ground Lease does not effect or result in a merger of the City’s leasehold estate pursuant to the Lease Agreement and its fee estate as lessor under the Ground Lease, and the Authority will continue to have a leasehold estate in the Property pursuant to the Ground Lease throughout the term thereof and of the Lease Agreement. The leasehold interest granted by the City to the Authority pursuant to the Ground Lease is and will be independent of the Lease Agreement; the Lease Agreement is not an assignment or surrender of the leasehold interest granted to the Authority under the Ground Lease.

Term; Occupancy. The term of the Lease Agreement will commence on the Closing Date and end on the Termination Date, unless such term is extended or sooner terminated as provided in the Lease Agreement. If on the Termination Date the Bonds are not fully paid, or provision therefor made in accordance with the Indenture, or the Indenture is not discharged by its terms, or if the Rental Payments remain due and payable or have been abated at any time and for any reason, then the term of the Lease Agreement will be extended until the date upon which (i) all Bonds are fully paid, or provision therefor made in accordance with the Indenture or (ii) the Indenture is discharged by its terms and all Rental Payments have been paid in full. Notwithstanding the foregoing, the term of the Lease Agreement will in no event be extended more than ten years beyond the Termination Date, such extended date being the “Maximum Lease Term.” If prior to the Termination Date, all Bonds are fully paid, or provision therefor made in accordance with the provisions of the Indenture under the caption “DEFEASANCE,” the Indenture will be discharged by its terms and all Rental Payments will be paid in full, then the term of the Lease Agreement will end simultaneously therewith.

## RENTAL PAYMENTS

### Base Rental Payments.

(a) Subject to the provisions of the Lease Agreement relating to a revision of the Base Rental Payment Schedule pursuant to clause (b) below, the City will pay to the Authority, as Base Rental Payments (subject to the provisions of the Lease Agreement) the amount at the times specified in the Base Rental Payment Schedule, a portion of which Base Rental Payments constitutes principal, and a portion of which constitutes interest. Rental Payments, including Base Rental Payments, will be paid by the City to the Authority for and in consideration of the right to use and occupy the Property and in consideration of the continued right to the quiet use and enjoyment thereof during each Rental Period for which such Rental Payments are to be paid.



The obligation of the City to make the Base Rental Payments does not constitute a debt of the City or of the State of California, 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 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.

(b) If the term of the Lease Agreement has been extended pursuant thereto, the obligation of the City to pay Rental Payments will continue to and including the Base Rental Deposit Date preceding the date of termination of the Lease Agreement (as so extended pursuant to the Lease Agreement). Upon such extension, the Base Rental Payments will be established so that they will be sufficient to pay all extended and unpaid Base Rental Payments; provided, however, that the Rental Payments payable in any Rental Period may not exceed the annual fair rental value of the Property.

Additional Rental Payments. The City will also pay, as Additional Rental Payments, such amounts as are required for the payment of the following:

(a) all taxes and assessments of any type or nature charged to the Authority or the City or affecting the Property or the respective interests or estates of the Authority or the City therein;

(b) all reasonable administrative costs of the Authority relating to the Property including, but without limiting the generality of the foregoing, salaries, wages, fees and expenses, compensation and indemnification of the Trustee payable by the Authority under the Indenture, fees of auditors, accountants, attorneys or engineers, and all other necessary and reasonable administrative costs of the Authority or charges required to be paid by it in order to maintain its existence or to comply with the terms of the Indenture or the Lease Agreement or to defend the Authority and its members, officers, agents and employees;

(c) insurance premiums for all insurance required pursuant to the Lease Agreement;

(d) any amounts with respect to the Lease Agreement or the Bonds required to be rebated to the federal government in accordance with Section 148(f) of the Code; and

(e) all other payments required to be paid by the City under the provisions of the Lease Agreement or the Indenture.

Amounts constituting Additional Rental Payments payable under the Indenture will be paid by the City directly to the person or persons to whom such amounts are payable. The City will pay all such amounts when due or at such later time as such amounts may be paid without penalty or, in any other case, within 60 days after notice in writing from the Trustee to the City stating the amount of Additional Rental Payments then due and payable and the purpose thereof.

Fair Rental Value. The parties to the Lease Agreement have agreed and determined that the annual fair rental value of the Property is not less than the maximum annual Rental Payments due in any year. In making such determination of fair rental value, consideration has been given to the uses and purposes that may be served by the Property and the benefits therefrom which will accrue to the City and the general public. Payments of the Rental Payments for the Property during each Rental Period constitute the total rental for said Rental Period.

Payment Provisions. Each installment of Base Rental Payments payable under the Lease Agreement will be paid in lawful money of the United States of America to or upon the order of the Authority at the principal office of the Trustee in [San Francisco, California,] or such other place or entity as the Authority or Trustee designates. Each Base Rental Payment will be deposited with the Trustee no later than the Base Rental Deposit Date preceding the Interest Payment Date on which such Base Rental Payment is due. Any Base Rental Payment which is not paid by the City when due and payable under the terms of the Lease Agreement

will bear interest from the date when the same is due thereunder until the same is paid at the rate equal to the highest rate of interest on any of the Outstanding Bonds. Notwithstanding any dispute between the Authority and the City, the City will make all Rental Payments when due without deduction or offset of any kind and will not withhold any Rental Payments pending the final resolution of such dispute. In the event of a determination that the City was not liable for said Rental Payments or any portion thereof, said payments or excess of payments, as the case may be, will be credited against subsequent Rental Payments due under the Lease Agreement or refunded at the time of such determination. Amounts required to be deposited by the City with the Trustee pursuant to the Lease Agreement on any date will be reduced to the extent of available amounts on deposit in the Base Rental Payment Fund, the Interest Fund or the Principal Fund.

Appropriations Covenant. The City has covenanted to take such action as may be necessary to include all Rental Payments due under the Lease Agreement as a separate line item in its annual budgets and to make necessary annual appropriations for all such Rental Payments. The City will deliver to the Authority and the Trustee a Certificate of the City stating that its final annual budget includes all Base Rental Payments due in the fiscal years addressed in such budget within ten days after the filing or adoption thereof. The covenants on the part of the City contained in the Lease Agreement are deemed to be and will be construed to be duties imposed by law and it is the duty of each and every public official of the City to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the City to carry out and perform the covenants and agreements in the Lease Agreement agreed to be carried out and performed by the City.

