

# PRELIMINARY OFFICIAL STATEMENT DATED DECEMBER 6, 2021

**NEW ISSUE—BOOK-ENTRY ONLY**

**RATING:**  
S&P: “\_\_\_\_\_”  
See “RATING” herein.

In the opinion of Quint & Thimmig LLP, Bond Counsel, interest on the Bonds is exempt from California personal income taxes. See “TAX MATTERS” herein. *Interest on the Bonds is not excludable from gross income of the owners thereof for federal income tax purposes.*



\$ \_\_\_\_\_ \*

**CITY OF LA HABRA**  
(Orange County, California)  
**Pension Obligation Bonds, Series 2021**  
(Federally Taxable)

**Dated: Date of Delivery**

**Due: August 1, as shown on the inside cover**

The \$ \_\_\_\_\_ \* City of La Habra (Orange County, California) Pension Obligation Bonds, Series 2021 (Federally Taxable) (the “Bonds”), are being issued by the City of La Habra (the “City”) pursuant to Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, a trust agreement, dated as of December 1, 2021 (the “Trust Agreement”), by and between the City and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”), and resolutions of the City Council of the City adopted on August 2, 2021, and November 15, 2021.

Interest on the Bonds is payable semiannually on each February 1 and August 1, commencing August 1, 2022. Principal is payable on the dates set forth below. The Bonds are being issued in fully registered form and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository of the Bonds. Individual purchases of interests in the Bonds will be made in book-entry form only, in the principal amount of \$5,000 or any integral multiple thereof. Purchasers of such interests will not receive securities representing their interests in the Bonds. Payments of principal of and interest on the Bonds are payable by the Trustee directly to DTC, which is obligated in turn to remit such principal and interest to DTC Participants for subsequent disbursement to the Beneficial Owners of the Bonds, as described herein.

**The Bonds are subject to redemption prior to maturity as described herein.**

The Bonds are being issued to (a) finance all or a portion of the City’s unfunded accrued actuarial liability to the California Public Employees’ Retirement System for the benefit of the City’s miscellaneous and safety employees, and (b) pay the costs of issuance of the Bonds, all as more fully described herein. See “FINANCING PLAN” herein

For the purpose of paying the principal of and interest on the Bonds, the City Council of the City is obligated, under the Trust Agreement, to take such actions annually as are necessary or appropriate to cause the debt service on the Bonds due in any fiscal year to be included in the budget for such fiscal year and to make the necessary annual appropriations therefor from any legally available funds, including the City’s General Fund, to ensure that sufficient sums are available to pay the annual principal of and interest on the Bonds as the same shall become due. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS” herein.

**A reserve fund will not be funded for the Bonds.**

THE BONDS CONSTITUTE THE ABSOLUTE AND UNCONDITIONAL OBLIGATIONS OF THE CITY, PAYABLE FROM ALL LEGALLY AVAILABLE FUNDS OF THE CITY; HOWEVER, NO OTHER SPECIFIC SOURCE OF REVENUES OR OTHER FUNDS OF THE CITY ARE PLEDGED, NOR IS THE CITY OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION TO MAKE PAYMENTS OF PRINCIPAL OF AND INTEREST ON THE BONDS. THE BONDS ARE NOT SUBJECT TO ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION. THE CITY HAS COVENANTED IN THE TRUST AGREEMENT TO PUNCTUALLY PAY THE PRINCIPAL OF AND INTEREST ON THE BONDS IN STRICT CONFORMITY WITH THE TERMS OF THE TRUST AGREEMENT AND OF THE BONDS, AND TO FAITHFULLY OBSERVE AND PERFORM ALL THE AGREEMENTS AND COVENANTS TO BE OBSERVED OR PERFORMED BY THE CITY CONTAINED IN THE TRUST AGREEMENT AND IN THE BONDS.

## MATURITY SCHEDULE

SEE THE INSIDE COVER

**This cover page contains certain information for general reference only. It is not intended to be a summary of the security or terms of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.**

The Bonds will be offered when, as and if issued, and received by the purchaser thereof, subject to the approval as to their legality by Quint & Thimmig LLP, Larkspur, California, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the City by Quint & Thimmig LLP, Larkspur, California, Disclosure Counsel, and by Jones & Mayer, Fullerton, California, the City Attorney. Certain legal matters will be passed on for the Underwriter by its counsel, Katten Muchin Rosenman LLP, New York, New York. It is anticipated that the Bonds will be available for delivery through the book-entry facilities of DTC on or about December 28, 2021.

## BofA Securities

Dated: December \_\_, 2021

\*Preliminary, subject to change.

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

\$ \_\_\_\_\_ \*

**CITY OF LA HABRA**  
 (Orange County, California)  
**Pension Obligation Bonds, Series 2021**  
 (Federally Taxable)

**MATURITY SCHEDULE**

<b>Maturity (August 1)</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Yield</b>	<b>Price</b>	<b>CUSIP† Suffix</b>
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\$ \_\_\_\_\_ % Term Bonds Maturing August 1, \_\_\_\_\_; Price: \_\_\_\_\_, to Yield \_\_\_\_\_%—CUSIP†: \_\_\_\_\_

\$ \_\_\_\_\_ % Term Bonds Maturing August 1, \_\_\_\_\_; Price: \_\_\_\_\_, to Yield \_\_\_\_\_%—CUSIP†: \_\_\_\_\_

\*Preliminary, subject to change.

† Copyright 2021, American Bankers Association. CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, operated by Standard & Poor's. This data is not intended to create a database and does not serve in any way as a substitute for CUSIP Global Services. CUSIP numbers have been assigned by an independent company not affiliated with the City and are included solely for the convenience of the registered owners of the Bonds. Neither the City nor the Underwriter is responsible for the selection or uses of these CUSIP numbers and no representation is made as to their correctness on the Bonds or as included herein. The CUSIP number for a specific maturity is subject to being changed after the delivery of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds.

## GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

*For purposes of compliance with Rule 15c2-12 of the United States Securities and Exchange Commission, as amended (“Rule 15c2-12”), this Preliminary Official Statement constitutes an “official statement” of the City with respect to the Bonds that has been deemed “final” by the City as of its date except for the omission of no more than the information permitted by Rule 15c2-12.*

*Use of Official Statement.* This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not a contract between any bond or note owner and the City or the Underwriter indicated in this Official Statement.

*No Offering Except by This Official Statement.* No dealer, broker, salesperson or other person has been authorized by the City or the Underwriter to give any information or to make any representations other than those contained in this Official Statement and, if given or made, such other information or representation must not be relied upon as having been authorized by the City or the Underwriter.

*No Unlawful Offers or Solicitations.* This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor may there be any sale of the Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

*Information in Official Statement.* The information set forth herein has been obtained from the City and from other sources and is believed to be reliable but is not guaranteed as to accuracy or completeness. The information and expressions of opinions herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof.

*Involvement of Underwriter.* The Underwriter has provided the following statement 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.

*Document Summaries.* All summaries of the documents referred to in this Official Statement are made subject to the provisions of such documents and qualified in their entirety to reference to such documents, and do not purport to be complete statements of any or all of such provisions.

*No Securities Laws Registration.* The Bonds have not been registered under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, in reliance upon exceptions therein for the issuance and sale of municipal securities. The Bonds have not been registered or qualified under the securities laws of any state.

*Forward Looking Statements.* When used in this Official Statement and in any continuing disclosure by the City, in any press release and in any oral statement made with the approval of an authorized officer of the City, the words or phrases “will likely result,” “are expected to,” “will continue,” “is anticipated,” “estimate,” “project,” “forecast,” “expect,” “intend” and similar expressions identify “forward looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material.

*Effective Date.* This Official Statement speaks only as of its date, and the information and expressions of opinion contained in this Official Statement are subject to change without notice. Neither the delivery of this Official Statement nor any sale of the Bonds will, under any circumstances, give rise to any implication that there has been no change in the affairs of the City, the County, the other parties described in this Official Statement, or the condition of the property within the City since the date of this Official Statement.

*Website.* The City maintains a website. Unless specifically indicated otherwise, the information presented on such website is not incorporated by reference as part of this Official Statement and should not be relied upon in making investment decisions with respect to the Bonds.

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## **CITY OF LA HABRA**

110 East La Habra Boulevard  
La Habra, CA 90633  
(562) 383-4000

[www.lahabraca.gov](http://www.lahabraca.gov)

### **CITY COUNCIL MEMBERS**

Rose Espinoza, *Mayor*  
Jose Medrano, *Mayor Pro Tem*  
James Gomez, *Councilmember*  
Tim Shaw, *Councilmember*  
Steve Simonian, *Councilmember*

### **CITY OFFICIALS**

James D. Sadro, *City Manager*  
Mel Shannon, *Director of Finance*  
Jack Ponvanit, *Deputy Director of Finance*  
Laurie Swindell, CMC, *City Clerk*  
Richard Jones Esq. of Jones & Mayer, *City Attorney*

### **PROFESSIONAL SERVICES**

#### **Bond and Disclosure Counsel**

Quint & Thimmig LLP  
*Larkspur, California*

#### **Municipal Advisor**

Fieldman, Rolapp & Associates, Inc.  
*Irvine, California*

#### **Trustee**

The Bank of New York Mellon Trust Company, N.A.  
*Los Angeles, California*

\$ \_\_\_\_\_ \*

**CITY OF LA HABRA**  
**(Orange County, California)**  
**Pension Obligation Bonds, Series 2021**  
**(Federally Taxable)**

**INTRODUCTION**

**General**

This Official Statement, including the cover page, the inside cover page and the appendices hereto, is provided to furnish information in connection with the offering by the City of La Habra (the “City”) of its \$ \_\_\_\_\_\* aggregate principal amount of City of La Habra Pension Obligation Bonds, Series 2021 (Federally Taxable) (the “Bonds”).

Definitions of certain capitalized terms used in this Official Statement are set forth in APPENDIX A—SUMMARY OF CERTAIN PROVISIONS OF THE TRUST AGREEMENT. This Official Statement contains brief descriptions of the Bonds and the City. Such descriptions do not purport to be comprehensive or definitive. All references in this Official Statement to specific documents are qualified in their entirety by reference to such documents and references to the Bonds are qualified in their entirety by reference to the form of the Bonds included in the Trust Agreement (hereinafter defined). Copies of the Trust Agreement and other documents described in this Official Statement may be obtained from the City as described under the subheading “Other Information” below.

**The City**

The City of La Habra was incorporated as a general law city under the laws of the state of California (the “State”) on January 20, 1925. The City is located in Orange County (the “County”), approximately 20 miles east of downtown Los Angeles. The City is home to approximately 63,000 residents. The City is a suburban residential community that sits adjacent to the border between the County and Los Angeles County. The City is largely built out and encompasses an area of approximately 7.4 square miles (19 km<sup>2</sup>). The City is bordered by La Habra Heights on the north, Brea on the east, Fullerton on the south and southeast, La Mirada on the west and southwest and East Whittier on the west, Whittier on the northwest and a small unnamed section of unincorporated Los Angeles County on the northeast.

The City operates under a council-manager form of government. The five-member City Council (the “City Council”) is elected on an at large basis by the City’s voters. The City Council consists of a Mayor, Mayor Pro Tem and three other elected City Council members. The posts of Mayor and Mayor Pro Tem rotate among the City Council. The City Council appoints the City Manager and the City Attorney. The City Manager is responsible for directing, coordinating and carrying out City Council policies.

For additional information about the City, see “THE CITY,” “CITY FINANCIAL INFORMATION,” APPENDIX B—GENERAL, ECONOMIC AND DEMOGRAPHIC INFORMATION RELATING TO THE CITY AND THE COUNTY and APPENDIX C—

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\* Preliminary, subject to change.

COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE YEAR ENDED  
JUNE 30, 2021.

**Purpose**

The Bonds are being issued to (a) finance all or a portion of the City’s unfunded accrued actuarial liability (the “UAL”) to the California Public Employees’ Retirement System (“CalPERS”) for the benefit of the City’s miscellaneous employees, and (b) pay the costs of issuance of the Bonds.

**Authority for Issuance**

The Bonds are issued by the City pursuant to Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, a trust agreement, dated as of December 1, 2021 (the “Trust Agreement”), by and between the City and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”), and resolutions of the City Council adopted on July 19, 2021, and November 15, 2021.

**Source of Payment**

The obligations of the City under the Bonds, including the obligation to make all payments of the principal of and interest on the Bonds when due, are obligations of the City imposed by law and are absolute and unconditional, without any right of set-off or counterclaim. The City has covenanted under the Trust Agreement, to take such actions annually as are necessary or appropriate to cause the debt service on the Bonds due in any fiscal year to be included in the budget for such fiscal year and to make the necessary appropriations therefor from any legally available funds, including the General Fund, to ensure that sufficient sums are available to pay the annual principal of and interest on the Bonds as the same become due. See “SECURITY FOR THE BONDS” herein.

**Continuing Disclosure**

The City has covenanted for the benefit of the holders and Beneficial Owners of the Bonds to make available certain financial information and operating data relating to the City and to provide notices of the occurrence of certain enumerated events in compliance with S.E.C. Rule 15c2-12(b)(5), as amended (the “Rule”). These covenants have been made to assist the Underwriter in complying with the Rule. The specific nature of the information to be made available and of the notices of enumerated events is summarized below under the caption “CONTINUING DISCLOSURE.” Also, see APPENDIX E—FORM OF CONTINUING DISCLOSURE CERTIFICATE.

**Tax Matters**

In the opinion of Quint & Thimmig LLP, Bond Counsel, interest on the Bonds is exempt from California personal income taxes. See “TAX MATTERS” herein. Interest on the Bonds is not excludable from gross income of the owners thereof for federal income tax purposes.

## **Risk Factors**

Prospective investors must review this Official Statement and the Appendices hereto in their entirety and should consider certain risk factors associated with the purchase of the Bonds, some of which have been summarized in the section herein entitled “RISK FACTORS” herein.

## **Other Information**

This Official Statement speaks only as of its date and the information contained herein is subject to change. Copies of documents referred to herein and information concerning the Bonds are available for inspection at the office of the City Clerk, City of La Habra, 110 East La Habra Boulevard, La Habra, CA 90633, (562) 383-4000. The City may impose a charge for copying, mailing and handling.

This Official Statement is not to be construed as a contract with the purchasers of the Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact. The summaries and references to documents, statutes and constitutional provisions referred to herein do not purport to be comprehensive or definitive, and are qualified in their entirety by reference to each of such documents, statutes and constitutional provisions.

The information set forth herein has been obtained from sources which are believed to be reliable. The information and expressions of opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof. This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

## **FINANCING PLAN**

The City is a member of CalPERS and, as such, is obligated by the Public Employees’ Retirement Law, constituting Part 3 of Division 5 of Title 2 of the California Government Code (the “Retirement Law”), and the contract between the Board of Administration of CalPERS and the City Council, dated November 4, 1958, as amended (the “CalPERS Contract”), to make contributions to CalPERS to (a) fund pension benefits for City employees who are members of CalPERS, (b) amortize the UAL with respect to such pension benefits, and (c) appropriate funds for the purposes described in (a) and (b).

The City Council is required to make the appropriations to pay the amounts required to be paid pursuant to the CalPERS Contract under the Retirement Law. See “SECURITY FOR THE BONDS.”

The City’s payments under the CalPERS Contract consist primarily of two components, a Normal Cost component and a component equal to an amortized amount of the UAL. The Normal Cost component is assessed to satisfy the annual cost of service earned by active City employees for the upcoming Fiscal Year and is expressed as a percentage of payroll. Actual Normal Cost Contributions are based on the Employer Contribution Rate for the applicable CalPERS Benefit Plan and the actual payroll for employees covered under each respective plan. The UAL component is the amortized dollar amount needed to fund the UAL according to an amortization schedule set by CalPERS. The UAL is an amount determined by CalPERS actuaries that represents the present value of the past service credit earned (or accrued) for

members who are currently receiving benefits, active members, and for members entitled to but not yet receiving benefits, as of the valuation date.

Per the most recent CalPERS valuation reports, dated July 2021, the City's projected UAL as of June 30, 2022, is \$33,181,406 for its Miscellaneous Plan and is \$63,091,279 for its Safety Plan. There is a two-year lag between the valuation date and the start of the contribution fiscal year. The UAL was determined in the June 30, 2019 actuarial valuation, but the corresponding UAL Payments commence two years after the valuation date in Fiscal Year 2021-22. This two-year lag is necessary due to the amount of time needed to confirm the membership and financial data, and to provide public agencies with their required employer contribution in advance of the start of the fiscal year 2022-23.

The Bonds are being issued under the Trust Agreement to fund 100% of CalPERS' estimate of the City's UAL for the Miscellaneous Plan and the Safety Plan at June 30, 2022. The City may determine to fund less or more than 100% of CalPERS' estimate of the City's UAL for the Miscellaneous Plan and the Safety Plan at June 30, 2021. The Bonds are expected to lower the UAL component of the City's payments under the CalPERS Contract over the term of Bonds. However, the amount of savings can be impacted by the timing of the sale of the Bonds and CalPERS investment performance during the term of the Bonds. The net financial impact of issuing the Bonds cannot be fully assessed until the Bonds have matured. CalPERS has adjusted and may in the future further adjust certain assumptions used in computing the UAL, which adjustments may also increase the UAL component of the City's required contributions to CalPERS in future years.

For additional information relating to the City's pension plans, see APPENDIX C—COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE YEAR ENDED JUNE 30, 2021—Note 3(a), CalPERS' internet website at [www.calpers.ca.gov](http://www.calpers.ca.gov) for CalPERS' most recent actuarial valuation reports and other information that concerns benefits and other matters, and "OTHER FINANCIAL INFORMATION - Employee Retirement Programs" herein. Information on CalPERS' website is not incorporated herein by reference.

*Judicial Validation.* On August 10, 2021, the City, acting pursuant to the provisions of sections 860 *et seq.* of the California Code of Civil Procedure and sections 53511 and 53589.5 of the California Government Code, filed a complaint in the Superior Court of the State for the County of Orange seeking judicial validation of the proceedings and transactions relating to the issuance of the Bonds and certain other matters. On November 4, 2021, the court entered a default judgment (the "Validation Judgment") to the effect, among other things, that the Bonds are valid obligations of the City and in conformity with all applicable provisions of law. See the section entitled "VALIDATION" for additional information regarding the legal effects of the Validation Judgment.

## SOURCES AND USES OF FUNDS

The following are the expected sources and uses of funds in connection with the Bonds:

SOURCES	
Principal Amount of Bonds	_____
Total Sources of Funds	=====

USES	
Transfer to CalPERS (Miscellaneous Plan)	
Transfer to CalPERS (Safety Plan)	
Costs of Issuance <sup>(1)</sup>	_____
Total Uses of Funds	=====

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(1) Includes the Underwriter's discount, fees for services of Bond Counsel, Disclosure Counsel, the rating agency, the Municipal Advisor, the Trustee and other costs.

## THE BONDS

### Authority for Issuance

The Bonds are issued under provisions of the California Government Code. The specific terms and conditions for issuance of the Bonds are contained in the Trust Agreement.

For the purpose of paying the principal of and interest on the Bonds, the City Council is obligated, under the Trust Agreement, to take such actions annually as are necessary or appropriate to cause the debt service on the Bonds due in any fiscal year to be included in the budget for such fiscal year and to make the necessary annual appropriations therefor from any legally available funds, including the General Fund, to ensure that sufficient sums are available to pay the annual principal of and interest on the Bonds as the same become due. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" herein.

### Description of the Bonds

The Bonds will be issued in denominations of \$5,000 each or any integral multiple thereof, will be dated the date of their delivery to the initial purchasers thereof, and will be fully registered bonds, without coupons, with interest payable semiannually on each February 1 and August 1, commencing August 1, 2022 (each, an "Interest Payment Date"), to the registered owners whose names appear on the bond registration books of the Trustee as of the close of business on the fifteenth calendar day of the month immediately preceding an Interest Payment Date. Principal will be payable on the dates and in the amounts set forth on the front cover hereof. Payments of principal of and interest on the Bonds will be made by the Trustee, as paying agent, to The Depository Trust Company ("DTC"), New York, New York, which in turn is required to remit such principal and interest to the DTC Participants for subsequent disbursement to the beneficial owners of the Bonds. See APPENDIX F—BOOK-ENTRY ONLY SYSTEM.

A Bond may, in accordance with its terms, be transferred, upon the Registration Books, by the person in whose name it is registered, in person or by a duly authorized attorney of such person, upon surrender of that Bond to the Trustee at its Office for cancellation, accompanied by delivery of a written instrument of transfer in a form acceptable to the Trustee, duly executed. The Trustee shall collect any tax or other governmental charge on the transfer of any Bonds. Whenever any Bond or Bonds are surrendered for transfer, the City will execute and the Trustee shall authenticate and deliver to the transferee a new Bond or Bonds of like series, interest rate, maturity and aggregate principal amount. The City will pay the cost of printing Bonds and any services rendered or expenses incurred by the Trustee in connection with any transfer of Bonds.

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

### Debt Service Schedule

The following table shows the annual debt service requirements for the Bonds (assuming no optional redemptions) for each Bond Year.

Bond Year Ending August 1	Principal <sup>(1)</sup>	Interest <sup>(2)</sup>	Total
8/1/22			
8/1/23			
8/1/24			
8/1/25			
8/1/26			
8/1/27			
8/1/28			
8/1/29			
8/1/30			
8/1/31			
8/1/32			
8/1/33			
8/1/34			
8/1/35			
8/1/36			
8/1/37			
8/1/38			
8/1/39			
8/1/40			
8/1/41			
8/1/42			
8/1/43			
8/1/44			
<b>TOTAL</b>			

(1) Includes mandatory sinking fund installments.

(2) Interest on the Bonds is payable semiannually on each February 1 and August 1, commencing August 1, 2022.

## Redemption

*Optional Redemption.* The Bonds maturing on or before August 1, \_\_\_\_\_, are not subject to optional redemption prior to their respective stated maturities. The Bonds maturing on and after August 1, \_\_\_\_\_, are subject to optional redemption from any source of available funds of the City, prior to their respective maturities, in whole or in part on any date on or after August 1, \_\_\_\_\_, upon at least thirty (30) days prior written notice to the Trustee from the City, at a redemption price equal to the principal amount of the Bonds to be redeemed, plus accrued interest thereon to the date of redemption, without premium.

*Mandatory Sinking Fund Redemption.* The Bonds maturing on August 1, \_\_\_\_\_, are also subject to mandatory sinking fund redemption on August 1 in the years, and in the amounts, as set forth in the following table, at a redemption price equal to one hundred percent (100%) of the principal amount thereof to be redeemed (without premium), together with interest accrued thereon to the date fixed for redemption:

Sinking Fund Redemption Date (August 1)	Principal Amount to be Redeemed
_____	_____

\_\_\_\_\_†Maturity

The Bonds maturing on August 1, \_\_\_\_\_, are also subject to mandatory sinking fund redemption on August 1 in the years, and in the amounts, as set forth in the following table, at a redemption price equal to one hundred percent (100%) of the principal amount thereof to be redeemed (without premium), together with interest accrued thereon to the date fixed for redemption:

Sinking Fund Redemption Date (August 1)	Principal Amount to be Redeemed
_____	_____

\_\_\_\_\_†Maturity

*Notice of Redemption.* The Trustee on behalf and at the expense of the City will mail (by first class mail) notice of any redemption to the respective Owners of Bonds designated for redemption at their respective addresses appearing on the Registration Books, and 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; *provided, however*, that neither failure to receive any such notice so mailed nor any defect therein will affect the validity of the proceedings for the redemption of such Bonds or the cessation of the accrual of interest thereon.

Such notice must state the date of the notice, the redemption date, the redemption place and the redemption price and must designate the CUSIP numbers, the Bond numbers and the maturity or maturities (in the event of redemption of all of the Bonds of such maturity or maturities in whole) of the Bonds to be redeemed, and must require that such Bonds be then surrendered at the Office of the Trustee identified in such notice for redemption at the redemption price, giving notice also that further interest on such Bonds will not accrue from and after the redemption date. See APPENDIX F—BOOK-ENTRY ONLY SYSTEM.

The actual receipt by the registered owner of any bond of such notice of redemption, or failure to receive such notice, or any defect in such notice, shall not affect the validity of the proceedings for the redemption of such Bonds or the cessation of the accrual of interest on the date fixed for redemption.

*Right to Rescind Notice of Redemption.* The City has the right to rescind any notice of the optional redemption of Bonds by written notice to the Trustee prior to the date fixed for redemption. Any notice of optional redemption will be canceled and annulled if for any reason funds will not be or are not available on the date fixed for redemption for the payment in full of the Bonds then called for redemption, and such cancellation will not constitute an Event of Default under the Trust Agreement. The City and the Trustee have no liability to the Owners or any other party related to or arising from such rescission of redemption.

*Manner of Redemption.* Whenever provision is made for the redemption of less than all of the Bonds, the Trustee shall select the Bonds to be redeemed by lot in any manner which the Trustee in its sole discretion deems appropriate. 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.

*Partial Redemption of Bonds.* If only a portion of a Bond is called for redemption, then upon surrender of such Bond the City will execute and the Trustee shall authenticate and deliver to the Owner thereof, at the expense of the City, a new Bond or Bonds of the same series and maturity date, of authorized denominations in aggregate principal amount equal to the unredeemed portion of the Bond to be redeemed.

*Effect of Redemption.* From and after the date fixed for redemption, if notice of redemption has been duly mailed and funds available for the payment of the principal of and interest on the Bonds so called for redemption have been duly provided, such Bonds so called shall cease to be entitled to any benefit under the Trust Agreement other than the right to receive payment of the redemption price, and no interest shall accrue thereon from and after the redemption date specified in such notice. Unless otherwise directed in writing by the City, the Trustee shall cancel and destroy all Bonds redeemed.

## **SECURITY FOR THE BONDS**

### **Repayment of Bonds; Equal Security**

The Bonds are unsecured obligations payable from any source of legally available funds of the City, including but not limited to amounts held by the City on deposit in its General Fund. The Bonds are not secured by a pledge of or lien on any specific revenues, income or funds of the City.

The obligations of the City under the Bonds, including the obligation to make all payments of interest and principal when due, are obligations of the City imposed by law and are absolute and

unconditional, without any right of set-off or counterclaim. The Bonds do not constitute an obligation of the City for which the City is obligated to levy or pledge any form of taxation. Neither the Bonds nor the obligations of the City to make payments on the Bonds constitute an indebtedness of the City, the State, or any of its political subdivisions in contravention of any constitutional or statutory debt limitation or restriction. The City Council of the City is obligated to make annual appropriations to pay the Bonds from any source of legally available funds of the City. The City Council is obligated in each Fiscal Year to appropriate all amounts from such funds as may be required to pay the aggregate amount of the principal of and the interest on the Bonds coming due and payable in such Fiscal Year.

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

### **Deposit of Amounts to Pay Debt Service**

The City shall pay or cause to be paid to the Trustee, not later than five Business Days prior to each date on which the principal of or interest on the Bonds is due and payable, an amount which is sufficient, together with other amounts then held by the Trustee in the Debt Service Fund, to pay the aggregate amount of principal of and interest on the Bonds coming due and payable on such date.

### **Debt Service Fund and Accounts Therein**

The Trust Agreement creates a separate fund to be known as the “Debt Service Fund,” to be held by the Trustee in trust for the benefit of the Bond Owners.

On or before the Business Day preceding each Interest Payment Date, the Trustee shall transfer from the Debt Service Fund and deposit into the following respective accounts (each of which the Trustee shall establish and maintain within the Debt Service Fund), the following amounts, in the following order of priority, the requirements of each such account (including the making up of any deficiencies in any such account resulting from insufficiencies of any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account subsequent in priority:

*First:* to the Interest Account, the aggregate amount of interest becoming due and payable on the next succeeding Interest Payment Date on all Bonds then Outstanding; and

*Second:* to the Principal Account, the aggregate amount of principal becoming due and payable on the Outstanding Bonds on the next succeeding Interest Payment Date, if any.

All amounts in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds purchased prior to maturity pursuant to the Trust Agreement).

All amounts in the Principal Account shall be used and withdrawn by the Trustee solely for the purposes of paying the principal of the Bonds when due and payable.

THE BONDS CONSTITUTE THE ABSOLUTE AND UNCONDITIONAL OBLIGATIONS OF THE CITY, PAYABLE FROM ALL LEGALLY AVAILABLE FUNDS OF THE CITY; HOWEVER, THE BONDS ARE UNSECURED OBLIGATIONS AND NO SPECIFIC SOURCE OF REVENUES OR OTHER FUNDS OF THE CITY ARE PLEDGED, NOR IS THE CITY OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION TO MAKE PAYMENTS OF PRINCIPAL OF AND INTEREST ON THE BONDS. THE BONDS ARE NOT SUBJECT TO ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION. THE CITY HAS COVENANTED IN THE TRUST AGREEMENT TO PUNCTUALLY PAY THE INTEREST ON, AND THE PRINCIPAL TO BECOME DUE ON EVERY BOND ISSUED PURSUANT TO THE TRUST AGREEMENT IN STRICT CONFORMITY WITH THE TERMS OF THE TRUST AGREEMENT AND OF THE BONDS, AND TO FAITHFULLY OBSERVE AND PERFORM ALL THE AGREEMENTS AND COVENANTS TO BE OBSERVED OR PERFORMED BY THE CITY CONTAINED IN THE TRUST AGREEMENT AND IN THE BONDS.

The Bonds have not been, and are not required to be, approved by the City's electorate. Consequently, under current law in California, the City cannot levy *ad valorem* or special taxes in excess of Constitutional limits to support the payment of annual Debt Service on the Bonds. See "CONSTITUTIONAL AND STATUTORY TAX LIMITATIONS" herein. The City has covenanted in the Trust Agreement to appropriate a sufficient amount in each fiscal year to pay that fiscal year's annual Debt Service. The extent to which these obligations may be specifically enforced, however, has not been tested in California. A Bondholder, however, may exercise any remedies available pursuant to the law or the Trust Agreement if an event of default occurs under the Trust Agreement. See "RISK FACTORS—Bankruptcy."

## THE CITY

The City was incorporated as a general law city under the laws of the State on January 20, 1925. The City is located in Orange County, approximately 20 miles east of downtown Los Angeles. The City is a suburban residential community that sits adjacent to the border between the County and Los Angeles County. The City is home to a population of approximately 63,000 residents. The City is largely built out and encompasses an area of approximately 7.4 square miles (19 km<sup>2</sup>). The City is bordered by La Habra Heights on the north, Brea on the east, Fullerton on the south and southeast, La Mirada on the west and southwest and East Whittier on the west, Whittier on the northwest and a small unnamed section of unincorporated Los Angeles County on the northeast.

The City operates under a council-manager form of government. The five-member City Council is elected on an at large basis by the City's voters. The City Council consists of a Mayor, Mayor Pro Tem and three other elected City Council members. The posts of Mayor and Mayor Pro Tem rotate among the council. The City Council appoints the City Manager and the City Attorney. The City Manager is responsible for directing, coordinating and carrying out City Council policies. Members of the Council and key administrative personnel of the City are listed at the front of this Official Statement.

The City provides a range of municipal services. The City's major operations include police and fire protection, public works, parks, recreation, and certain social services and general administration services. In addition, the City operates four major enterprise activities comprising water, sewer, housing authority, and refuse.

See APPENDIX B—GENERAL, ECONOMIC AND DEMOGRAPHIC INFORMATION RELATING TO THE CITY AND THE COUNTY for an additional description of the City as well as certain demographic and statistical information.

## CITY FINANCIAL INFORMATION

### Financial Statements and Budgetary Process

The City’s accounting policies conform to generally accepted accounting principles. The audited financial statements also conform to the principles and standards for public financial reporting established by the Governmental Accounting Standards Board.