Rental Abatement. Except as otherwise specifically provided in the Lease Agreement, during any period in which, by reason of material damage to, or destruction or condemnation of, the Property, or any defect in title to the Property, there is substantial interference with the City's right to use and occupy any portion of the Property, Rental Payments will be abated proportionately, and the City waives the benefits of Civil Code Sections 1932(1), 1932(2) and 1933(4) and any and all other rights to terminate the Lease Agreement by virtue of any such interference, and the Lease Agreement will continue in full force and effect. The amount of such abatement will be agreed upon by the City and the Authority; provided, however, that the Rental Payments due for any Rental Period may not exceed the annual fair rental value of that portion of the Property available for use and occupancy by the City during such Rental Period. The City and the Authority will calculate such abatement and provide the Trustee with a certificate setting forth such calculation and the basis therefor. Such abatement will continue for the period commencing with the date of interference resulting from such damage, destruction, condemnation or title defect and, with respect to damage to or destruction of the Property, ending with the substantial completion of the work of repair or replacement of the Property, or the portion thereof so damaged or destroyed; and the term of the Lease Agreement will be extended as provided therein, except that the term will in no event be extended beyond the Maximum Lease Term.

Notwithstanding the foregoing, to the extent that moneys are available for the payment of Rental Payments in any of the funds and accounts established under the Indenture or proceeds of the rental interruption insurance required by the Lease Agreement are available, Rental 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, accounts, and proceeds.

#### ACQUISITION, CONSTRUCTION AND IMPROVEMENT OF THE PROJECT

Deposit of Bond Proceeds; City Deposit. Upon the issuance of the Series 2025 Bonds, the Authority agrees that all proceeds of the Series 2025 Bonds will be paid to the Trustee and that such moneys will be deposited with the Trustee and be applied as provided in the Indenture.

Acquisition, Construction and Improvement of the Project. The City agrees to acquire, construct, deliver and install any portion of the Project to be financed with the proceeds of the Series 2025 Bonds, or to cause such portion to be acquired, constructed, delivered and installed, with the proceeds of Series 2025 Bonds

paid to the City by the Authority pursuant to the Lease Agreement and the Authority will have no responsibility with respect thereto.

Compliance with Law. The City will comply with all applicable provisions for bids and contracts prescribed by law with respect to the Project, including, without limitation, any applicable environmental review and approvals, Sections 20110 et seq. of the Public Contract Code and Article 42 (commencing with Section 20670 of Part 3 of Division 2) of the Public Contract Code. The City acknowledges and agrees that specific expenditures for all or any portion of the Project, as now or later designated, are expressly subject to compliance with such requirements.

Payment of Costs. Payment of Costs will be made from the moneys deposited with the Trustee in the Project Fund as provided in the Lease Agreement and Indenture, which will be disbursed from the Project Fund in accordance and upon compliance with the Indenture.

Time of Completion and Liquidated Damages. The construction and equipping of the Project will be completed on or prior to June 1, 2028, subject to excused delays pursuant to standard City procedures.

Construction and Acquisition of the Project. The City agrees to oversee the construction, acquisition, delivery and installation of the Project in accordance with the following terms:

(a) Construction and Completion. The City agrees to proceed with all due diligence to complete the construction, acquisition, delivery and installation of the Project, all in accordance with the plans and specifications for the Project (the "Plans and Specifications") approved by the City's Principal Engineer or Public Works Director. The City will comply with all statutes and laws applicable to the performance of its obligations under the Indenture, including all public laws applicable thereto and all laws regarding the approval, acquisition and construction of public projects by cities in the State of California. The City will make certain that each contract relating to the Project is awarded in accordance with applicable law and contains a scheduled Completion Date which requires completion on or before the scheduled Completion Date referred to in the Lease Agreement;

(b) Reserved.;

(c) Payment of Costs of the Project. Payment of the portion of the Costs of the Project being financed by the City will be made from moneys deposited in the Project Fund, and will be disbursed for such purpose in accordance and upon compliance with the Indenture. Neither the Authority nor the City will be liable for the payment of Costs of the Project other than from amounts on deposit in the Project Fund; and

(d) Unexpended Monies. The City agrees that unexpended moneys remaining in the Project Fund will, upon payment in full of all Costs of the Project, be applied solely in accordance with the provisions of the Indenture.

#### MAINTENANCE, ALTERATIONS AND ADDITIONS

##### Modification of the Property.

(a) Subject to the Lease Agreement, the City and any sublessee will, at its own expense, or with the proceeds of Additional Bonds, have the right to make additions, modifications, and improvements to any portion of the Property if such improvements are necessary or beneficial for the use of such portion of the Property. All such additions, modifications and improvements will thereafter comprise part of the Property and be subject to the provisions of the Lease Agreement. Such additions, modifications and improvements will not in any way cause an abatement of Rental Payments with respect to the Property or cause it to be used for purposes other than those authorized under the provisions of State and federal law or in any way which would impair the State tax-exempt status or the exclusion from gross income for federal income tax purposes

of the interest on the Bonds and Additional Bonds (to the extent such Additional Bonds were issued as tax exempt Bonds); and the Property, upon completion of any additions, modifications and improvements made pursuant to this Section, will have an annual fair rental value which is not less than the annual Rental Payments.

(b) Subject to the Lease Agreement, the City and any sublessee will, at its own expense, or with the proceeds of Additional Bonds, have the right to make replacements, redevelopment or renovation of all or a portion of the Property if the following conditions precedent are satisfied:

(i) The City receives an opinion of Bond Counsel, a copy of which the City will furnish to the Authority and the Trustee, that (1) such replacement does not adversely affect the federal income tax exclusion or the State tax-exempt status of the interest on the Bonds and Additional Bonds (to the extent such Additional Bonds were issued as tax exempt Bonds), and (2) the Lease Agreement will remain the legal, valid, binding and enforceable obligation of the City;

(ii) In the event such replacement, redevelopment or renovation would result in the temporary abatement of Rental Payments as provided in the Lease Agreement, the City will have notified any rating agency then providing a rating on the Bonds and will deposit moneys with the Trustee in advance for payment of Rental Payments from the proceeds of Additional Bonds or from special funds of the City or other moneys, the application of which would not, in the opinion of Bond Counsel (a copy of which will have been delivered to the Trustee), result in such Rental Payments constituting indebtedness of the City in contravention of the Constitution and laws of the State; and

(iii) The City certifies to the Trustee that it has sufficient funds to complete such replacement, redevelopment or renovation.