*Basis of Accounting and Financial Statement Presentation.* The government-wide financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

*Comprehensive Annual Financial Report.* The City retained CliftonLarsonAllen LLP, Irvine, California (the “City’s Auditor”), to examine the general purpose financial statements of the City as of and for the year ended June 30, 2021. The audited financial statements for fiscal year ended June 30, 2021, are included in APPENDIX C—COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2021. The City has not requested, and the City’s Auditor has not provided, any review or update of such financial statements in connection with their inclusion in this Official Statement.

*Budget Process.* The City Council is required to adopt a final budget by no later than the close of the fiscal year. The annual budget serves as the foundation for the City’s financial planning and control. The budget is prepared by fund, and by department (e.g., police). Department heads may transfer resources within a department as they see fit. Transfers between departments, however, need special approval from the City Council.

A comprehensive mid-year budget review is done to update revenue and expenditure projections. In addition, the City Council receives quarterly budget updates. The City maintains budgetary controls to ensure compliance with legal provisions embodied in the appropriated budget approved by the City Council. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) for the City’s operating budget is the program area within each fund, and for the capital improvement budget it is each individual capital improvement project within each fund. For the operating budget, the City Manager has the authority to move appropriations between accounts (without dollar limitation) within a budget program and within the same fund as long as the transfers are within the same program area. For the capital improvement program, the City Manager has the authority to transfer

appropriations (with no dollar limitation) between capital projects within the same fund. Appropriation increases, decreases or transfers between funds require the approval of the City Council.

All appropriations lapse at the end of the fiscal year unless specific carryovers are approved by the City Council.

Certain of the City's revenues are collected and dispersed by the State (such as sales tax and motor-vehicle license fees) or allocated in accordance with State law (most importantly, property taxes). Therefore, State budget decisions can have an impact on City finances. See "STATE BUDGET INFORMATION."

## General Fund Balance Sheet

The following table shows the City's audited General Fund balance sheet for the past four fiscal years and unaudited data for fiscal year 2020-21.

**TABLE 1**  
**CITY OF LA HABRA**  
**GENERAL FUND BALANCE SHEET**  
**Fiscal Years 2016-17 through 2020-21**

	Fiscal Year Ending June 30,				
	2017 Audited	2018 Audited	2019 Audited	2020 Audited	2021 Unaudited
<b>ASSETS</b>					
Cash and investments	\$10,384,026	\$10,121,288	\$11,196,631	\$10,655,892	\$14,434,176
Cash and investments w/ fiscal agent	-	-	511,379	1,717,170	3,105,457
Accounts receivable	4,087,588	4,755,074	4,679,809	5,096,505	3,802,611
Interest receivable	52,572	95,159	172,261	113,422	52,470
Prepaid items	41,715	68,415	25,832	13,906	31,948
Due from other funds	1,085,909	316,968	553,645	820,912	-
Due from other governments	85,798	87,176	47,047	809,473	73,833
Due from Successor Agency	39,653	10,014	90,512	143,109	45,225
Loans to Successor Agency	9,352,905	7,452,395	5,166,592	3,414,076	2,757,727
Inventory	-	-	-	-	-
Total Assets	<u>25,130,166</u>	<u>22,906,489</u>	<u>22,443,708</u>	<u>22,784,465</u>	<u>24,303,447</u>
<b>LIABILITIES</b>					
Accounts payable	780,531	670,719	591,986	672,680	651,608
Accrued liabilities	1,864,607	1,958,761	1,667,827	1,839,230	2,315,005
Advances from other funds <sup>(1)</sup>	9,824,890	3,646,140	2,793,640	2,050,000	1,390,000
Unearned revenues	310,121	183,355	119,944	69,472	71,475
Total Liabilities	<u>12,780,149</u>	<u>6,458,975</u>	<u>5,173,397</u>	<u>4,631,382</u>	<u>4,428,088</u>
<b>DEFERRER INFLOWS OF RESOURCES</b>					
Unavailable revenue	3,570,927	3,547,193	1,342,718	1,264,796	746,029
<b>FUND BALANCES</b>					
Non-spendable	6,311,389	5,214,884	4,425,438	2,715,606	2,043,646
Restricted	269,912	327,386	834,185	2,015,009	3,403,296
Assigned <sup>(2)</sup>	-	1,100,000	2,950,000	3,555,000	4,383,234
Unassigned	2,197,789	6,258,051	7,717,970	8,602,672	10,351,076
Total Fund Balances	<u>8,779,090</u>	<u>12,900,321</u>	<u>15,927,593</u>	<u>16,888,287</u>	<u>20,181,252</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>25,130,166</u>	<u>22,906,489</u>	<u>22,443,708</u>	<u>22,784,465</u>	<u>25,355,369</u>

Sources: City of La Habra Comprehensive Annual Financial Report for Fiscal Years 2016-17 through 2019-20 data and City of La Habra for unaudited Fiscal Year 2020-21 data.

- (1) On November 1, 2015, the La Habra Utility Authority advanced \$2,000,000 to the City's general fund for assistance in funding the construction of the new civic center. The current balance is \$1,000,000. On December 10, 2015, the La Habra Civic Improvement Authority advanced \$5,600,000 to the City's general fund for assistance in funding the construction of the new civic center. All advances were repaid during fiscal year 2017-18.
- (2) Beginning in fiscal year 2017-18, the City Manager assigned certain year-end excess revenues over expenditures for various purposes such as pension rate stabilization, facility improvement, land acquisition, etc.

## General Fund Revenues, Expenditures, and Changes in Fund Balances

The following tables shows the City's audited results for General Fund revenues and expenditures for the three most recent fiscal years, unaudited data for fiscal year 2020-21, and budgeted projections for fiscal year 2021-22.

**TABLE 2**  
**CITY OF LA HABRA**  
**GENERAL FUND REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**Fiscal Years 2017-18 through 2021-22**

	Fiscal Year Ending June 30,				
	2018 Audited	2019 Audited	2020 Audited	2021 Unaudited	2022 Budgeted <sup>(5)</sup>
<b>REVENUES</b>					
Property taxes and special assessments	\$16,538,652	\$17,527,982	\$18,749,790	\$19,879,161	\$20,031,876
Sales tax	10,234,115	11,373,624	11,344,359	12,871,187	12,965,800
Transaction tax	5,381,995	5,854,399	5,752,140	6,726,948	6,548,000
Franchise tax	1,775,865	1,910,805	1,983,537	1,997,428	1,885,137
Intergovernmental	88,300	30,168	50,291	46,479	-
Licenses and permits	2,067,561	1,421,342	1,360,776	1,758,713	1,276,022
Charges for services	5,177,198	4,964,559	5,036,161	4,965,113	4,419,927
Fines, forfeitures, and penalties	938,095	848,817	733,065	738,052	930,200
Use of money and property	3,100,962	4,385,383	2,821,874	2,712,471	2,871,524
Other revenue	358,627	266,759	198,902	146,330	18,200
Total Revenues	<u>45,661,370</u>	<u>48,583,838</u>	<u>48,030,895</u>	<u>51,841,882</u>	<u>50,946,686</u>
<b>EXPENDITURES</b>					
Current:					
General government	3,009,121	3,027,302	3,050,978	3,183,314	4,121,345
Public safety	26,954,810	29,220,591	30,727,821	31,670,913	34,507,425
Public works	5,190,367	5,159,805	5,262,066	5,085,127	5,333,468
Community services	3,821,807	3,604,106	3,341,646	3,242,100	3,744,992
Community development	1,875,528	1,827,000	2,033,365	2,283,672	2,320,789
Capital outlay (1)	1,447,896	1,174,590	-	-	35,000
Debt service - Principal	234,599	319,754	203,403	130,997	135,438
Debt service - Interest	45,116	79,883	60,653	42,990	43,099
Total Expenditures	<u>42,579,244</u>	<u>44,413,031</u>	<u>44,679,932</u>	<u>45,639,113</u>	<u>50,241,556</u>
<b>REVENUES OVER EXPENDITURES</b>	3,082,126	4,170,807	3,350,963	6,202,769	705,130
<b>OTHER FINANCING SOURCES</b>					
Proceeds from sale of capital assets (2)	5,591,847	1,733	-	10,202	1,000
Issuance of capital leases	1,430,097	-	-	-	-
Transfers in (1)(3)	-	904,000	48,903	-	-
Transfers out (4)	(5,982,839)	(2,049,268)	(2,439,172)	(2,920,006)	(106,130)
Total Other Financing Sources	<u>1,039,105</u>	<u>(1,143,535)</u>	<u>(2,390,269)</u>	<u>(2,909,804)</u>	<u>(105,130)</u>
<b>NET CHANGE IN FUND BALANCES</b>	4,121,231	3,027,272	960,694	3,292,965	600,000
<b>FUND BALANCES - BEGINNING OF YEAR</b>	8,779,090	12,900,321	15,927,593	16,888,287	20,181,252
<b>FUND BALANCES - END OF YEAR</b>	12,900,321	15,927,593	16,888,287	20,181,252	20,781,252

Source: City of La Habra Comprehensive Annual Financial Report for Fiscal Years 2017-18 through 2019-20 data and City of La Habra.

- (1) In fiscal year 2017-18, capital outlay and capital leases of \$1.4 million represented an acquisition of public safety radio equipment through a lease financing.
- (2) In fiscal year 2017-18, the City sold the old City Hall and received proceeds of \$5.6 million.
- (3) In fiscal year 2018-19, the City entered into a lease financing to borrow \$904,000 to acquire a parking lot next to the community center.
- (4) In fiscal year 2017-18, the City made a one-time transfer of \$3.5 million to capital projects to fund various capital projects. The remainder of the transfers were routine activities to replenish internal service funds.
- (5) From the City's fiscal year 2021-22 budget, adopted June 21, 2021.

## General Fund Budget

The following table shows the City's General Fund budget figures for fiscal year 2019-20 and 2020-21, including a comparison of the City's initial budget, final budget, and audited actuals for each year.

**TABLE 3  
CITY OF LA HABRA  
GENERAL FUND  
BUDGET COMPARISON  
Fiscal Years 2019-20 and 2020-21**

	Fiscal Year Ending June 30, 2020			Fiscal Year Ending June 30, 2021		
	Adopted Budget	Final Budget	Audited Actuals	Adopted Budget	Final Budget	Unaudited Actuals
<b>REVENUES</b>						
Property taxes and special assessments	\$18,014,579	\$18,014,579	\$18,749,790	18,729,159	18,729,159	19,879,161
Sales tax	11,008,000	11,008,000	11,344,359	10,367,389	10,367,389	12,871,187
Transaction tax	5,688,000	5,688,000	5,752,140	5,223,819	5,223,819	6,726,948
Franchise tax	1,801,410	1,801,410	1,983,537	1,801,410	1,801,410	1,997,428
Intergovernmental	-	-	50,291	-	-	46,479
Licenses and permits	1,079,600	1,079,600	1,360,776	1,055,533	1,055,533	1,758,713
Charges for services	4,403,109	4,403,109	5,036,161	4,497,607	4,497,607	4,965,113
Fines, forfeitures and penalties	1,042,800	1,042,800	733,065	707,650	707,650	738,052
Use of money and property	2,804,243	2,804,243	2,821,874	2,821,790	2,821,790	2,712,471
Other revenues	24,700	62,033	198,902	16,700	16,700	146,330
<b>Total Revenues</b>	<b>45,866,441</b>	<b>45,903,744</b>	<b>48,030,895</b>	<b>45,221,057</b>	<b>45,221,057</b>	<b>51,841,882</b>
<b>EXPENDITURES</b>						
Current:						
General government	3,399,544	3,399,544	3,425,978	3,467,120	3,467,120	3,183,314
Public safety	30,870,874	30,870,874	30,727,821	31,372,147	31,372,147	31,670,913
Public works	5,276,615	5,281,615	5,262,066	5,101,806	5,101,806	5,085,127
Community services	3,864,250	3,893,508	3,341,646	3,381,653	3,381,653	3,242,100
Community development	2,043,485	2,046,580	2,033,365	2,060,816	2,060,816	2,283,672
Capital outlay	-	-	-	-	-	-
Debt service - Principal	203,403	203,403	203,403	130,997	130,997	130,997
Debt service - Interest	59,902	59,902	60,653	55,061	55,061	42,990
<b>Total Expenditures</b>	<b>45,718,073</b>	<b>45,755,426</b>	<b>45,054,932</b>	<b>45,569,600</b>	<b>45,569,600</b>	<b>45,639,113</b>
<b>REVENUES OVER EXPENDITURES</b>	<b>148,368</b>	<b>148,348</b>	<b>2,975,963</b>	<b>(348,543)</b>	<b>(348,543)</b>	<b>6,202,769</b>
<b>OTHER FINANCING SOURCES</b>						
Proceeds from sale of capital assets	3,200	3,200	-	1,000	1,000	10,202
Transfers in	-	-	48,903	-	-	-
Transfers out	(151,568)	(167,548)	(2,439,172)	(106,173)	(1,327,939)	(2,920,006)
<b>Total Other Financing Sources</b>	<b>(148,368)</b>	<b>(164,348)</b>	<b>(2,390,269)</b>	<b>(105,173)</b>	<b>(1,326,939)</b>	<b>(2,909,804)</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>-</b>	<b>(16,000)</b>	<b>960,694</b>	<b>(453,716)</b>	<b>(1,675,482)</b>	<b>3,292,965</b>
<b>FUND BALANCES - Beginning of Year</b>			<b>15,927,593</b>	<b>16,888,287</b>	<b>16,888,287</b>	<b>16,888,287</b>
<b>FUND BALANCES - End of Year</b>			<b>16,888,287</b>	<b>16,434,571</b>	<b>15,212,805</b>	<b>20,181,252</b>

Source: City of La Habra Comprehensive Annual Financial Report for Fiscal Year 2019-20 and 2020-21.

## City Financial Management

The City Council has adopted a comprehensive set of financial management policies to provide for: (i) establishing targeted General Fund reserves; (ii) the prudent investment of City funds, and (iii) management of debt. The City's practice is to incur debt only after deliberation over the effect of such debt on the City's General Fund and other resources of the City, and in those circumstances where the use of debt would be appropriate to the scale and economic life of the asset being financed and the accumulation or availability of reserves to fund the capital requirement.

*General Fund Reserve Policy.* The City's Reserve Policy sets a goal of 10% of General Fund annual operating expenditures and transfers out with a goal of increasing the commitment to 25%. The following table shows the City's General Fund Reserve Policy guidance, unaudited reserves for Fiscal Year 2020-21 and budgeted reserve for Fiscal Year 2021-22.

**TABLE 4  
CITY OF LA HABRA  
GENERAL FUND RESERVE POLICY**

	Policy Guidance	Unaudited FY 2020-21	Budgeted FY 2021-22
% of Expenses	10-25%	18.8%	20.6%

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Source: City of La Habra.

The City did not draw down its General Fund reserves during Fiscal Years 2019-20 or 2020-21 below its targets. The City does not project a need to draw its reserves below targeted levels in its initial Fiscal Year 2021-22 budget.

*Investment Policy.* The investment of funds of the City (except pension and retirement funds) is made in accordance with the City's Investment Policy, most recently approved December 20, 2020 (the "Investment Policy"), prepared by the City Finance Director as authorized by section 53601 of the Government Code of California. The Investment Policy allows for the purchase of a variety of securities and provides for limitations as to exposure, maturity and rating which vary with each security type. The composition of the portfolio will change over time as old investments mature, or are sold, and as new investments are made. Invested funds are managed to ensure preservation of capital through high quality investments, maintenance of liquidity and then yield. Further, operating funds may not be invested in any investment with a maturity greater than five years.

*Debt Management Policy.* In accordance with section 8855(i) of the California Government Code, the City adopted a debt management policy on October 21, 2019, to establish conditions for the use of debt; to ensure that debt capacity and affordability are adequately considered; to minimize the City's interest and issuance costs; to maintain the highest possible credit rating; to provide complete financial disclosure and reporting; and to maintain financial flexibility for the City.

*Pension Funding Policy.* On November 15, 2021, the City adopted a pension funding policy to provide guidance on the development and of a funding plan for any UAL that is calculated annually by CalPERS or for any UALs remaining immediately after the issuance of pension obligation bonds and that such pension funding policy should also support the decision-making and budgeting process of the City Council and be consistent with the overall purpose and goals of the City's pension plan.

## Primary Sources of General Fund Revenues

The City relies on several sources to balance its General Fund budget. The most important of these revenue sources (based on percentage of the total revenue budget) are property taxes and special assessments, which typically account for 35% of the City's General Fund revenues. The City's second largest General Fund revenue source is sales and use taxes, typically accounting for 20% of the City's General Fund revenues. The City also has a separate transaction tax, Measure T, which accounts for approximately 12% of the City's General Fund Revenues. For more information on Measure T, see "Transaction Taxes" below. Together with revenues from charges for services these primary sources of General Fund revenues constitute approximately 80% of the City's General Fund revenues each year.

The table below shows the City's primary general fund revenue sources for the three most recent fiscal years, unaudited actuals for Fiscal Year 2020-21, and budgeted projections for Fiscal Year 2021-22. Following the table is a brief discussion of each of the City's primary sources of General Fund revenues.

**TABLE 5**  
**CITY OF LA HABRA**  
**PRIMARY SOURCES OF GENERAL FUND REVENUES**

	Fiscal Year Ending June 30,				
	2018 Audited	2019 Audited	2020 Audited	2021 Unaudited	2022 Projected
Property taxes and special assessments	\$16,538,562	\$17,527,982	\$18,749,790	\$19,879,161	\$20,031,876
Sales tax	10,234,115	11,373,624	11,344,359	12,871,187	12,965,800
Transaction tax	5,381,995	5,854,399	5,752,140	6,726,948	6,548,000
Charges for services	5,177,198	4,964,559	5,036,161	4,965,113	4,419,927
Total Primary Sources	<u>\$37,331,870</u>	<u>\$39,720,564</u>	<u>\$40,882,450</u>	<u>44,442,409</u>	<u>43,965,603</u>
All Other General Fund Revenues	8,329,500	8,863,274	7,148,445	7,399,473	6,981,083
Total General Fund Revenues	<u>\$45,661,370</u>	<u>\$48,583,838</u>	<u>\$48,030,895</u>	<u>51,841,882</u>	<u>50,946,686</u>

Source: City of La Habra 2017-20 Comprehensive Annual Financial Report and City of La Habra.

*Property Taxes and Special Assessments.* The County levies a tax of 1% on the assessed valuation of property within the County. The City receives approximately a 17% share of this 1% levy for property located within the City limits. In Fiscal Year 2019-20, property taxes and special assessments generated \$18,749,790, generated \$19,876,161 for Fiscal Year 2020-21 and are projected to generate \$20,031,876 in fiscal year 2021-22. Property taxes and special assessments are the General Fund's largest revenue source. See "Property Taxes" below for additional information relating to the property taxes and the assessed valuation of property located in the City. For additional discussion, see "PROPERTY TAXES."

*Sales and Use Taxes.* The City receives a 1% share of all taxable sales generated within its borders. In Fiscal Year 2019-20, sales and use taxes generated \$11,344,359, generated \$12,871,187 for Fiscal Year 2020-21 and are projected to generate \$12,965,800 in fiscal year 2021-22. Sales taxes are the General Fund's second largest revenue source. For additional discussion, see "SALES AND USE TAXES."

*Transaction Taxes.* In November of 2008, the voters of the City approved Measure T, a ½% local transaction and use tax. Measure T taxes were approved for a 20 year period and are scheduled to terminate in 2028 if not renewed. Measure T is a general tax and Measure T tax collections are available for any general fund purpose. In Fiscal Year 2019-20, transaction taxes generated \$5,752,140, generated \$6,726,948 for

Fiscal Year 2020-21 and are projected to generate \$6,548,000 in fiscal year 2021-22. For additional discussion, see “SALES AND USE TAXES.”

*Charges for Services.* The City charges various fees and charges for services provided, including development and inspection fees, paramedic fees, charges for public works, police, fire, library and parks and recreation services. By law, the City may not charge more than the cost of providing the service.

## **Property Taxes**

Under Proposition 13, an amendment to the California Constitution adopted in 1978 that added Article XIII A of the California Constitution, the county assessor’s valuation of real property is established as shown on the fiscal year 1975-76 tax bill, or, thereafter, as the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred. Assessed value of property may be increased annually to reflect inflation at a rate not to exceed 2% per year or reduced to reflect a reduction in the consumer price index or comparable data for the area under taxing jurisdiction or in the event of declining property value caused by substantial damage, destruction, market forces or other factors. As a result of these rules, real property that has been owned by the same taxpayer for many years can have an assessed value that is much lower than that of similar properties more recently sold and may be lower than its own market value. Likewise, changes in ownership of property and reassessment of such property to market value commonly will lead to increases in aggregate assessed value even when the rate of inflation or consumer price index would not permit the full 2% increase on any property that has not changed ownership.

Taxes are levied by the County for each fiscal year on taxable real and personal property which is situated in the County as of the preceding January 1. Real property which changes ownership or is newly constructed is revalued at the time the change in ownership occurs or the new construction is completed. The current year property tax rate will be applied to the reassessment, and the taxes will then be adjusted by a proration factor to reflect the portion of the remaining tax year for which taxes are due.

Local agencies and schools will share the growth of “base” sources from all tax rate areas in the County. Each year’s growth allocation becomes part of each local agency’s allocation in the following year. The availability of revenue from growth in the tax bases in such tax rate areas may be affected by the existence of redevelopment agencies (including their successor agencies) which, under certain circumstances, may be entitled to sources resulting from the increase in certain property values. State law exempts \$7,000 of the assessed valuation of an owner-occupied principal residence. This exemption does not result in any loss of revenue to local agencies since an amount equivalent to the taxes that would have been payable on such exempt values is supplemented by the State.

For assessment and tax 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 property and property (real or personal) for which there is a lien on real property sufficient, in the opinion of the county assessor, to secure payment of the taxes. All other property is “unsecured,” and is assessed on the “unsecured roll.” Secured property assessed by the SBE is commonly identified for taxation purposes as “utility” property.

Property taxes on the secured roll are due in two installments, on November 1 and February 1 of each fiscal year, and if unpaid become delinquent on December 10 and April 10, respectively. A penalty of 10% attaches immediately to any delinquent payment. Property on the secured roll, with respect to which taxes are delinquent, becomes tax defaulted on or about June 30 of the fiscal year. Such property may

thereafter be redeemed by payment of delinquent taxes and the delinquency penalty, plus costs and prepayment penalty of one and one-half percent per month to the time of prepayment. If taxes are unpaid for a period of five years or more, the property is subject to sale by the county treasurer.

Property taxes on the unsecured roll are due as of the January 1 lien date and become delinquent, if unpaid, on August 31. A 10% penalty attaches to delinquent unsecured taxes. If unsecured taxes are unpaid at 5 p.m. on October 31, an additional penalty of one and one-half percent per month attaches to such taxes beginning the second month after the delinquent date, and on the first day of each month until paid. A county has four ways of collecting delinquent unsecured personal property taxes: (1) bringing a civil action against the taxpayer; (2) filing a certificate in the office of the County Clerk specifying certain facts in order to obtain a lien on certain property of the taxpayer; (3) filing a certificate of delinquency for record in the County Clerk and County Recorder's office in order to obtain a lien on certain property of the taxpayer; and (4) seizing and selling personal property, improvements, or possessory interests belonging or assessed to the delinquent taxpayer.

### **Teeter Plan**

The Board of Supervisors of the County has approved the implementation of the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "Teeter Plan"), as provided for in section 4701 et seq. of the California Revenue and Taxation Code. The Teeter Plan guarantees distribution of 100% of the general taxes levied to the taxing entities within the County, with the County retaining all penalties and interest penalties affixed upon delinquent properties and redemptions of subsequent collections. Under the Teeter Plan, the County apportions secured property taxes on a cash basis to local political subdivisions, including the City, for which the County acts as the tax-levying or tax-collecting agency. At the conclusion of each fiscal year, the County distributes 100% of any taxes delinquent as of June 30th to the respective taxing entities.

The County cash position is protected by a special fund, known as the "Tax Loss Reserve Fund," which accumulates moneys from interest and penalty collections. In each fiscal year, the Tax Loss Reserve Fund is required to be funded to the amount of delinquent taxes plus one percent of that year's tax levy. Amounts exceeding the amount required to be maintained in the tax loss reserve fund may be credited to the County's general fund. Amounts required to be maintained in the tax loss reserve fund may be drawn on to the extent of the amount of uncollected taxes credited to each agency in advance of receipt.

The Teeter Plan is to remain in effect unless the County Board orders its discontinuance or unless, prior to the commencement of any fiscal year of the County (which commences on July 1), the County Board receives a petition for its discontinuance joined in by resolutions adopted by at least two-thirds of the participating revenue districts in the County, in which event the County Board is to order discontinuance of the Teeter Plan effective at the commencement of the subsequent fiscal year. The County Board may also, after holding a public hearing on the matter, discontinue the Teeter Plan with respect to any tax levying agency or assessment levying agency in the County if the rate of secured tax delinquency in that agency in any year exceeds 3% of the total of all taxes and assessments levied on the secured roll in that agency. If the Teeter Plan is discontinued in the future, only those secured property taxes actually collected would be allocated to political subdivisions (including the City) for which the County acts as the tax-levying or tax-collecting agency, but penalties and interest would be credited to the political subdivisions.

The City is not aware of any petitions for the discontinuance of the Teeter Plan in the County.

## Assessed Value

The assessed valuation of property in the City is established by the County Assessor, except for public utility property which is assessed by the SBE. Assessed valuations are reported at 100% of the “full value” of the property, as defined in Article XIII A of the California Constitution.

Certain classes of property, such as churches, colleges, not-for-profit hospitals and charitable institutions, are exempt from property taxation and do not appear on the tax rolls. No reimbursement is made by the State for such exemptions. Property taxes allocated to the City are collected by the County at the same time and on the same tax rolls as are county and special district taxes. The valuation of secured property by the County Assessor is established as of January 1 and is subsequently equalized in September of each year.

The table below shows the assessed valuation of taxable property in the City for the most recent fiscal years.

**TABLE 6**  
**CITY OF LA HABRA**  
**HISTORIC ASSESSED VALUATIONS**  
**Fiscal Years 2010-11 to 2021-22**

Fiscal Year	Local Secured	Unsecured	Utility	Total Assessed Valuation	% Change
2010-11	\$4,550,648,948	\$150,041,264	—	\$4,700,690,212	n/a
2011-12	4,624,793,752	167,684,392	—	4,792,478,144	1.95%
2012-13	4,709,053,003	147,989,659	—	4,857,042,662	1.35
2013-14	4,833,985,694	145,762,788	—	4,979,748,482	2.53
2014-15	5,139,054,103	184,167,860	—	5,323,221,963	6.90
2015-16	5,512,102,199	143,369,146	—	5,655,471,345	6.24
2016-17	5,780,579,382	160,937,502	—	5,941,516,884	5.06
2017-18	6,089,193,355	149,476,923	—	6,238,670,278	5.00
2018-19	6,456,023,149	166,319,740	—	6,622,342,889	6.15
2019-20	6,936,939,116	176,786,499	—	7,113,725,615	7.42
2020-21	7,295,239,943	156,717,723	—	7,451,957,666	4.75
2021-22	7,598,498,140	166,940,982	\$359,370	7,765,798,492	4.21

Source: California Municipal Statistics, Inc.

Assessments may be adjusted during the course of the year when real property changes ownership or new construction is completed. Assessments may also be appealed by taxpayers seeking a reduction as a result of economic and other factors beyond the City’s control, such as a general market decline in property values, reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by State and local agencies and property used for qualified educational, hospital, charitable or religious purposes), or the complete or partial destruction of taxable property caused by natural or manmade disaster, such as earthquake, flood, fire, toxic dumping, etc. When necessitated by changes in assessed value in the course of a year, taxes are pro-rated for each portion of the tax year.

*Appeals of Assessed Valuation; Blanket Reductions of Assessed Values.* There are two basic types of property tax assessment appeals provided for under State law. The first type of appeal, commonly referred to as a base year assessment appeal, involves a dispute on the valuation assigned by the assessor immediately

subsequent to an instance of a change in ownership or completion of new construction. If the base year value assigned by the assessor is reduced, the valuation of the property cannot increase in subsequent years more than 2% annually unless and until another change in ownership and/or additional new construction activity occurs.

The second type of appeal, commonly referred to as a Proposition 8 appeal (which Proposition 8 was approved by the voters in 1978), can result if factors occur causing a decline in the market value of the property to a level below the property's then current taxable value (escalated base year value). Pursuant to State law, a property owner may apply for a Proposition 8 reduction of the property tax assessment for such owner's property by filing a written application, in the form prescribed by the SBE, with the appropriate county board of equalization or assessment appeals board. A property owner desiring a Proposition 8 reduction of the assessed value of such owner's property in any one year must apply to the county assessment appeals board (the "Appeals Board"). Following a review of the application by the county assessor's office, the county assessor may offer to the property owner the opportunity to stipulate to a reduced assessment or may confirm the assessment. If no stipulation is agreed to, and the applicant elects to pursue the appeal, the matter is brought before the Appeals Board (or, in some cases, a hearing examiner) for a hearing and decision. The Appeals Board generally is required to determine the outcome of appeals within two years of each appeal's filing date. Any reduction in the assessment ultimately granted applies only to the year for which application is made and during which the written application is filed. The assessed value increases to its pre-reduction level (escalated to the inflation rate of no more than 2%) following the year for which the reduction application is filed. However, the county assessor has the power to grant a reduction not only for the year for which application was originally made, but also for the then current year and any intervening years as well. In practice, such a reduced assessment may and often does remain in effect beyond the year in which it is granted.

In addition to the above-described taxpayer appeals, county assessors may independently reduce assessed valuations based on changes in the market value of property, or for other factors such as the complete or partial destruction of taxable property caused by natural or man-made disasters such as earthquakes, floods, fire, drought or toxic contamination pursuant to relevant provisions of the State Constitution.

In addition, Article XIII A of the State Constitution provides that the full cash value base of real property used in determining taxable value may be adjusted from year to year to reflect the inflationary rate, not to exceed a 2% increase for any given year or may be reduced to reflect a reduction in the consumer price index or comparable local data. This measure is computed on a calendar year basis.

*Risk of Decline in Property Values; Fire; Earthquake Risk.* Property values could be reduced by factors beyond the City's control, including fire, earthquake and a depressed real estate market due to general economic conditions in the County, the region and the State.

Other possible causes for a reduction in assessed values include the complete or partial destruction of taxable property caused by other natural or manmade disasters, such as flood, fire, drought, toxic dumping, acts of terrorism, etc., or reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by State and local agencies and property used for qualified educational, hospital, charitable or religious purposes).

No assurance can be given that property tax appeals and/or blanket reductions of assessed property values will not significantly reduce the assessed valuation of property within the City in the future.

*Assembly Bill 102.* On June 27, 2017, the Governor of the State (the “Governor”) signed into law Assembly Bill 102 (“AB 102”). AB 102 restructured the functions of the SBE and created two new separate agencies: (i) the California Department of Tax and Fee Administration, and (ii) the Office of Tax Appeals. Under AB 102, the California Department of Tax and Fee Administration took over programs previously in the SBE Property Tax Department, such as the Tax Area Services Section, which is responsible for maintaining all property tax-rate area maps and for maintaining special revenue district boundaries. Under AB 102, the SBE continues to perform the duties assigned by the State Constitution related to property taxes, however, effective January 1, 2018, the SBE will only hear appeals related to the programs that it constitutionally administers and the Office of Tax Appeals will hear appeals on all other taxes and fee matters, such as sales and use tax and other special taxes and fees. AB 102 obligates the Office of Tax Appeals to adopt regulations as necessary to carry out its duties, powers, and responsibilities. No assurances can be given as to the effect of such regulations on the appeals process or on the assessed valuation of property within the City.