Maintenance and Utilities. Throughout the term of the Lease Agreement, as part of the consideration for rental of the Property, all improvement, repair and maintenance of the Property will be the responsibility of the City, and the City will pay for or otherwise arrange for the payment of all utility services supplied to the Property, which may include, without limitation, janitor service, security, power gas, telephone, light, heating, ventilation, air conditioning, water and all other utility services, and will pay for or otherwise arrange for payment of the cost of the repair and replacement of the Property resulting from ordinary wear and tear or want of care on the part of the City or any assignee or sublessee thereof. In exchange for the Rental Payments, the Authority has agreed to provide only the Property.

Installation of City's Equipment. The City and any sublessee may at any time and from time to time, in its sole discretion and at its own expense, install or permit to be installed items of equipment or other personal property in or upon the Property. All such items will remain the sole property of the City or such sublessee, and neither the Authority nor the Trustee have any interest therein. The City or such sublessee may remove or modify such equipment or other personal property at any time, provided that such party will repair and restore any and all damage to the Property resulting from the installation, modification or removal of any such items. Nothing in the Lease Agreement prevents the City or any sublessee from purchasing items to be installed pursuant to the Lease Agreement under a conditional sale or lease purchase contract, or subject to a vendor's lien or security agreement as security for the unpaid portion of the purchase price thereof, provided that no such lien or security interest will attach to any part of the Property.

## INSURANCE

### Commercial General Liability and Property Damage Insurance; Workers' Compensation Insurance.

(a) The City will maintain or cause to be maintained, throughout the term of the Lease Agreement, a standard commercial general liability insurance policy or policies in protection of the City, the Authority and their respective members, officers, agents and employees. Said policy or policies must provide

for indemnification of said parties against direct or contingent loss or liability for damages for bodily and personal injury, death or property damage occasioned by reason of the use or ownership of the Property. Said policy or policies must provide coverage in the minimum liability limits of \$1,000,000 for personal injury or death of each person and \$3,000,000 for personal injury or deaths of two or more persons in a single accident or event, and in a minimum amount of \$500,000 for damage to property (subject to a deductible clause of not to exceed \$100,000) resulting from a single accident or event. Such commercial general liability and property damage insurance may, however, be in the form of a single limit policy in the amount of \$3,000,000 covering all such risks. Such liability insurance may be maintained as part of or in conjunction with any other liability insurance coverage carried or required to be carried by the City, and may be maintained in whole or in part in the form of self-insurance by the City provided such self-insurance complies with the provisions of the Lease Agreement. The Net Insurance Proceeds of such liability insurance will be applied toward extinguishment or satisfaction of the liability with respect to which the Net Insurance Proceeds of such insurance have been paid.

(b) The City will maintain or cause to be maintained, throughout the term of the Lease Agreement, workers' compensation insurance issued by a responsible carrier authorized under the laws of the State of California to insure employers against liability for compensation under the California Labor Code, or any act enacted as an amendment or supplement thereto or in lieu thereof, such workers' compensation insurance to cover all persons employed by the City in connection with the Property and to cover full liability for compensation under any such act; provided, however, that the City's obligations may be satisfied by self-insurance, provided that such self-insurance complies with the provisions of the Lease Agreement.

(c) The City will maintain or cause to be maintained, fire, lightning and special extended coverage insurance (which includes coverage for vandalism and malicious mischief, but need not include coverage for earthquake damage) on all improvements constituting any part of the Property in an amount equal to the greater of 100% of the replacement cost of such improvements or 100% of the outstanding principal amount of the Bonds. The City has an insurance policy which provides replacement cost coverage. All insurance required to be maintained pursuant to the Lease Agreement may be subject to a deductible in an amount not to exceed \$500,000. The City's obligations may be satisfied by self-insurance, provided that such self-insurance complies with the provisions of the Lease Agreement.

(d) The City will maintain rental interruption insurance to cover the Authority's loss, total or partial, of Base Rental Payments resulting from the loss, total or partial, of the use of any part of the Property as a result of any of the hazards required to be covered pursuant to clause (c) above in an amount sufficient at all times to pay an amount not less than the product of two times the maximum amount of Base Rental Payments scheduled to be paid during any Rental Period. The City's obligations under this subsection may be satisfied by self-insurance, provided such self-insurance complies with the Lease Agreement.

(e) The insurance required by the Lease Agreement will be provided by reputable insurance companies with claims paying abilities determined, in the reasonable opinion of a professionally certified risk manager or an independent insurance consultant, to be adequate for the purposes of the Lease Agreement.

Title Insurance. The City will provide, at its own expense, one or more CLTA or ALTA title insurance policies for the Property, in the aggregate amount of not less than the initial aggregate principal amount of the Series 2025 Bonds and the initial aggregate principal amount of any Additional Bonds issued after the Closing Date. Such policy or policies will insure (a) the fee interest of the City in the Property, (b) the Authority's ground leasehold estate in the Property under the Ground Lease, and (c) the City's leasehold estate thereunder in the Property, subject only to Permitted Encumbrances. All Net Insurance Proceeds received under said policy or policies will be deposited with the Trustee and applied as provided in the Indenture. So long as any of the Bonds remain Outstanding, each policy of title insurance obtained pursuant to the Indenture or the Lease Agreement or required thereby must provide that all proceeds thereunder be payable to the Trustee for the benefit of the Bond Owners.

Additional Insurance Provision; Form of Policies. The City will pay or cause to be paid when due the premiums for all insurance policies required by the Lease Agreement. All such policies must provide that the Trustee be given 30 days' notice of the expiration thereof or any intended cancellation thereof. The Trustee 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 Trustee.

The City will cause to be delivered to the Trustee on or before August 15 each year, commencing August 15, 2025, a Certificate of the City stating that such policies are in full force and effect and that the City is in full compliance with the requirements of Lease Agreement or, if applicable that the City maintains such insurance through self-insurance as provided in the Lease Agreement. The Trustee is entitled to rely upon said Certificate of the City as to the City's compliance therewith. The Trustee is not responsible for the sufficiency of coverage or amounts of such policies.

Self-Insurance. Insurance provided through a California joint powers authority of which the City is a member or with which the City contracts for insurance is deemed to be self-insurance for purposes of the Lease Agreement. Any self-insurance maintained by the City pursuant to the Lease Agreement must comply with the following terms:

- (a) the self-insurance program must be approved in writing by the City's Risk Manager, a professionally certified risk manager, or an independent insurance consultant;
- (b) the self-insurance program must include an actuarially sound claims reserve fund out of which each self-insured claim is paid, the adequacy of each such fund will be evaluated on an annual basis by the City's Risk Management Department, a professionally certified risk manager, or an independent insurance consultant and any deficiencies in any self-insured claims reserve fund will be remedied in accordance with the recommendation of the City's Risk Management Department, a professionally certified risk manager or such independent insurance consultant, as applicable; and
- (c) in the event that the self-insurance program is discontinued, the actuarial soundness of its claims reserve fund, as determined by a professionally certified risk manager or by an independent insurance consultant, will be maintained.

## DEFAULTS AND REMEDIES

### Defaults and Remedies.

(a) (i) If the City fails: (A) to pay any Rental Payment payable under the Lease Agreement when the same becomes due and payable, time being expressly declared to be of the essence in the Lease Agreement or (B) to keep, observe or perform any other term, covenant or condition contained therein or in the Indenture to be kept or performed by the City, or (ii) upon the happening of any of the events specified in the Lease Agreement, the City will be deemed to be in default thereunder and it will be lawful for the Authority to exercise any and all remedies available pursuant to law or granted pursuant to the Lease Agreement. The City will in no event be in default in the observance or performance of any covenant, condition or agreement in the Lease Agreement on its part to be observed or performed, other than as referred to in clause (i)(A) or (ii) of the preceding sentence, unless the City has failed, for a period of 30 days or such additional time as is reasonably required to correct any such default after notice by the Authority to the City properly specifying wherein the City has failed to perform any such covenant, condition or agreement. Upon any such default, the Authority, in addition to all other rights and remedies it may have at law, has the option to do any of the following:

(1) To terminate the Lease Agreement in the manner therein provided on account of default by the City, notwithstanding any re-entry or re-letting of the Property as therein provided for in subparagraph (2) below, and to re-enter the Property and remove all persons in possession thereof and all personal property whatsoever situated upon the Property and place such personal property in storage in any

warehouse or other suitable place, for the account of and at the expense of the City. In the event of such termination, the City has agreed to surrender immediately possession of the Property, without let or hindrance, and to pay the Authority all damages recoverable at law that the Authority may incur by reason of default by the City, including, without limitation, any costs, loss or damage whatsoever arising out of, in connection with, or incident to any such re-entry upon the Property and removal and storage of such property by the Authority or its duly authorized agents in accordance with the provisions contained in the Lease Agreement. Neither notice to pay Rental Payments or to deliver up possession of the Property given pursuant to law nor any entry or re-entry by the Authority nor any proceeding in unlawful detainer, or otherwise, brought by the Authority for the purpose of effecting such re-entry or obtaining possession of the Property nor the appointment of a receiver upon initiative of the Authority to protect the Authority's interest under the Lease Agreement will of itself operate to terminate the Lease Agreement, and no termination of the Lease Agreement on account of default by the City will be or become effective by operation of law or acts of the parties thereto, or otherwise, unless and until the Authority has given written notice to the City of the election on the part of the Authority to terminate the Lease Agreement. The City has covenanted and agreed that no surrender of the Property or of the remainder of the term of the Lease Agreement or any termination thereof will be valid in any manner or for any purpose whatsoever unless stated by the Authority by such written notice.

(2) Without terminating the Lease Agreement, (x) to collect each installment of Rental Payments as the same become due and enforce any other terms or provisions thereof to be kept or performed by the City, regardless of whether or not the City has abandoned the Property, or (y) to exercise any and all rights of entry and re-entry upon the Property. In the event that Authority does not elect to terminate the Lease Agreement in the manner provided for in subparagraph (1) above, the City will remain liable and has agreed to keep or perform all covenants and conditions contained in the Lease Agreement to be kept or performed by the City and, if the Property is not re-let, to pay the full amount of the Rental Payments to the end of the term of the Lease Agreement or, in the event that the Property is re-let, to pay any deficiency in Rental Payments that results therefrom; and has further agreed to pay said Rental Payments and/or Rental Payment deficiency punctually at the same time and in the same manner as provided in the Lease Agreement for the payment of Rental Payments thereunder, notwithstanding the fact that the Authority may have received in previous years or may receive thereafter in subsequent years Rental Payments in excess of the Rental Payments therein specified, and notwithstanding any entry or re-entry by the Authority or suit in unlawful detainer, or otherwise, brought by the Authority for the purpose of effecting such re-entry or obtaining possession of the Property. Should the Authority elect to re-enter as provided in the Lease Agreement, the City has irrevocably appointed the Authority as the agent and attorney-in-fact of the City to re-let the Property, or any part thereof, from time to time, either in the Authority's name or otherwise, upon such terms and conditions and for such use and period as the Authority may deem advisable and to remove all persons in possession thereof and all personal property whatsoever situated upon the Property and to place such personal property in storage in any warehouse or other suitable place, for the account of and at the expense of the City, and the City has indemnified and agreed to save harmless the Authority from any costs, loss or damage whatsoever arising out of, in connection with, or incident to any such re-entry upon and re-letting of the Property and removal and storage of such property by the Authority or its duly authorized agents in accordance with the provisions contained in the Lease Agreement. The City has agreed that the terms of the Lease Agreement constitute full and sufficient notice of the right of the Authority to re-let the Property in the event of such re-entry without effecting a surrender of the Lease Agreement, and has further agreed that no acts of the Authority in effecting such re-letting constitute a surrender or termination of the Lease Agreement irrespective of the use or the term for which such re-letting is made or the terms and conditions of such re-letting, or otherwise, but that, on the contrary, in the event of such default by the City the right to terminate the Lease Agreement will vest in the Authority to be effected in the sole and exclusive manner provided for in subparagraph (1) above. The City has further agreed to pay the Authority the cost of any alterations or additions to the Property necessary to place the Property in condition for re-letting immediately upon notice to the City of the completion and installation of such additions or alterations.

The City has waived any and all claims for damages caused or which may be caused by the Authority in re-entering and taking possession of the Property as provided in the Lease Agreement and all claims for

damages that may result from the destruction of or injury to the Property and all claims for damages to or loss of any property belonging to the City, or any other person, that may be in or upon the Property.

(b) If (i) the City's interest in the Lease Agreement or any part thereof is assigned or transferred, either voluntarily or by operation of law or otherwise, without the written consent of the Authority and, as provided for in the Lease Agreement or (ii) the City or any assignee files any petition or institute any proceeding under any act or acts, state or federal, dealing with or relating to the subject or subjects of bankruptcy or insolvency, or under any amendment of such act or acts, either as a bankrupt or as an insolvent, or as a debtor, or in any similar capacity, wherein or whereby the City asks or seeks or prays to be adjudicated a bankrupt, or is to be discharged from any or all of the City's debts or obligations, or offers to the City's creditors to elect a composition or extension of time to pay the City's debts or asks, seeks or prays for reorganization or to effect a plan of reorganization, or for a readjustment of the City's debts, or for any other similar relief, or if any such petition or any such proceedings of the same or similar kind or character be filed or be instituted or taken against the City, or if a receiver of the business or of the property or assets of the City is appointed by any court, except a receiver appointed at the instance or request of the Authority, or if the City makes a general assignment for the benefit of the City's creditors; or (iii) the City abandons or vacates the Property, then the City will be deemed to be in default under Lease Agreement.