*State-Assessed Property.* Under the Constitution, the SBE assesses property of State-regulated transportation and communications utilities, including railways, telephone and telegraph companies, and companies transmitting or selling gas or electricity. The Board of Equalization also is required to assess pipelines, flumes, canals and aqueducts lying within two or more counties. The value of property assessed by the Board of Equalization is allocated by a formula to local jurisdictions in the county, including school districts, and taxed by the local county tax officials in the same manner as for locally assessed property. Taxes on privately owned railway cars, however, are levied and collected directly by the Board of Equalization. Property used in the generation of electricity by a company that does not also transmit or sell that electricity is taxed locally instead of by the Board of Equalization. Thus, the reorganization of regulated utilities and the transfer of electricity-generating property to non-utility companies, as often occurred under electric power deregulation in California, affects how those assets are assessed, and which local agencies benefit from the property taxes derived. In general, the transfer of State-assessed property located in the City to non-utility companies will increase the assessed value of property in the City, since the property’s value will no longer be divided among all taxing jurisdictions in the County. The transfer of property located and taxed in the City to a State-assessed utility will have the opposite effect, generally reducing the assessed value in the City as the value is shared among the other jurisdictions in the County. The City is unable to predict future transfers of State-assessed property in the City and the County, the impact of such transfers on its utility property tax revenues, or whether future legislation or litigation may affect ownership of utility assets, the State’s methods of assessing utility property, or the method by which tax revenues of utility property is allocated to local taxing agencies, including the City.

*Assessed Valuation by Land Use.* The following table gives a distribution of taxable real property located in the City by principal purpose for which the land is used, and the assessed valuation and number of parcels for each use.

**TABLE 7  
CITY OF LA HABRA  
ASSESSED VALUATION AND PARCELS BY LAND USE**

	FY2021-22 Assessed Valuation <sup>(1)</sup>	% of Total	No. of Parcels	% of Total
<b><u>Non-Residential:</u></b>				
Commercial/Office/Recreational	\$ 995,161,920	13.10%	618	3.97%
Industrial	510,661,540	6.72	217	1.39
Government/Social/Institutional	—	0.00	153	0.98
Miscellaneous	813,682	0.01	34	0.22
Subtotal Non-Residential	<u>\$1,506,637,142</u>	<u>19.83%</u>	<u>1,022</u>	<u>6.56%</u>
<b><u>Residential:</u></b>				
Single Family Residence	\$4,612,322,701	60.70%	11,262	72.32%
Condominium/Townhouse	665,303,661	8.76	2,174	13.96
Mobile Home	8,599,545	0.11	596	3.83
2+ Residential Units/Apartments	805,635,091	10.60	518	3.33
Subtotal Residential	<u>\$6,091,860,998</u>	<u>80.17%</u>	<u>14,550</u>	<u>93.44%</u>
<b>Total</b>	<u>\$7,598,498,140</u>	<u>100.00%</u>	<u>15,572</u>	<u>100.00%</u>

Source: California Municipal Statistics, Inc.

(1) Total secured assessed valuation, excluding tax-exempt property.

*Assessed Valuation of Single-Family Homes.* The following table focuses on single-family residential properties only, which comprise approximately 60.70% of the assessed value of taxable property in the City.

**TABLE 8  
CITY OF LA HABRA  
PER PARCEL - ASSESSED VALUATION OF SINGLE-FAMILY HOMES**

	No. of Parcels	FY2021-22 Assessed Valuation	Average Assessed Valuation	Median Assessed Valuation
Single Family Residential	11,262	\$4,612,322,701	\$409,547	\$380,017

  

FY2021-22 Assessed Valuation	No. of Parcels <sup>(1)</sup>	% of Total	Cumulative % of Total	Total Valuation	% of Total	Cumulative % of Total
\$0 - \$49,999	176	1.563%	1.563%	\$ 6,415,025	0.139%	0.139%
\$50,000 - \$99,999	1,142	10.140	11.703	83,953,970	1.820	1.959
\$100,000 - \$149,999	496	4.404	16.107	61,374,740	1.331	3.290
\$150,000 - \$199,999	516	4.582	20.689	91,738,646	1.989	5.279
\$200,000 - \$249,999	905	8.036	28.725	205,038,259	4.445	9.724
\$250,000 - \$299,999	1,050	9.323	38.048	287,743,087	6.239	15.963
\$300,000 - \$349,999	868	7.707	45.756	282,372,624	6.122	22.085
\$350,000 - \$399,999	790	7.015	52.770	295,916,477	6.416	28.501
\$400,000 - \$449,999	767	6.811	59.581	325,840,299	7.065	35.565
\$450,000 - \$499,999	789	7.006	66.587	375,251,662	8.136	43.701
\$500,000 - \$549,999	701	6.224	72.811	367,293,670	7.963	51.665
\$550,000 - \$599,999	642	5.701	78.512	368,225,514	7.984	59.648
\$600,000 - \$649,999	613	5.443	83.955	381,929,400	8.281	67.929
\$650,000 - \$699,999	498	4.422	88.377	335,312,156	7.270	75.199
\$700,000 - \$749,999	317	2.815	91.192	229,433,536	4.974	80.173
\$750,000 - \$799,999	250	2.220	93.411	193,384,830	4.193	84.366
\$800,000 - \$849,999	199	1.767	95.178	164,107,540	3.558	87.924
\$850,000 - \$899,999	162	1.438	96.617	141,981,453	3.078	91.002
\$900,000 - \$949,999	104	0.923	97.540	95,911,405	2.079	93.082
\$950,000 - \$999,999	50	0.444	97.984	48,787,465	1.058	94.139
\$1,000,000-and greater	227	2.016	100.000	270,310,943	5.861	100.000
	<u>11,262</u>	<u>100.000%</u>		<u>\$4,612,322,701</u>	<u>100.000%</u>	

Source: California Municipal Statistics, Inc.

(1) Improved single-family residential parcels. Excludes condominiums and parcels with multiple family units.

*Principal Taxpayers.* Based on fiscal year 2021-22 locally assessed taxable valuations, the top twenty taxable property owners in the City represent approximately 10.83% of the total fiscal year 2021-22 taxable value.

The following table shows the 20 largest owners of taxable property in the City as determined by secured assessed valuation in fiscal year 2021-22. The City is not aware of any plans by the top twenty largest local secured taxpayers to leave the City or terminate operations.

**TABLE 9  
CITY OF LA HABRA  
LARGEST LOCAL SECURED PROPERTY TAXPAYERS**

	Property Owner	Primary Land Use	FY2021-22 Assessed Valuation	% of Total <sup>(1)</sup>
1.	CVS Pharmacy Inc.	Industrial	\$109,714,458	1.44%
2.	La Habra Assoc LLC	Commercial	103,696,170	1.36
3.	Fairfield 951 Beach LLC	Apartments	85,639,997	1.13
4.	La Habra Westridge Partners LP	Commercial	71,555,044	0.94
5.	BEX Portfolio Inc.	Apartments	51,673,742	0.68
6.	B9 Harbor Blvd Owner LLC	Industrial	42,688,689	0.56
7.	Carefree Communities CA LLC	Retirement Community	41,346,396	0.54
8.	Monterra Springs Apartments LLC	Apartments	32,273,282	0.42
9.	First Security Bank of Utah Trust	Commercial	32,140,090	0.42
10.	Ralphs Grocery Co.	Industrial	31,472,115	0.41
11.	Federal Avenue Partners LLC	Commercial	30,917,016	0.41
12.	Essex Hillsborough Park LP	Apartments	29,734,327	0.39
13.	Costco Wholesale Corporation	Commercial	28,759,544	0.38
14.	Clipperton Partners	Commercial	22,381,152	0.29
15.	PS Southern California One Inc.	Industrial	22,291,285	0.29
16.	Lincoln Center Properties II LLC	Industrial	20,731,811	0.27
17.	West S9 LLC	Commercial	18,771,219	0.25
18.	Sand Castle Investors LLC	Apartments	15,915,508	0.21
19.	The Springs Apartment Company LP	Apartments	15,873,224	0.21
20.	2444 Orangethorpe Properties LLC	Apartments	15,512,781	0.20
	Total Top 20		<u>\$823,087,850</u>	<u>10.83%</u>

Source: California Municipal Statistics, Inc.

(1) FY2021-22 Local Secured Assessed Valuation: \$7,598,498,140.

*Tax Levies and Delinquencies.* Beginning in 1978-79, Article XIII A and its implementing legislation shifted the function of property taxation primarily to the counties, except for levies to support prior-voted debt, and prescribed how levies on county-wide property values are to be shared with local taxing entities within each county.

The following table sets forth the secured tax charges and delinquencies for the most recent fiscal years.

**TABLE 10**  
**CITY OF LA HABRA**  
**SECURED TAX CHARGES AND DELINQUENCIES**

Fiscal Year	Secured Tax Charge <sup>(1)</sup>	Amt. Del. June 30	% Del. June 30
2009-10	\$ 7,348,226.52	\$170,024.96	2.31%
2010-11	7,350,118.80	119,925.70	1.63
2011-12	7,482,640.44	108,883.33	1.46
2012-13	7,640,934.01	86,507.09	1.13
2013-14	7,944,386.79	79,835.27	1.00
2014-15	8,423,216.01	84,708.74	1.01
2015-16	9,153,727.07	208,533.97	2.28
2016-17	9,613,283.98	187,282.51	1.95
2017-18	10,081,087.90	154,237.71	1.53
2018-19	10,646,355.67	157,161.75	1.48
2019-20	10,976,239.29	91,709.84	0.84
2020-21	11,511,326.53	77,648.75	0.67

Source: California Municipal Statistics, Inc.

### Sales and Use Taxes

A sales tax is imposed on the privilege of consuming personal property in the State. The State does not tax services. The tax rate is established by the State Legislature, and is presently 7.25%, statewide (of which 1% is paid to the City) (the “State Sales Tax”). In addition, many of the State’s cities, counties, districts and communities have special taxing jurisdiction to impose a transaction (sales) or use tax. These so-called district taxes increase the tax rate in a particular area by adding the local option tax to the statewide tax. While more than one district tax may be in effect for a particular location, counties, municipalities, and districts are allowed to increase the sales tax in specific jurisdictions up to a total of 10.25%.

The State’s Department of Tax and Fee Administration 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.

The following table shows a breakdown of the composition of the current sales and use tax rate applicable to transactions in the City:

**TABLE 11  
CITY OF LA HABRA  
CURRENT SALES TAX RATES**

Component	Tax Rate
State General Fund	6.00%
Orange County Local Transportation Authority	0.75
City of La Habra Portion	1.00
Measure T	0.50
Total	8.25%

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Source: City of La Habra

*Measure T Transaction Tax.* The City also receives an additional ½% sales tax from Measure T, passed by the voters of the City in November of 2008. Measure T taxes were approved for a 20 year period and are scheduled to terminate in December of 2028 if not renewed. The City can give no assurance that Measure T collections will continue beyond December 2028. The City can give no assurances Measure T will be extended or renewed by the voters of the City.

*Sales Taxes Generally.* The State’s Department of Tax and Fee Administration 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.

Many categories of transactions are exempt for the State Sales Tax. The most important of these exemptions are the sales of food products for home consumption, prescription medicine, edible livestock and their feed, seed and fertilizer used in raising food for human consumption, and gas and electricity and water when delivered to consumers through mains, lines and pipes. In addition, occasional sales (i.e., sales of property not held or used by a seller in the course of activities for which he or she is required to hold a seller’s permit) are generally exempt from both the State Sales Tax; however, the occasional sales exemption does not apply to the sale of an entire business and other sales of machinery and equipment used in a business

Action by the State Legislature or by voter initiative could change the transactions and items upon which the State Sales Tax are imposed. Such changes or amendments could have either an adverse or beneficial effect on revenues produced by sales taxes. The City is not currently aware of any proposed legislative change that would have a material adverse effect on the State Sales Tax.

*Online Purchases.* The City’s sales tax collections may be affected by increasing levels of sales of physical products bought online and delivered in the City by businesses located outside of the State. The City believes that many of these transactions may avoid taxation either through error or deliberate non-reporting and this potentially reduces the amounts of the sales taxes collected. See “RISK FACTORS—Increased Internet Use May Reduce Sales Tax Revenues.”

**Other Sources of General Fund Revenues**

In addition, the City receives approximately 15% of its annual General Fund revenues from the following sources:

*Franchise Fees.* The City receives a portion of the garbage, cable tv/internet and electric and gas utility revenues for services collected from City resident and business ratepayers.

*Licenses and Permits.* The City charges certain permits, licenses and fees for the cost recovery of providing current planning, building inspection, recreation and other municipal services.

*Fines, Forfeitures and Penalties.* These revenues include parking citations and other fines for municipal code violations.

**Reliance on State Budget**

The City does not rely on the State for a material amount of revenues. To the extent that the State budget process results in reduced revenues to the City, the City will be required to make adjustments to its budget. There can be no certainty that budget-cutting strategies, such as those used in prior recessions, will not be used by the State in the future, should the State budget again be stressed. There can be no assurance that future State budget difficulties will not adversely affect the City’s revenues or its ability to make payments under the Trust Agreement. See “STATE BUDGET INFORMATION.”

**OTHER FINANCIAL INFORMATION**

**Labor Relations**

Currently, 196 permanent City employees are covered by negotiated agreements as detailed in the table below.

**TABLE 12  
CITY OF LA HABRA  
NEGOTIATED EMPLOYEE AGREEMENTS**

Bargaining Unit	Contract Expiration Date	Number of Employees
Municipal Employees’ Group (Field Services)	6/30/21	42
General Services	6/30/21	43
Professional	6/30/21	14
Police Association—Civilian	6/30/21	32
Police Association—Sworn	6/30/21	65
Total		<u>196</u>

Source: City of La Habra

## **Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and injuries to employees. The City established a self-insurance program, the Risk Management Fund, to account for and finance its uninsured risks of loss. Under this program, the Risk Management Fund provides coverage for up to a maximum of \$750,000 for each miscellaneous claim, \$1,000,000 for each safety workers' compensation claim, and \$500,000 for each general liability claim. The City purchases commercial insurance for claims in excess of coverage provided by the Risk Management Fund and for all other risks of loss. Settled claims have not exceeded this commercial coverage in any of the past three years. All funds of the City participate in the program and make payments to the Risk Management Fund based on actuarial estimates of amounts needed to pay claims.

For additional information about the City's Risk Management, see APPENDIX C—COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2021, Note 3(c).

## **Employee Retirement Plans**

*The information set forth below regarding the California Public Employees' Retirement System ("CalPERS") program, other than the information provided by the City regarding its annual contributions thereto, has been obtained from publicly available sources which are believed to be reliable but are not guaranteed as to accuracy or completeness, and should not to be construed as a representation by either the City or the Underwriter.*

*Plan Description.* All qualified permanent and probationary employees are eligible to participate in either (1) the City's Miscellaneous Plan, an agent multiple-employer defined benefit pension plan administered by CalPERS, which acts as a common investment and administrative agent for its participating member employers, or (2) the City's Safety Plan, a cost-sharing multiple employer defined benefit pension plan administered by CalPERS. They may be collectively referred to as the "Plans" or individually as a "Plan". Benefit provisions under the Plans are established by State statute and City's resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

*Benefits Provided.* CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 to 62 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five (5) 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 Public Employees' Retirement Law.

*Employees Covered.* At June 30, 2019 (measurement date), the following employees were covered by the benefit terms for each Plan.