(c) In addition to the other remedies set forth in the Lease Agreement, upon the occurrence of an event of default, the Authority and its assignee are entitled to proceed to protect and enforce the rights vested in the Authority and its assignee by the Lease Agreement or by law. The provisions of the Lease Agreement and the duties of the City and of its city council, officers or employees are enforceable by the Authority or its assignee by mandamus or other appropriate suit, action or proceeding in any court of competent jurisdiction. Without limiting the generality of the foregoing, the Authority and its assignee have the right to bring the following actions:

(i) Accounting. By action or suit in equity to require the City and its city council, officers and employees and its assigns to account as the trustee of an express trust.

(ii) Injunction. By action or suit in equity to enjoin any acts or things which may be unlawful or in violation of the rights of the Authority or its assignee.

(iii) Mandamus. By mandamus or other suit, action or proceeding at law or in equity to enforce the Authority's or its assignee's rights against the City (and its city council, officers and employees) and to compel the City to perform and carry out its duties and obligations under the law and its covenants and agreements with the City as provided in the Lease Agreement.

Each and all of the remedies given to the Authority under the Lease Agreement or by any law now or later enacted are cumulative and the single or partial exercise of any right, power or privilege thereunder does not impair the right of the Authority to the further exercise thereof or the exercise of any or all other rights, powers or privileges. The term "re-let" or "re-letting" as used in the Lease Agreement includes, but is not limited to, re-letting by means of the operation by the Authority of the Property. If any statute or rule of law validly limits the remedies given to the Authority under the Lease Agreement, the Authority is nevertheless entitled to whatever remedies are allowable under any statute or rule of law. In the event that the Authority prevails in any action brought to enforce any of the terms and provisions of the Lease Agreement, the City has agreed to pay a reasonable amount as and for attorney's fees incurred by the Authority in attempting to enforce any of the remedies available to the Authority under the Lease Agreement. Notwithstanding anything to the contrary contained in the Lease Agreement, the Authority has no right upon a default under the Lease Agreement by the City to accelerate Rental Payments.

(d) Notwithstanding anything to the contrary contained in the Lease Agreement, the termination thereof by the Authority and its assignees on account of a default by the City thereunder will not effect or result in a termination of the Ground Lease.



Waiver. Failure of the Authority to take advantage of any default on the part of the City will not be, or be construed as, a waiver thereof, nor will any custom or practice which may grow up between the parties in the course of administering the Lease Agreement be construed to waive or to lessen the right of the Authority to insist upon performance by the City of any term, covenant or condition of the Lease Agreement, or to exercise any rights given the Authority on account of such default. A waiver of a particular default will not be deemed to be a waiver of any other default or of the same default subsequently occurring. The acceptance of Rental Payments under the Lease Agreement will not be, or be construed to be, a waiver of any term, covenant or condition thereof.

#### EMINENT DOMAIN; PREPAYMENT

Eminent Domain. If all of the Property (or portions thereof such that the remainder is not usable for public purposes by the City) is taken under the power of eminent domain, the term thereof will cease as of the day that possession is so taken. If less than all of the Property is taken under the power of eminent domain and the remainder is usable for public purposes by the City at the time of such taking, then the Lease Agreement will continue in full force and effect as to such remainder, and the parties waive the benefits of any law to the contrary, and in such event there will be a partial abatement of the Rental Payments in accordance with the provisions of the Lease Agreement. So long as any Bonds are Outstanding, any award made in eminent domain proceedings for the taking of the Property, or any portion thereof, will be paid to the Trustee and applied to the redemption of Bonds as provided in the Indenture, in the corresponding provisions of any Supplemental Indenture pursuant to which Additional Bonds are issued and in the Indenture. Any such award made after all of the Bonds, and all other amounts due under the Indenture and the Lease Agreement, have been fully paid, will be paid to the Authority and to the City as their respective interests may appear.

No Optional Prepayment. The Base Rental Payments attributable to the Series 2025 Bonds are subject to prepayment at the option of the City.

#### COVENANTS

Right of Entry. The Authority and its assignees have the right to enter upon and to examine and inspect the Property during reasonable business hours (and in emergencies at all times) for any purpose connected with the Authority's rights or obligations under the Lease Agreement, and for all other lawful purposes.

Liens. In the event that the City will at any time during the term of the Lease Agreement cause any changes, alterations, additions, improvements, or other work to be done or performed or materials to be supplied, in or upon the Property, the City will pay, when due, all sums of money that may become due for, or purporting to be for, any labor, services, materials, supplies or equipment furnished or alleged to have been furnished to or for the City in, upon or about the Property and which may be secured by a mechanics', materialmen's or other lien against the Property or the Authority's interest therein, and will cause each such lien to be fully discharged and released at the time the performance of any obligation secured by any such lien matures or becomes due, except that, if the City desires to contest any such lien, it may do so as long as such contest is in good faith. If any such lien is reduced to final judgment and such judgment or such process as may be issued for the enforcement thereof is not promptly stayed, or if so stayed and said stay thereafter expires, the City will forthwith pay and discharge said judgment.

Quiet Enjoyment. The parties to the Lease Agreement have mutually covenanted that the City, by keeping and performing the covenants and agreements therein contained, will at all times during the term of the Lease Agreement peaceably and quietly have, hold and enjoy the Property without suit, trouble or hindrance from the Authority.