**TABLE 13  
CITY OF LA HABRA  
COVERED EMPLOYEES**

	<u>Miscellaneous</u>	<u>Safety</u>
Inactive employees or beneficiaries currently receiving benefits	304	195
Inactive employees entitled to but not yet receiving benefits	471	69
Active employees	246	68
Total	<u>1,021</u>	<u>332</u>

Source: City of La Habra 2019-20 Comprehensive Annual Financial Report .

*Contributions.* Section 20814(c) of the California Public Employees’ Retirement Law (“PERL”) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS’ annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Employer contribution rates may change if plan contracts are amended. Payments made by the employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements are classified as plan member contributions.

A history of the City’s contributions to its Miscellaneous and Safety Plans for the most recent fiscal years is summarized in the following table.

**TABLE 14  
CITY OF LA HABRA  
HISTORICAL PENSION CONTRIBUTIONS**

Fiscal Year Ending June 30,	Miscellaneous Plans	Safety Plans	Total Contributions
2016	\$1,922,842	\$2,950,460	\$4,873,302
2017	2,136,109	3,296,710	5,432,819
2018	2,214,726	3,576,391	5,791,117
2019	2,567,072	4,161,228	6,728,300
2020	3,072,872	4,815,194	7,888,066

Source: City of La Habra 2019-20 Comprehensive Annual Financial Report.

*Historical Net Pension Liability.* The following table sets forth a summary of the net pension liability for the Plans for the five most recent years.

**TABLE 15  
CITY OF LA HABRA  
HISTORICAL NET PENSION LIABILITY**

**MISCELLANEOUS PLAN**

Date June 30,	Total Pension Liability	Net Position	Net Pension Liability	Funded Ratio	Annual Covered Payroll
2016	\$ 94,422,627	\$77,008,961	\$17,413,666	81.56%	\$12,416,819
2017	99,735,330	76,277,709	23,457,621	76.48%	13,577,030
2018	111,274,303	83,419,822	27,854,481	74.97%	13,928,651
2019	116,192,809	88,739,432	27,453,377	76.37%	13,848,797
2020	121,525,946	93,151,145	28,374,801	76.65%	13,043,260

**SAFETY PLAN**

Date June 30,	Net Pension Liability	Funded Ratio	Annual Covered Payroll
2016	\$36,959,834	78.40%	\$7,158,033
2017	45,683,585	74.06%	8,142,184
2018	51,517,222	73.31%	8,702,118
2019	52,128,243	75.26%	8,300,113
2020	55,583,496	75.26%	7,933,244

Source: City of La Habra Comprehensive Annual Financial Report for Fiscal Year 2019-20.

For information concerning the City’s pension obligations, including descriptions of the actuarial methods and assumptions, and an explanation of the discount rate used, please see APPENDIX C—COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2021, Note 3(a).

*CalPERS Amortization Period Reform.* On February 13, 2018 the CalPERS Board voted to shorten the period over which actuarial gains and losses are amortized from 30 years to 20 years for new pension liabilities. The new 20-year amortization period begins with new gains or losses accrued starting with the June 30, 2019 actuarial valuations. The first payments on the new 20-year amortization schedule will take place in 2021.

A shorter amortization period will increase annual Unfunded Accrued Liability (“UAL”) contributions for cities that participate in CalPERS so long as CalPERS remains underfunded. The shortened amortization period will also lead to reductions of periods of negative amortization of the UAL, interest cost savings, and faster recoveries of funded status after market downturns.

Cities that participate in CalPERS will also see additional volatility in their future UAL contributions due to market performance as gains or losses will be amortized faster under the new amortization period.

The City cannot currently estimate the impact the shorter amortization period will have on its required contributions for its Plans. For information concerning the Plans, including descriptions of the actuarial methods and assumptions, please see APPENDIX C—COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2021, Note 3(a).

### Other Post-Employments Benefits

*Plan Description.* The City has established an agent multiple-employer Defined Benefit Postemployment Healthcare Plan (“OPEB”) that provides post-retirement medical benefits to retirees through the California Public Employees Medical and Hospital Care Act (“PEMCHA”) and managed through the California Retiree Benefit Trust (“CEBRT”). The plan provides healthcare benefits to eligible retirees and their dependents. Benefit provisions are established and may be amended through agreements and memorandums of understanding between the City, its management employees, and unions representing City employees. The City contributes the PEMHCA minimum for eligible retirees and surviving spouses. The City additionally provides full medical coverage for life under a special agreement to one annuitant and dependents. No dental, vision, or life insurance benefits are provided.

*Contributions.* There is no statutory requirement for the City to contribute the more than the PEMHCA minimum for eligible retirees and surviving spouses. The City has currently chosen to contribute 100% of the actuarially determined contribution. For the measurement period ended June 30, 2019, the City’s cash contributions were \$436,000 in payment to the trust and \$153,552 in payment outside the trust. Administrative expenses paid outside of trust was \$1,751. The estimated implied subsidy was \$100,829. This results in a total contribution of \$692,132. There were no employee contributions.

*Changes In Net OPEB Liability.* The following table shows the changes in the City’s net OPEB obligation to the OPEB Plan:

**TABLE 16**  
**CITY OF LA HABRA**  
**CHANGE IN NET OPEB LIABILITY**  
**Fiscal Year 2019-20**

Service cost	\$ 230,803
Interest on OPEB liability	451,493
Dif. btw. actual and expected experience	-
Changes in assumptions	-
Benefits payments	(692,132)
Investment income	(128,601)
Administrative expense	2,197
Net changes	<u>(136,240)</u>
Net OPEB obligation, beginning of the year	4,502,338
Net OPEB obligation, end of the year	<u>\$4,366,098</u>

Source: City of La Habra 2019-20 Comprehensive Annual Financial Report.

*Historical Net OPEB Liability* The following table shows a 3-year history of the City’s outstanding OPEB obligation and covered payroll.

**TABLE 17  
CITY OF LA HABRA  
HISTORIC OPEB LIABILITY AND COVERED PAYROLL**

Fiscal Year Ending June 30,	Total OPEB Liability	Plan Net Position	Net OPEB Obligation (UAAL)	Covered Payroll	Ratio of UAAL to Covered Payroll
2018	\$6,886,000	\$1,537,000	\$5,349,000	\$23,756,220	22.52%
2019	6,585,177	2,082,839	4,502,338	22,331,468	20.16
2020	7,031,092	2,646,994	4,366,098	20,719,346	21.07

Source: City of La Habra 2019-20 Comprehensive Annual Financial Report.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, investment returns, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

For information concerning the City’s OPEB obligations, including descriptions of the actuarial methods and assumptions, please see APPENDIX C—COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2021, Note 3(b).

### **Debt Obligations**

*Short-Term General Fund Obligations.* The City has no outstanding short-term obligations secured by its general fund.

*Long-Term General Fund Obligations.* On October 8, 1998, the City delivered \$5,640,000 in certificates of participation (the “1998A Certificates”) and \$1,065,000 in taxable certificates of participation (the “1998B Certificates”) for the purpose of refinancing outstanding bonds to finance various redevelopment projects. The City is required to make lease payments of principal and interest in conjunction with the 1998A Certificates and the 1998B Certificates. Principal is due and payable annually on each September 1 and interest is due and payable semiannually on each March 1 and September 1. The 1998A Certificates and the 1998B Certificates mature on September 1, 2022.

On July 26, 2018, the City entered into a \$904,000 3.270% lease agreement assigned to and purchased by Opus Bank (the “2018 Lease Agreement”) to finance a portion of the cost of acquiring property at 115-121 North Euclid Street, La Habra, California, to be used by the City for surface parking. Principal and interest payments are due semi-annually on February 1 and August 1. The 2018 Lease Agreement matures on August 1, 2028.

On September 17, 2020, the City delivered \$11,835,000 in certificates of participation (the “2020 Certificates”) to refund the outstanding City of La Habra 2010 Refunding Certificates of Participation, Series A (Park La Habra and Viewpark Refinancing Project). The City is required to make lease payments

of principal and interest in conjunction with the 2020 Certificates. Principal is due and payable annually on each September 1 and interest is due and payable semiannually on each April 1 and October 1. The 2020 Certificates mature on October 1, 2040.

The following table shows the City’s debt service requirements with respect to the 1998A Certificates, the 1998B Certificates, the 2018 Lease Agreement and the 2020 Certificates.

Fiscal Year Ending June 30,	1998A Certificates	1998B Certificates	2018 Lease	2020 Certificates	Total
2022	\$386,640	\$82,638	\$106,130	\$ 717,059	\$ 1,292,467
2023	384,000	82,600	106,086	723,544	1,296,230
2024	—	—	106,040	728,444	834,484
2025	—	—	105,993	728,269	834,262
2026	—	—	105,944	728,044	833,988
2027	—	—	105,893	727,769	833,662
2028	—	—	105,842	732,419	838,261
2029	—	—	105,788	731,313	837,101
2030	—	—	—	729,125	729,125
2031	—	—	—	719,244	719,244
2032	—	—	—	721,544	721,544
2033	—	—	—	728,894	728,894
2034	—	—	—	731,644	731,644
2035	—	—	—	734,094	734,094
2036	—	—	—	730,891	730,891
2037	—	—	—	736,972	736,972
2038	—	—	—	732,313	732,313
2039	—	—	—	736,900	736,900
2040	—	—	—	735,650	735,650
2041	—	—	—	733,609	733,609
Total	<u>\$770,640</u>	<u>\$165,238</u>	<u>\$847,716</u>	<u>\$14,587,741</u>	<u>\$16,371,335</u>

*Other Obligations.* The City has certain other outstanding obligations, including utility revenue bonds, which are not secured by the City’s general fund.

See APPENDIX C—COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE YEAR ENDED JUNE 30, 2021—Notes to Basic Financial Statements—NOTE 2.

### Overlapping Debt

Set forth below is a direct and overlapping debt report (the “Debt Report”) prepared by California Municipal Statistics, Inc. and effective November 1, 2021. The Debt Report is included for general information purposes only. Neither the City nor the Underwriter has reviewed the Debt Report for completeness or accuracy and neither the City nor the Underwriter makes any representation in connection therewith.

The Debt Report generally includes long-term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the City in whole or in part. Such long-term obligations generally are not payable from revenues of the City (except as indicated) nor are they necessarily obligations

secured by land within the City. In many cases, long-term obligations issued by a public agency are payable only from the General Fund or other revenues of such public agency.

The contents of the Debt Report are as follows: (1) the first column indicates the public agencies which have outstanding debt as of the date of the Debt Report and whose territory overlaps the City; (2) the second column shows the respective percentage of the assessed valuation of the overlapping public agencies identified in column 1 which is represented by property located in the City; and (3) the third column is an apportionment of the dollar amount of each public agency's outstanding debt (which amount is not shown in the table) to property in the City, as determined by multiplying the total outstanding debt of each agency by the percentage of the City's assessed valuation represented in column 2.

**TABLE 18**  
**CITY OF LA HABRA**  
**DIRECT AND OVERLAPPING BONDED DEBT**  
**as of November 1, 2021**

CITY OF LA HABRA

2021-22 Assessed Valuation: \$7,765,798,492

<u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable<sup>(1)</sup></u>	<u>Debt 11/1/21</u>
Metropolitan Water District	0.228%	\$ 61,172
North Orange County Joint Community College District	5.114	10,705,598
Fullerton Joint Union High School District	18.913	35,444,853
La Habra City School District	81.015	28,334,972
Lowell Joint School District	37.091	<u>16,965,423</u>
<b>TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT</b>		<b>91,512,018</b>
 <u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u>		
Orange County General Fund Obligations	1.137	4,342,032
Orange County Pension Obligation Bonds	1.137	2,756,088
Orange County Board of Education Certificates of Participation	1.137	139,965
North Orange County Regional Occupation Program Certificates of Participation	5.262	431,484
Fullerton Joint Union High School District Certificates of Participation	18.913	3,127,265
<b>City of La Habra Certificates of Participation</b>	<b>100.000</b>	<b><u>12,457,925<sup>(2)</sup></u></b>
<b>TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT</b>		<b>23,254,759</b>
 <u>OVERLAPPING TAX INCREMENT DEBT (Successor Agency):</u>	 100.000	 3,360,000
 <b>COMBINED TOTAL DEBT</b>		 <b>118,126,777<sup>(3)</sup></b>

Ratios to 2021-22 Assessed Valuation:

Total Overlapping Tax and Assessment Debt.....1.18%  
**Combined Direct Debt (\$12,457,925) ..... 0.16%**  
 Combined Total Debt .....1.52%

Ratios to 2021-22 Redevelopment Incremental Valuation (\$652,377,885):

Total Overlapping Tax Increment Debt..... 0.52%

Source: California Municipal Statistics, Inc.

(1) Based on FY2020-21 ratios.

(2) Excludes issue to be sold.

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

## INVESTMENT OF CITY FUNDS

Revenues collected by the City will be held and invested by the City in accordance with the provisions of the Trust Agreement.

Funds held by the City are invested in accordance with the City's Statement of Investment Policy (the "Investment Policy") prepared by the Finance Director and Finance Manager as authorized by section 53601 of the Government Code of California. The Investment Policy is submitted to the City Council annually. The Investment Policy allows for the purchase of a variety of securities and provides for limitations as to exposure, maturity and rating which vary with each security type. The composition of the portfolio will change over time as old investments mature, or are sold, and as new investments are made. Invested funds are managed to ensure preservation of capital through high quality investments, maintenance of liquidity and then yield. Further, operating funds may not be invested in any investment with a maturity greater than five years. The City has never invested in derivatives or reverse repurchase agreements and such investments and instruments are not allowed by City policy.

For more information about the City's investment policy, see APPENDIX D—CITY OF LA HABRA INVESTMENT POLICY.

## STATE BUDGET INFORMATION

*Information regarding the State Budget is regularly available at various State-maintained websites. The Fiscal Year 2021-22 State Budget further described below can each 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 State's Budgets is posted by the Office of the Legislative Analyst at [www.lao.ca.gov](http://www.lao.ca.gov). The information referred to is prepared by the respective State agency maintaining each website and not by the City, and neither the City nor the Underwriter takes 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.*

*State Budget Process.* Through the State budget process, the State enacts legislation that significantly impacts the source, amount and timing of the receipt of revenues by local agencies, including the City. As in recent years, State budget deficits can result in legislation that adversely impacts local agency budgets.

The State's fiscal year begins on July 1 and ends on June 30. The annual budget is proposed by the Governor by January 10 of each year for the next fiscal year (the "Governor's Budget"). Under State law, the annual proposed Governor's Budget cannot provide for projected expenditures more than projected revenues and balances available from prior fiscal years. Following the submission of the Governor's Budget, the Legislature takes up the proposal.

Under the State Constitution, money may be drawn from the Treasury only through an appropriation made by law. The primary source of the annual expenditure authorizations is the Budget Act as approved by the Legislature and signed by the Governor. The Budget Act must be approved by a two-thirds majority vote of each House of the Legislature. The Governor may reduce or eliminate specific line items in the Budget Act or any other appropriations bill without vetoing the entire bill. Such individual line item vetoes are subject to override by a two-thirds majority vote of each House of the Legislature.

Appropriations also may be included in legislation other than the Budget Act. Bills containing appropriations (except for K-14 education) must be approved by a two-thirds majority vote in each House of the Legislature and be signed by the Governor. Bills containing K-14 education appropriations only require a simple majority vote. Continuing appropriations, available without regard to fiscal year, may also be provided by statute or the State Constitution.

Funds necessary to meet an appropriation need not be in the State Treasury at the time such appropriation is enacted; revenues may be appropriated in anticipation of their receipt.

*Recent State Budgets.* Certain information about the State budgeting process and the State Budget is available through several State sources. A convenient source of information is the State's website, where recent official statements for State bonds are posted. The references to internet websites shown below are shown for reference and convenience only; the information contained within the websites has not been reviewed by the City and is not incorporated herein by reference.

The State Treasurer's Internet home page at [www.treasurer.ca.gov](http://www.treasurer.ca.gov), under the heading "Financial Information," posts the State's audited financial statements. In addition, the "Financial Information" section includes the State's Rule 15c2-12 filings for State bond issues. The "Financial Information" section also includes the "Overview of the State Economy and Government, State Finances, State Indebtedness, Litigation" from the State's most current Official Statement, which discusses the State budget and the state budget process in greater detail.