Authority Not Liable. The Authority and its directors, officers, agents and employees, are not liable to the City or to any other party whomsoever for any death, injury or damage that may result to any person or

property by or from any cause whatsoever in, on or about the Property. To the extent permitted by law, the City will, at its expense, indemnify and hold the Authority and the Trustee and all directors, members, officers and employees thereof harmless against and from any and all claims by or on behalf of any person, firm, corporation or governmental authority arising from the acquisition, construction, occupation, use, operation, maintenance, possession, conduct or management of or from any work done in or about the Property or from the subletting of any part thereof, including any liability for violation of conditions, agreements, restrictions, laws, ordinances, or regulations affecting the Property or the occupancy or use thereof, but excepting the negligence or willful misconduct of the persons or entity seeking indemnity. The City has also covenanted and agreed, at its expense, to pay and indemnify and save the Authority and the Trustee and all directors, officers and employees thereof harmless against and from any and all claims arising from (a) any condition of the Property and the adjoining sidewalks and passageways, (b) any breach or default on the part of the City in the performance of any covenant or agreement to be performed by the City pursuant to the Lease Agreement, (c) any act or negligence of licensees in connection with their use, occupancy or Operation of the Property, or (d) any accident, injury or damage whatsoever caused to any person, firm or corporation in or about the Property or upon or under the sidewalks and from and against all costs, reasonable counsel fees, expenses and liabilities incurred in any action or proceeding brought by reason of any claim referred to in the Lease Agreement, but excepting the negligence or willful misconduct of the person or entity seeking indemnity. In the event that any action or proceeding is brought against the Authority or the Trustee or any director, member, officer or employee thereof, by reason of any such claim, the City, upon notice from the Authority or the Trustee or such director, member, officer employee thereof, has covenanted to resist or defend such action or proceeding by counsel reasonably satisfactory to the Authority or the Trustee or such director, member, officer or employee thereof.

Assignment and Subleasing. The Lease Agreement may not be assigned by the City. The City may sublease the Property or any portion thereof to any other person or entity for any other purpose, subject to the satisfaction of all of the following conditions (a) through (d) below:

(a) the Lease Agreement and the obligation of the City to make all Rental Payments thereunder will remain the primary obligation of the City;

(b) the City will, within 30 days after the delivery thereof, furnish or cause to be furnished to the Authority and the Trustee a true and complete copy of such sublease;

(c) any sublease of the Property by the City will explicitly provide that such sublease is subject to all rights of the Authority under the Lease Agreement, including, the right to re-enter and re-let the Property or terminate the Lease Agreement upon a default by the City; and

(d) the City will furnish the Authority and the Trustee with an Opinion of Counsel to the effect that such sublease will not, in and of itself, cause the interest on the Bonds to be included in gross income for federal income tax purposes.

Title to Property. Upon the termination or expiration of the Lease Agreement (other than as provided in the Lease Agreement), and the first date upon which the Bonds are no longer Outstanding, all right, title and interest in and to the Property will vest in the City. Upon any such termination or expiration, the Authority will execute such conveyances, deeds and other documents as may be necessary to effect such vesting of record.

Authority's Purpose. The Authority has covenanted that, prior to the discharge of the Lease Agreement and the Bonds, it will not engage in any activities inconsistent with the purposes for which the Authority is organized, as set forth in the Joint Powers Agreement.

Representations of the City. The City has represented and warranted to the Authority that (a) the City has the full power and authority to enter into, to execute and to deliver the Lease Agreement, the Ground Lease

and the Indenture, and to perform all of its duties and obligations thereunder, and has duly authorized the execution and delivery of the Lease Agreement, the Ground Lease and the Indenture, and (b) the Property will be used in the performance of essential governmental functions.

Representation of the Authority. The Authority has represented and warranted to the City that the Authority has the full power and authority to enter into, to execute and to deliver the Lease Agreement, the Ground Lease, the Assignment Agreement and the Indenture, and to perform all of its duties and obligations thereunder, and has duly authorized the execution and delivery of the Lease Agreement, the Ground Lease, the Assignment Agreement and the Indenture.

#### NO CONSEQUENTIAL DAMAGES; USE OF THE PROPERTY; SUBSTITUTION OR RELEASE

No Consequential Damages. In no event will the Authority or the Trustee be liable for any incidental, indirect, special or consequential damage in connection with or arising out of the Lease Agreement or the City's use of the Property.

Use of the Property. The City will not use, operate or maintain the Property improperly, carelessly, in violation of any applicable law or in a manner contrary to that contemplated by the Lease Agreement. In addition, the City has agreed to comply in all respects (including, without limitation, with respect to the use, maintenance and operation of the Property) with all laws of the jurisdictions in which its operations may extend and any legislative, executive, administrative or judicial body exercising any power or jurisdiction over the Property; provided, however, that the City may contest in good faith the validity or application of any such law or rule in any reasonable manner which does not, in the opinion of the Authority, adversely affect the estate of the Authority in and to any of the Property or its interest or rights under the Lease Agreement.

Substitution or Release of the Property. The City has the right to substitute alternate real property for any portion of the Property or to release a portion of the Property from the Lease Agreement. All costs and expenses incurred in connection with such substitution or release will be borne by the City. Notwithstanding any substitution or release of Property pursuant to the Lease Agreement, there will be no reduction in or abatement of the Base Rental Payments due from the City thereunder as a result of such substitution or release. Any such substitution or release of any portion of the Property is subject to the following specific conditions, which have been made conditions precedent to such substitution or release:

(a) the City has found (as set forth in a certificate delivered by the City to the Trustee) that the Property, as constituted after such substitution or release, (i) has an annual fair rental value at least equal to the maximum annual Base Rental Payments payable by the City in any Rental Period, during the remaining term of the Lease Agreement, as determined by the City on the basis of commercially reasonable evidence of the fair rental value of the Property, and (ii) has a useful life in excess of the final maturity of any Outstanding Bonds;

(b) the City has obtained or caused to be obtained a CLTA or ALTA title insurance policy or policies with respect to any substituted property in the amount at least equal to the aggregate principal amount of any Outstanding Bonds of the type and with the endorsements described in the Lease Agreement;

(c) the City has provided the Trustee with an Opinion of Counsel to the effect that such substitution or release will not, in and of itself, cause the interest on the Bonds to be included in gross income for federal income tax purposes;

(d) the City, the Authority and the Trustee have executed, and the City has caused to be recorded with the Santa Cruz County Clerk – Recorder, any document necessary to reconvey to the City the portion of the Property being released and to include any substituted real property in the description of the Property contained in the Lease Agreement and in the Ground Lease;

- Bonds;
- (e) the City has provided notice of such substitution to each rating agency then rating the Bonds;
  - (f) no event of default (as described in the Lease Agreement) has occurred and is continuing;
  - (g) the City will give, or cause to be given, any notice of the occurrence of such substitution required to be given pursuant to the Continuing Disclosure Certificate;
  - (h) the City will certify to the Trustee that the City has a current need for the substituted real property; and
  - (i) the City will certify to the Trustee that any substitution will not cause the City to violate any of its covenants, representations and warranties made in the Lease Agreement.

#### MISCELLANEOUS

Law Governing. THE LEASE AGREEMENT WILL BE GOVERNED EXCLUSIVELY BY THE PROVISIONS OF THE LEASE AGREEMENT AND BY THE LAWS OF THE STATE OF CALIFORNIA AS THE SAME FROM TIME TO TIME EXIST.