The State Legislative Analyst's Office ("LAO") prepares analyses of the proposed and adopted State budgets. The analyses are accessible on the Legislative Analyst's Internet home page at [www.lao.ca.gov](http://www.lao.ca.gov) under the heading "Products."

## **2021-22 State Budget**

On July 12, 2021, Governor Gavin Newsom signed SB 129, legislation that reflects the majority of the State's budget for Fiscal Year 2021-22 (the "2021-22 Budget"). While the Governor's initial budget projections in January 2021 projected a budget surplus of \$6.0 billion, the 2021-22 Budget projects an even larger surplus of \$7.2 billion caused primarily by a better-than-expected economic recovery from the COVID-19 Pandemic, two major federal relief bills, and continued stock market appreciation. In addition to amounts received already under the CARES Act, the State's general fund will receive over \$43 billion in combined recovery funds from the American Rescue Plan Act of 2021 to cover costs incurred between March 3, 2021 and December 31, 2024.

The 2021-22 Budget notes that actual general fund revenues for fiscal year 2020-21 were \$183.8 billion. Relative to the projections contained in the State's 2020-21 Budget, actual 2020-21 general fund revenues reflect an increase of \$53.9 billion or 41.5% over the projected totals. The 2021-22 Budget projects general fund revenues to decrease slightly from fiscal year 2020-21 levels to \$178.8 (a decrease of \$5.0 billion) due in part to projected decreases of in personal income tax and corporation tax collections.

The 2021-22 Budget includes a major increase in general fund expenditures from \$166.1 billion in fiscal year 2020-21 to \$196.4 billion in fiscal year 2021-22 (an increase of \$30.4 billion). The largest increases are projected to occurring in expenditures for health and human services and government operations. The increases in expenditures are made possible by the larger than expected budget surplus in

fiscal year 2020-21. The improved revenue forecast also allows for the elimination of \$2 billion in program suspensions enacted in prior budgets and allows the State to completely pay off Proposition 98 deferrals implemented in the 2020-21.

The 2021-22 Budget includes substantial contributions to the State's reserves. The 2021-22 Budget anticipates contributions of \$3.4 billion in fiscal year 2021-22 to grow the State's budget stabilization account/rainy day fund from \$12.3 billion to \$15.8 billion. The 2021-22 Budget also includes a \$2.6 billion contribution to the State's public school system stabilization account and a \$450 million contribution to the State's safety net reserve.

Due to the one-time nature of the 2020-21 surplus, the 2021-22 Budget prioritizes one-time spending over ongoing, allocating 85 percent of discretionary funds to one-time spending. Major new expenditures in the 2021-22 Budget include:

*Golden State Stimulus and COVID-19 Pandemic Relief.* The January 2021-22 Budget included a comprehensive package of budget actions was enacted to speed needed relief to individuals, families and businesses suffering the most significant economic hardships due to the pandemic. The January 2021-22 Budget established the Golden State Stimulus program, which provided \$600 one-time payments to millions of low-income Californians; added \$2.075 billion (on top of a \$500 million investment) to California's Small Business COVID-19 Relief Grant Program; provided certain small businesses impacted by the pandemic license renewal fee waivers; provided additional resources for critical child care services; and provided emergency financial aid for community college students, among other investments. The 2021-22 Budget includes a major expansion to the Golden State Stimulus, providing tax refunds to middle-class families with an adjusted gross income of \$75,000 or less. In total, two-thirds of Californians will benefit from \$600 payments. Qualified families with dependents, regardless of immigration status, will also be eligible for an additional \$500 payment.

The 2021-22 Budget also expands relief to small businesses by adding \$1.5 billion to the State's earlier \$2.5 billion investment in the Small Business COVID-19 Relief Grant Program that has helped approximately 210,000 businesses stay open and keep Californians employed. In addition to \$6.4 billion in state administered and direct local federal rent relief, the 2021-22 Budget also includes \$2 billion to pay down unpaid utility debt, which accumulated during the pandemic.

*Homelessness and Housing Affordability.* The 2021-22 Budget includes approximately \$12 billion over two years to combat homelessness. Project Roomkey, first deployed during the pandemic, has helped to house homeless individuals and families, and the 2021-22 Budget includes \$150 million to support transitions to permanent housing. Since the fall of 2020, Homekey has acquired and rehabilitated 6,000 units of permanent housing. Total proposed funding of \$5.8 billion for Homekey will further expand the portfolio of housing, including behavioral health continuum infrastructure and housing for low-income seniors. The 2021-22 Budget also includes \$2 billion over multiple years to support local actions to address homelessness. This funding is connected to accountability metrics, such as increasing transitions of individuals to permanent supportive housing.

*Health Care Equity.* The 2021-22 Budget expands Medi-Cal coverage to undocumented adults aged 50 years and older, beginning in May 2022. This proposal is designed to increase health care access and is another milestone on the path toward universal health coverage. Other equity

investments in the 2021-22 Budget include Medi-Cal eligibility for postpartum individuals, doula services as a covered benefit in Medi-Cal, and subsidized zero-dollar premium plans. The 2021-22 Budget also eliminates the Medi-Cal asset limit for older adults and persons with disabilities.

*Wildfire Prevention.* An early action package enacted in April 2021 included \$536 million (\$411 million General Fund and \$125 million Cap and Trade) for a broad set of investments that are currently supporting forest health and fire prevention activities. The 2021-22 Budget authorizes an additional \$958 million (\$758 million General Fund and \$200 million Cap and Trade) for expenditure in the 2021-22 fiscal year to advance wildfire prevention and forest resilience investments. This includes \$500 million in general fund authorizations to accelerate into the budget year.

The 2021-22 Budget includes ongoing general fund support for 30 additional fire crews, enabling the California Department of Forestry and Fire Protection to respond to larger and more damaging wildfires throughout the fire season and complete priority fuel reduction projects to reduce wildfire risk in fire-threatened areas. The 2021-22 Budget also includes significant investments in new Black Hawk helicopters and large air tankers transferred from the federal government.

*Water Resilience and Drought.* The 2021-22 Budget commits approximately \$5.1 billion over four years to the State's water resilience and drought preparedness and response, including investments that support safe drinking water, wastewater, and water conveyance infrastructure; water recycling and groundwater cleanup; Sustainable Groundwater Management Act grants; financial assistance to small and urban water suppliers; and water resilience multi-benefit projects. Of this amount, \$2.1 billion from the general fund over three years is set aside for water resilience investments that will be negotiated subsequent to the adoption of the 2021-22 Budget.

*Zero Emissions Vehicles.* The 2021-22 Budget includes \$2.7 billion in 2021-22 and \$3.9 billion (\$2.98 billion general fund, \$565 million Cap and Trade, and \$394 million other funds) over three years for zero-emission vehicle ("ZEV") and infrastructure investments. This will scale the zero-emission vehicle market and accelerate the state toward meeting climate and transportation goals established in the Governor's ZEV Executive Order N-79-20 and consistent with California's Zero Emission Vehicle Market Development Strategy.

*Broadband.* The 2021-22 Budget reflects a plan to increase equitable access to high-speed broadband Internet service through a \$6 billion investment to expand broadband infrastructure and enhance access by constructing an open access middle mile and by funding construction of last mile projects that connect unserved households in remote areas to the middle mile.

For the additional information and the complete text of the State's 2021-22 Budget, please see the Department of Finance website at [ebudget.ca.gov](http://ebudget.ca.gov) and the LAO's website at [lao.ca.gov](http://lao.ca.gov). The City can take no responsibility for the continued accuracy of the above-referenced internet address as for the or for the accuracy, completeness, or timeliness of information posted therein, and such information is not incorporated herein by reference.

*Future State Budgets.* The City receives a portion of its funding from the State. Changes in the revenues received by the State can affect the amount of funding, if any, to be received from the State by the City and other cities in the State.

In addition, the City cannot predict the outcome of current and future State budget negotiations, the impact that such budgets will have on its finances and operations or what actions will be taken in the future by the State Legislature and Governor to deal with changing State revenues and expenditures. Current and future State budgets will be affected by national and State economic conditions and other factors, including the COVID-19 Pandemic and the associated economic downturn, over which the City has no control. See also “RISK FACTORS—Dependence on State for Certain Revenues.”

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

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

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

On June 6, 1978, California voters approved an amendment (commonly known as both Proposition 13 and the Jarvis-Gann Initiative) to the California Constitution. This amendment, which added Article XIII A to the California Constitution, among other things affects the valuation of real property for the purpose of taxation in that it defines the full cash property 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 newly constructed, or when a change in ownership has occurred after the 1975 assessment.” The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or a reduction in the consumer price index or comparable local data at a rate not to exceed 2% per year, or reduced in the event of declining property value caused by damage, destruction or other factors including a general economic downturn. The amendment further limits the amount of any ad valorem tax on real property to one percent of the full cash value except that additional taxes may be levied to pay debt service on indebtedness approved by the voters prior to July 1, 1978, and bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978 by two-thirds of the votes cast by the voters voting on the proposition.

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

The voters of the State subsequently approved various measures which further amended Article XIII A. One such amendment generally provides that the purchase or transfer of (i) real property between spouses or (ii) the principal residence and the first \$1,000,000 of the Full Cash Value of other real property between parents and children, do not constitute a “purchase” or “change of ownership” triggering reappraisal under Article XIII A. Other amendments permitted the State Legislature to allow persons over the age of 55 who meet certain criteria or “severely disabled homeowners” who sell their residence and buy or build another of equal or lesser value within two years in the same county, to transfer the old residence’s assessed value to the new residence. Other amendments permit the State Legislature to allow persons who are either 55 years of age or older, or who are “severely disabled,” to transfer the old residence’s assessed

value to their new residence located in either the same or a different county and acquired or newly constructed within two years of the sale of their old residence.

In the November 1990 election, the voters approved an amendment of Article XIII A to permit the State Legislature to exclude from the definition of “new construction” certain additions and improvements, including seismic retrofitting improvements and improvements utilizing earthquake hazard mitigation technologies constructed or installed in existing buildings after November 6, 1990.

Article XIII A has also been amended to provide that there would be no increase in the Full Cash Value base in the event of reconstruction of the property damaged or destroyed in a disaster.

Section 51 of the Revenue and Taxation Code permits county assessors who have reduced the assessed valuation of a property as a result of natural disasters, economic downturns or other factors, to subsequently “recapture” such value (up to the pre-decline value of the property) at an annual rate higher than 2%, depending on the assessor’s measure of the restoration of value of the damaged property.

Section 4 of Article XIII A also provides that cities, counties and special districts cannot, without a two-thirds vote of the qualified electors, impose special taxes, which has been interpreted to include special fees in excess of the cost of providing the services or facility for which the fee is charged, or fees levied for general revenue purposes.

Both the California State Supreme Court and the United States Supreme Court have upheld the validity of Article XIII A.

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

On November 6, 1979, California voters approved Proposition 4, the Gann Initiative, which added Article XIII B to the California Constitution. In June 1990, Article XIII B was amended by the voters through their approval of Proposition 111. Article XIII B of the California Constitution limits the annual appropriations of the State and any city, county, school district, authority or other political subdivision of the State to the level of appropriations for the prior fiscal year, as adjusted annually for changes in the cost of living, population and services rendered by the governmental entity. The “base year” for establishing such appropriation limit is fiscal year 1978-79. Increases in appropriations by a governmental entity are also permitted (1) if financial responsibility for providing services is transferred to the governmental entity, or (2) for emergencies so long as the appropriations limits for the three years following the emergency are reduced to prevent any aggregate increase above the Constitutional limit. Decreases are required where responsibility for providing services is transferred from the government entity.

Appropriations subject to Article XIII B include generally any authorization to expend during the fiscal year the proceeds of taxes levied by the State or other entity of local government, exclusive of certain State subventions, refunds of taxes, benefit payments from retirement, unemployment insurance and disability insurance funds. Appropriations subject to limitation pursuant to Article XIII B do not include debt service on indebtedness existing or legally authorized as of January 1, 1979, on bonded indebtedness thereafter approved according to law by a vote of the electors of the issuing entity voting in an election for such purpose, appropriations required to comply with mandates of courts or the Federal government, appropriations for qualified outlay projects, and appropriations by the State of revenues derived from any increase in gasoline taxes and motor vehicle weight fees above January 1, 1990 levels. “Proceeds of taxes” include, but are not limited to, all tax revenues and the proceeds to any entity of government from (1)

regulatory licenses, user charges, and user fees to the extent such proceeds exceed the cost of providing the service or regulation, (2) the investment of tax revenues and (3) certain State subventions received by local governments. As amended by Proposition 111, the appropriations limit is tested over consecutive two-year periods. Any excess of the aggregate “proceeds of taxes” received by the City over such two-year period above the combined appropriations limits for those two years is to be returned to taxpayers by reductions in tax rates or fee schedules over the subsequent two years.

As amended in June 1990, the appropriations limit for the City in each year is based on the limit for the prior year, adjusted annually for changes in the costs of living and changes in population, and adjusted, where applicable, for transfer of financial responsibility of providing services to or from another unit of government. The change in the cost of living is, at the City’s option, either (1) the percentage change in California per capita personal income, or (2) the percentage change in the local assessment roll for the jurisdiction due to the addition of nonresidential new construction. The measurement of change in population is a blended average of statewide overall population growth, and change in attendance at local school and community college (“K-14”) districts.

Article XIII B permits any government entity to change the appropriations limit by vote of the electorate in conformity with statutory and Constitutional voting requirements, but any such voter-approved change can only be effective for a maximum of four years.

### **Articles XIII C and XIII D (Proposition 218) of the California Constitution**

On November 5, 1996, the voters of the State approved Proposition 218, a constitutional initiative, entitled the “Right to Vote on Taxes Act” (“Proposition 218”). Proposition 218 added Articles XIII C and XIII D to the California Constitution and contained a number of interrelated provisions affecting the ability of local governments, including the City, to levy and collect both existing and future taxes and assessments, fees and charges.

#### **Article XIII C**

Section 2 of Article XIII C requires majority voter approval for the imposition, extension or increase of general taxes and requires two thirds voter approval for the imposition, extension or increase of special taxes. These voter approval requirements of Article XIII C reduce the flexibility of the City to raise revenues by the levy of general or special taxes and, given such voter approval requirements, no assurance can be given that the City will be able to enact, impose, extend or increase any such taxes in the future to meet increased expenditure requirements.

Although a portion of the City’s General Fund revenues are derived from general taxes purported to be governed by Proposition 218, all of such taxes were either imposed, extended or increased prior to the effective date of Proposition 218 or 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, such as the TOT, Proposition 172 revenues, or storm water fees which support the City’s General Fund. TOT and other local taxes, assessments, fees and charges, could be subject to reduction or repeal by initiative under Proposition 218.

Section 3 of Article XIII C expressly extends the initiative power to give voters the power to reduce or repeal local taxes, assessments, fees and charges, regardless of the date such taxes, assessments, fees or charges were imposed. Section 3 expands the initiative power to include reducing or repealing assessments,

fees and charges that had previously been considered administrative rather than legislative matters and therefore beyond the initiative power. This extension of the initiative power is not limited by the terms of Article XIII C to fees imposed after November 6, 1996, the effective date of Proposition 218, and absent other legal authority could result in the reduction in any existing taxes, assessments or fees and charges imposed prior to November 6, 1996.

“Fees” and “charges” are not expressly defined in Article XIII C or in SB 919, the Proposition 218 Omnibus Implementation Act enacted in 1997 to prescribe specific procedures and parameters for local jurisdictions in complying with Article XIII C and Article XIII D (“SB 919”). However, on July 24, 2006, the California Supreme Court ruled in *Bighorn-Desert View Water Agency v. Virjil (Kelley)* (the “Bighorn Decision”) that charges for ongoing water delivery are fees and charges within the meaning Section 3 of Article XIII C. The California Supreme Court held that such water service charges may, therefore, be reduced or repealed through a local voter initiative pursuant to Section 3 of Article XIII C. The Bighorn Decision has been interpreted to mean that ongoing water delivery charges are also property-related fees and charges within the meaning of Article XIII D.