Validity and Severability. If for any reason the Lease Agreement is held by a court of competent jurisdiction to be void, voidable or unenforceable by the Authority or by the City, or if for any reason it is held by such a court that any of the covenants and conditions of the City thereunder, including the covenant to pay Rental Payments, is unenforceable for the full term thereof; then and in such event the Lease Agreement is and will be deemed to be a Lease Agreement under which the Rental Payments are to be paid by the City annually in consideration of the right of the City to possess, occupy and use the Property, and all of the terms, provisions and conditions of the Lease Agreement, except to the extent that such terms, provisions and conditions are contrary to or inconsistent with such holding, will remain in full force and effect.

Net-Net-Net Lease. The Lease Agreement will be deemed and construed to be a “net-net-net lease” and the City has agreed that the Rental Payments will be an absolute net return to the Authority, free and clear of any expenses, charges or set-offs whatsoever and notwithstanding any dispute between the City and the Authority.

Taxes. The City will pay or cause to be paid all taxes and assessments of any type or nature charged to the Authority or affecting the Property or the respective interests or estates therein; provided, however, that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the City is obligated to pay only such installments as are required to be paid during the term of the Lease Agreement as and when the same become due.

The City or any sublessee may, at the City’s or such sublessee’s expense and in its name, in good faith contest any such taxes, assessments, utility and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during the period of such contest and any appeal therefrom unless the Authority or the Trustee notifies the City or such sublessee that, in the opinion of independent counsel, by nonpayment of any such items, the interest of the Authority in the Property will be materially endangered or the Property, or any part thereof, will be subject to loss or forfeiture, in which event the City or such sublessee will promptly pay such taxes, assessments or charges or provide the Authority with full security against any loss which may result from nonpayment, in form satisfactory to the Authority and the Trustee.

Amendments.

(a) The Lease Agreement and the Ground Lease may be amended and the rights and obligations of the Authority and the City thereunder may be amended at any time by an amendment thereto which becomes binding upon execution and delivery by the Authority and the City, but only with the prior written consent of the Owners of a majority of the principal amount of the Bonds then Outstanding pursuant to the Indenture, provided that no such amendment may (i) extend the payment date of any Base Rental Payments, reduce the interest component or principal component of any Base Rental Payments or change the prepayment terms and provisions, without the prior written consent of the Owner of each Bond so affected, or (ii) reduce the percentage of the principal amount of the Bonds the consent of the Owners of which is required for the execution of any amendment of the Lease Agreement or the Ground Lease.

(b) The Lease Agreement and the Ground Lease and the rights and obligations of the Authority and the City thereunder may also be amended at any time by an amendment thereto which will become binding upon execution by the Authority and the City, without the written consents of any Owners, but only to the extent permitted by law and only for any one or more of the following purposes:

(i) to add to the agreements, conditions, covenants and terms required by the Authority or the City to be observed or performed therein other agreements, conditions, covenants and terms thereafter to be observed or performed by the Authority or the City, or to surrender any right or power reserved therein to or conferred therein on the Authority or the City, and which in either case do not materially adversely affect the interests of the Owners, as evidenced by an Opinion of Bond Counsel;

(ii) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained therein or in regard to questions arising thereunder which the Authority or the City may deem desirable or necessary and not inconsistent therewith, and which do not materially adversely affect the interests of the Owners, as evidenced by an Opinion of Bond Counsel;

(iii) to make such additions, deletions or modifications as may be necessary or appropriate to assure the exclusion from gross income for federal income tax purposes of the interest on the Bonds;

(iv) to provide for the substitution or release of a portion of the Property in accordance with the provisions of the Lease Agreement;

(v) to provide for the issuance of Additional Bonds in accordance with the Indenture including, without limitation, to increase the Base Rental Payments payable by the City hereunder and to add or substitute property as necessary; or

(vi) to make such other changes therein or modifications thereto as the Authority or the City may deem desirable or necessary, and which do not materially adversely affect the interests of the Owners, as evidenced by an Opinion of Bond Counsel.

Assignment. The City and the Authority have acknowledged the assignment of the Lease Agreement (except for the Authority's obligations and its rights to give consents or approvals thereunder), and the Base Rental Payments payable thereunder, to the Trustee pursuant to the Assignment Agreement. To the extent that the Lease Agreement confers upon or gives or grants the Trustee any right, remedy or claim under or by reason of the Lease Agreement, the Trustee has been explicitly recognized as being a third-party beneficiary thereunder and may enforce any such right, remedy or claim conferred, given or granted thereunder.

**APPENDIX C**

**AUDITED FINANCIAL STATEMENTS OF THE CITY FOR THE YEAR ENDED JUNE 30, 2024**

## APPENDIX D

### PROPOSED FORM OF BOND COUNSEL OPINION

[Closing Date]

Watsonville Public Finance Authority  
Watsonville, California

*Re: Watsonville Public Finance Authority Lease Revenue Bonds, Series 2025*

Ladies and Gentlemen:

We have acted as bond counsel to the Watsonville Public Finance Authority (the “Authority”) in connection with the issuance by the Authority of \$\_\_\_\_\_ Watsonville Public Finance Authority Lease Revenue Bonds, Series 2025 (the “Series 2025 Bonds”), pursuant to the provisions of Article 4 (commencing with Section 6584) of Chapter 5 of Division 7 of Title 1 of the California Government Code (the “Bond Law”), and pursuant to an Indenture, dated as of June 1, 2025 (the “Indenture”), by and among the Authority, the City of Watsonville (the “City”) and U.S. Bank Trust Company, National Association, as Trustee. The Series 2025 Bonds will be principally secured by lease payments to be made by the City pursuant to a Lease Agreement, dated as of June 1, 2025 (the “Lease”), by and between the Authority and the City.

In our capacity as bond counsel, we have examined such law and such certified proceedings, certifications, opinions and other documents as we have deemed necessary to render this opinion. In rendering this opinion, we have relied upon certain representations of fact and certifications made by the Authority, the City and others. We have not undertaken to verify through independent investigation the accuracy of the representations and certifications relied upon by us. Regarding certain questions of law material to our opinion, we have assumed the correctness of certain legal conclusions contained in the written opinions of general counsel to the Authority dated the date hereof regarding the due adoption of the Resolution No. \_\_ adopted by the Board of Directors of the Authority on May \_\_, 2025, without undertaking to verify the same by independent investigation.

Based upon our examination of the foregoing, and in reliance thereon, we are of the opinion, under existing law, that:

1. The Authority is a joint exercise of powers authority duly organized and validly existing under the laws of the State of California with the full power to enter into the Indenture and the Lease, to perform the agreements on its part contained therein and to issue the Series 2025 Bonds.

2. The Indenture and the Lease have each been duly authorized and approved by the Authority and the Indenture and the Lease constitute the valid and binding obligations of the Authority enforceable against the Authority in accordance with their respective terms. The Indenture creates a valid pledge of the Base Rental Payments and other moneys pledged under the Indenture, subject to the provisions of the Indenture.

3. The Indenture and the Lease have each been duly authorized and approved by the City and the Indenture and the Lease constitute the valid and binding obligations of the City enforceable against the City in accordance with their respective terms.

4. The Series 2025 Bonds have been duly and validly authorized by the Authority and are legal, valid and binding limited obligations of the Authority, enforceable in accordance with their terms and the

terms of the Indenture. The Series 2025 Bonds are limited obligations of the Authority payable solely from the Base Rental Payments and other moneys pledged under the Indenture as provided in the Indenture, but are not a debt of the City, the State of California or any other political subdivision thereof within the meaning of any constitutional or statutory limitation, and, neither the faith and credit nor the taxing power of the City, the State of California, or any of its political subdivisions is pledged for the payment thereof. The Authority has no taxing power.

5. Interest on the Series 2025 Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals; however, interest on the Series 2025 Bonds is taken into account in determining annual adjusted financial statement income for the purpose of computing the alternative minimum tax imposed on certain corporations. The opinion set forth in the preceding sentence is subject to the condition that the Authority and the City must comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the date hereof in order that the interest thereon be, and continue to be, excludable from gross income for federal income tax purposes. The Authority and the City have covenanted to comply with all applicable requirements. Failure to comply with certain of such requirements may cause interest on the Series 2025 Bonds to be included in gross income for federal income tax purposes retroactively to the date hereof.

6. Interest on the Series 2025 Bonds is exempt from personal income taxation imposed by the State of California.

Except as expressly stated in paragraphs 5 and 6, we express no opinion regarding any tax consequences related to the ownership, sale or disposition of the Series 2025 Bonds, or the amount, accrual or receipt of interest on, the Series 2025 Bonds. Owners of the Series 2025 Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Series 2025 Bonds.

Our opinion is limited to matters governed by the laws of the State of California and federal law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction. The rights of the owners of the Series 2025 Bonds and the enforceability of the Series 2025 Bonds, the Indenture and the Lease are limited by bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws affecting creditors' rights, by the application of equitable principles, whether considered at law or in equity, and the exercise of judicial discretion in appropriate cases and by the limitations on legal remedies against public agencies in the State of California and laws relating to conflicts of interest.

We express no opinion as to any provision in the Series 2025 Bonds, the Indenture or the Lease with respect to the priority of any pledge or security interest, indemnification, or governing law. We also express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Series 2025 Bonds and expressly disclaim any duty to advise the owners of the Series 2025 Bonds with respect to matters contained in the Official Statement or other offering material.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur. Moreover, our opinions are not a guarantee of a particular result and are not binding on the Internal Revenue Service or any court; rather, our opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations, opinions, and covenants referenced above. Our engagement with respect to this matter has terminated as of the date hereof.

Respectfully submitted,



## APPENDIX E

### FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate, dated as of \_\_\_\_\_, 2025 (the “Disclosure Certificate”), is executed and delivered by the City of Watsonville (the “City”) in connection with the issuance by the Watsonville Public Finance Authority (the “Authority”) of its Lease Revenue Bonds, Series 2025 (the “Bonds”) pursuant to an Indenture dated as of June 1, 2025, by and among the City, the Authority, and U.S. Bank Trust Company, National Association, 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.** In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Beneficial Owner” shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

“Dissemination Agent” shall mean Urban Futures, Inc., or any successor Dissemination Agent designated in writing by the City and which has filed with the City a written acceptance of such designation. In the absence of such a designation, the City shall act as the Dissemination Agent.

“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 \_\_\_\_\_, 2025, 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, 2025, 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 City shall or shall cause the Dissemination Agent to, in a timely manner, send a notice of such failure to file to the MSRB, in substantially the form attached as Exhibit A.

SECTION 4. Content of Annual Reports. The City’s Annual Report shall contain or include by reference the following:

(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 in the following charts and tables:

1. Information of the type contained in Table 2 of the Official Statement;

2. Information of the type contained in Table 3 of the Official Statement;
3. Information of the type contained in Table 4 of the Official Statement;
4. Information of the type contained in Table 5 of the Official Statement; and
5. Information of the type contained in Table 10 of the Official Statement, except that it is not necessary to identify the Primary Land Use.

Any or all of the items listed above may be included in, or by specific reference to, other documents, including the City's Annual Comprehensive Financial Reports, or 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. The initial Dissemination Agent shall be Urban Futures, Inc..

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 an event of default under 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.

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.

**CITY OF WATSONVILLE**

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

ACKNOWLEDGED:

**URBAN FUTURES, INC.,**  
as Dissemination Agent

By: \_\_\_\_\_  
Authorized Signatory

**EXHIBIT A**

**NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD  
OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer:      Watsonville Public Finance Authority

Name of Issue:      Watsonville Public Finance Authority Lease Revenue Bonds, Series 2025

Date of Issuance:    [Closing Date]

NOTICE IS HEREBY GIVEN that the City of Watsonville (the “City”) has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Certificate, dated as of June 6, 2024, executed by the City. The City anticipates that the Annual Report will be filed by \_\_\_\_\_.

Dated: \_\_\_\_\_

**URBAN FUTURES, INC.**, as Dissemination Agent

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

## APPENDIX F

### BOOK-ENTRY ONLY SYSTEM

*The information in this section concerning DTC and DTC's book-entry only system has been obtained from sources that the Authority believes to be reliable, but the Authority takes no responsibility for the completeness or accuracy thereof. The following description of the procedures and record keeping with respect to beneficial ownership interests in the Series 2025 Bonds, payment of principal, premium, if any, accreted value and interest on the Series 2025 Bonds to DTC Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the Series 2025 Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC.*

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Series 2025 Bonds (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each maturity of the Securities in the aggregate principal amount of such maturity, 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 Standard & Poor's highest rating: "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](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

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

4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede &



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

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

6. Redemption notices shall be sent to DTC. If less than all of the Securities within 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 Securities 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 Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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

9. If applicable, a Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to tender/remarketing agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to tender/remarketing agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to tender/remarketing agent's DTC account.

10. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to the Authority or the Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

11. The Authority may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.