In the Bighorn Decision, the Supreme Court stated that nothing in Section 3 of Article XIII C authorizes initiative measures that impose voter-approval requirements for future increases in fees or charges for water delivery. The Supreme Court stated that water providers may determine rates and charges upon proper action of the governing body and that the governing body may increase a charge which was not affected by a prior initiative or impose an entirely new charge.

The Supreme Court further stated in the Bighorn Decision that it was not holding that the initiative power is free of all limitations and was not determining whether the initiative power is subject to the statutory provision requiring that water and wastewater service charges be set at a level that will pay debt service on bonded debt and operating expenses. Such initiative power could be subject to the limitations imposed on the impairment of contracts under the contract clause of the United States Constitution. Additionally, SB 919 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.

Article XIII C also removes many of the limitations on the initiative power in matters of reducing or repealing any local tax, assessment, fee or charge. 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. “Assessments,” “fees” and “charges” are not defined in Article XIII C, and it is unclear whether these terms are intended to have the same meanings for purposes of Article XIII C as for Article XIII D described below. If not, the scope of the initiative power under Article XIII C potentially could include any General Fund local tax, assessment, or fee not received from or imposed by the federal or State government or derived from investment income.

If the City is unable to continue to collect assessment revenues for a particular program, the program might have to be curtailed and/or funded by the City’s General Fund. Given the approval requirements imposed by Article XIII D, the City is unable to predict whether it will be able to continue to collect assessment revenues for these programs. If the City chose to fund any such programs from the General Fund instead, the General Fund budget would be affected.

## Article XIID

Article XIID defines a “fee” or “charge” as any levy other than an ad valorem tax, special tax, or assessment imposed by an agency upon a parcel or upon a person as an incident of property ownership, including a user fee or charge for a property-related service. A “property-related service” is defined as “a public service having a direct relationship to a property ownership” herein. Article XIID further provides that reliance by an agency on any parcel map (including an assessor’s parcel map) may be considered a significant factor in determining whether a fee or charge is imposed as an incident of property ownership. In the Bighorn Decision, the Supreme Court stated that ongoing water delivery charges are also property-related fees and charges within the meaning of Article XIID.

Article XIID requires that any agency imposing or increasing any property-related fee or charge must provide written notice thereof to the record owner of each identified parcel upon which such fee or charge is to be imposed and must conduct a public hearing with respect thereto. The proposed fee or charge may not be imposed or increased if a majority of owners of the identified parcels file written protests against it. As a result, if and to the extent that a fee or charge imposed by a local government for water service is ultimately determined to be a “fee” or “charge” as defined in Article XIID, the local government’s ability to increase such fee or charge may be limited by a majority protest.

In addition, Article XIID also includes a number of limitations applicable to existing fees and charges including provisions to the effect that (i) revenues derived from the fee or charge shall not exceed the funds required to provide the property-related service; (ii) such revenues shall not be used for any purpose other than that for which the fee or charge was imposed; (iii) the amount of a fee or charge imposed upon any parcel or person as an incident of property ownership shall not exceed the proportional cost of the service attributable to the parcel; and (iv) no such fee or charge may be imposed for a service unless that service is actually used by, or immediately available to, the owner of the property in question. Property-related fees or charges based on potential or future use of a service are not permitted.

Depending on the interpretation of what constitutes a “property-related fee” under Article XIID, there could be future restrictions on the ability of the City’s General Fund to charge its enterprise funds for various services provided. In the event that fees and charges of enterprise funds cannot be appropriately increased or are reduced pursuant to exercise of the initiative power, the City may have to decide whether to supplement any deficiencies in these enterprise funds with moneys from the General Fund or to curtail service, or both.

The interpretation and application of Proposition 218 will ultimately be determined by the courts or through implementing legislation with respect to a number of the matters described above, and it is not possible at this time to predict with certainty the outcome of such determination or the nature or scope of any such legislation.

Both Articles XIIA and XIIB, as well as Articles XIIC and XIID described above, were adopted as measures that qualified for the ballot pursuant to California’s constitutional initiative process. From time to time other initiative measures could be adopted, affecting the ability of the City to increase revenues and to increase appropriations.

## **Proposition 62**

Proposition 62 was adopted by the voters at the November 4, 1986, general election which (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 government 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 of the California Constitution, (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 October 15, 1985, be ratified by a majority vote of the voters voting in an election on the tax within two years of the adoption of the initiative or be terminated by November 15, 1988.

On September 28, 1995, the California Supreme Court, in the case of *Santa Clara County Local Transportation Corporation v. Guardino*, upheld the constitutionality of Proposition 62. In this case, the court held that a county-wide sales tax of one-half of one percent was a special tax that, under section 53722 of the Government Code, required a two-thirds voter approval. The county-wide sales tax at issue received an affirmative vote of only 54.1% and was found to be invalid.

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

## **Proposition 1A of 2004**

The California Constitution and existing statutes give the legislature authority over property taxes, sales taxes and the VLF. The legislature has authority to change tax rates, the items subject to taxation and the distribution of tax revenues among local governments, schools, and community college districts. The State has used this authority for many purposes, including increasing funding for local services, reducing State costs, reducing taxation, addressing concerns regarding funding for particular local governments, and restructuring local finance.

The California Constitution generally requires the State to reimburse the local governments when the State "mandates" a new local program or higher level of service. Due to the ongoing financial difficulties of the State, it has not provided in recent years reimbursements for many mandated costs. In other cases, the State has "suspended" mandates, eliminating both responsibility of the local governments for complying with the mandate and the need for State reimbursements.

The 2004 Budget Act, related legislation and the enactment of Proposition 1A of 2004 (described below) dramatically changed the State-local fiscal relationship. These constitutional and statutory changes implemented an agreement negotiated between the Governor and local government officials (the “State-local agreement”) in connection with the 2004 Budget Act.

One change related to the reduction of the VLF rate from 2% to 0.65% of the market value of the vehicle. In order to protect local governments, which had previously received all VLF revenues, the 1.35 percent reduction in VLF revenue to cities and counties from this rate change was backfilled by an increase in the amount of property tax revenues they receive. This worked to the benefit of local governments, because the backfill amount annually increases in proportion to the growth in secured roll property tax revenues, which has historically grown at a higher rate than VLF revenues. Proposition 1A of 2004 requires the State to provide local governments with equal replacement revenues.

On November 3, 2004 the voters of the State approved Proposition 1A (“Proposition 1A of 2004”). Proposition 1A of 2004 amended the State Constitution to, among other things, reduce the Legislature’s authority over local government revenue sources by placing restrictions on the State’s access to local governments’ property tax, sales tax, and VLF revenues as of November 3, 2004. Pursuant to Proposition 1A of 2004, the State is able to borrow up to 8% of local property tax revenues but only if the Governor proclaims such action is necessary due to a severe State fiscal hardship and two-thirds of both houses of the State Legislature approve the borrowing. Any amounts borrowed are required to be repaid within three years. Proposition 1A of 2004 also permits the State to borrow from local property tax revenues for no more than two fiscal years within a period of 10 fiscal years, and only if previous borrowings have been repaid. In addition, the State cannot reduce the local sales tax rate or restrict the authority of the local governments to impose or change the distribution of the statewide local sales tax. Proposition 1A of 2004 generally prohibits the State from mandating activities on cities, counties, or special districts without providing the funding needed to comply with the mandates, and if the State does not provide funding for the activity that has been determined to be mandated, the requirement on cities, counties, or special districts to abide by the mandate is suspended. Proposition 1A of 2004 also expanded the definition of what constitutes a mandate to encompass State action that transfers to cities, counties, and special districts financial responsibility for a required program for which the State previously had partial or complete responsibility. The State mandate provisions of Proposition 1A of 2004 do not apply to schools or community colleges or to mandates relating to employee rights.

Pursuant to statutory changes made in conjunction with amendments to the fiscal year 2008-09 State Budget Act, the fiscal year 2009-10 State Budget Act and related budget legislation adopted by the State Legislature and signed by the Governor in February 2012 (collectively, the “February 2012 Budget Package”), the VLF rate increased from 0.65% to 1.15% effective May 19, 2012. Of this 0.50% increase, 0.35% will flow to the State General Fund, and 0.15% will support various law enforcement programs previously funded by the State General Fund.

## **Proposition 22**

Proposition 22 (“Proposition 22”), which was approved by California voters in November 2010, prohibits the State, even during a period of severe fiscal hardship, from delaying the distribution of tax revenues for transportation, redevelopment, or local government projects and services and prohibits fuel tax revenues from being loaned for cash-flow or budget balancing purposes to the State General Fund or any other State fund. Due to the prohibition with respect to State’s ability to take, reallocate, and borrow money raised by local governments for local purposes, Proposition 22 supersedes certain provisions of

Proposition 1A of 2004. See “ – Proposition 1 A of 2004” herein. In addition, Proposition 22 generally eliminates the State’s authority to temporarily shift property taxes from cities, counties, and special districts to schools, temporarily increase schools’ and community college districts’ share of property tax revenues, prohibits the State from borrowing or redirecting redevelopment property tax revenues or requiring increased pass-through payments thereof, and prohibits the State from reallocating vehicle license fee revenues to pay for State imposed mandates. In addition, Proposition 22 requires a two-thirds vote of each house of the State Legislature and a public hearing process to be conducted in order to change the amount of fuel excise tax revenues shared with cities and counties. The LAO states that Proposition 22 will prohibit the State from enacting new laws that require redevelopment agencies to shift funds to schools or other agencies.

Proposition 22 prohibits the State from borrowing sales taxes or excise taxes on motor vehicle fuels or changing the allocations of those taxes among local government except pursuant to specified procedures involving public notices and hearings. In addition, Proposition 22 requires that the State apply the formula setting forth the allocation of State fuel tax revenues to local agencies revert to the formula in effect on June 30, 2009. The LAO anticipated that Proposition 22 would require the State to adopt alternative actions to address its fiscal and policy objectives, particularly with respect to short-term cash flow need. The City does not believe that Proposition 22 will have a significant impact on its revenues and expenditures.

### **Proposition 26**

Proposition 26 (“Proposition 26”), which was approved by California voters on November 2, 2010, revises the California Constitution to expand the definition of “taxes.” Proposition 26 re-categorizes many State and local fees as taxes and specifies a requirement of two-thirds voter approval for taxes levied by local governments.

Proposition 26 requires the State obtain the approval of two-thirds of both houses of the State Legislature for any proposed change in State statutes, which would result in any taxpayer paying a higher tax. Proposition 26 eliminates the previous practice whereby a tax increase coupled with a tax reduction that resulted in an overall neutral fiscal effect was subject only to a majority vote in the State Legislature. Furthermore, pursuant to Proposition 26, any increase in a fee above the amount needed to provide the specific service or benefit is deemed to be a tax and the approval thereof will require such two-thirds vote of approval to be effective. In addition, for State imposed fees and charges, any fee or charge adopted after January 1, 2010 with a majority vote of approval of the State Legislature which would have required a two-thirds vote of approval of the State Legislature if Proposition 26 were effective at the time of such adoption is repealed as of November 2011 absent the re-adoption by the requisite two-thirds vote.

Proposition 26 amends Article XIII C of the State Constitution to state that a “tax” means a levy, charge or exaction of any kind imposed by a local government, except (1) 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; (2) 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; (3) 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; (4) a charge imposed for entrance to or use of local government property or the purchase rental or lease of local government property; (5) 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; (6) a charge imposed as a condition of property development; or (7) assessments and property related fees imposed in accordance with the provisions of Proposition 218.

Proposition 26 applies to any levy, charge or exaction imposed, increased, or extended by local government on or after November 3, 2010, unless exempted, as stated above. Accordingly, fees adopted prior to that date are not subject to the measure until they are increased or extended or if it is determined that an exemption applies. As of the date hereof, none of the City's fees or charges has been challenged in a court of law in connection with the requirements of Proposition 26.

If the local government specifies how the funds from a proposed local tax are to be used, the approval will be subject to a two-thirds voter requirement. If the local government does not specify how the funds from a proposed local tax are to be used, the approval will be subject to a fifty percent voter requirement. Proposed local government fees that are not subject to Proposition 26 generally are subject to the approval of a majority of the governing body. In general, proposed property charges will be subject to a majority vote of approval by the governing body although certain proposed property charges will also require approval by a majority of the affected property owners.

### **Proposition 30**

On November 6, 2012, voters approved the Temporary Taxes to Fund Education, Guaranteed Local Public Safety Funding, Initiative Constitutional Amendment (also known as "Proposition 30"), which temporarily increases the State Sales and Use Tax and personal income tax rates on higher incomes. Proposition 30 temporarily imposes an additional tax on all retailers, at the rate of 0.25% of gross receipts from the sale of all tangible personal property sold in the State from January 1, 2013 to December 31, 2017. Proposition 30 also imposes an additional excise tax on the storage, use, or other consumption in the State of tangible personal property purchased from a retailer on and after January 1, 2013 and before January 1, 2017, for storage, use, or other consumption in the State. This excise tax will be levied at a rate of 0.25% of the sales price of the property so purchased. For personal income taxes imposed beginning in the taxable year commencing January 1, 2012 and ending August 1, 2019, Proposition 30 increases the marginal personal income tax rate by: (i) 1% for taxable income over \$250,000 but less than \$300,000 for single filers (over \$340,000 but less than \$408,000 for joint filers), (ii) 2% for taxable income over \$300,000 but less than \$500,000 for single filers (over \$408,000 but less than \$680,000 for joint filers), and (iii) 3% for taxable income over \$500,000 for single filers (over \$608,000 for joint filers).

The revenues generated from the temporary tax increases will be included in the calculation of the minimum funding guarantee for school districts and community college districts contained in the State Constitution. From an accounting perspective, the revenues generated from the temporary tax increases will be deposited into the State account created pursuant to Proposition 30 called the Education Protection Account (the "EPA"). By dedicating the Proposition 30 funds to education, other revenues in the State General Fund are freed up to fund other programs. Proposition 30 also placed into the state Constitution the current statutory provisions transferring 1.0625 percent of the state sales tax to local governments to fund realignment.

The 0.25% sales tax increase expired as planned at the end of 2016. The higher income tax rates have been extended for 12 years through the end of 2030 with the passage of Proposition 55 by the voters of the State in 2016.

## **Proposition 19**

On November 3, 2020, State voters approved a constitutional amendment entitled Property Tax Transfers, Exemptions and Revenue for Wildfire Agencies and Counties Amendment (“Proposition 19”), which will: (i) expand special rules that give property tax savings to homeowners that are over the age of 55, severely disabled, or whose property has been impacted by a natural disaster or contamination, when they buy a different home; (ii) narrow existing special rules for inherited properties; and (iii) broaden the scope of legal entity ownership changes that trigger reassessment of properties. The City cannot make any assurance as to what effect the implementation of Proposition 19 will have on assessed valuation of real property in the City.

## **Future Initiatives**

Articles XIII A, XIII B, XIII C and XIII D, Propositions 62, 1A, 22, 26, and 30 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, which may place further limitations on the ability of the State, the City or local districts to increase revenues or to increase appropriations which may affect the City’s revenues or its ability to expend its revenues.

## **RISK FACTORS**

*This section provides a general overview of certain risk factors which should be considered, in addition to the other matters set forth in this Official Statement, in evaluating an investment in the Bonds. This section is not meant to be a comprehensive or definitive discussion of the risks associated with an investment in the Bonds, and the order in which this information is presented does not necessarily reflect the relative importance of various risks. Potential investors in the Bonds are advised to consider the following factors, among others, and to review this entire Official Statement to obtain information essential to the making of an informed investment decision. Any one or more of the risk factors discussed below, among others, could lead to a decrease in the market value and/or in the marketability of the Bonds. There can be no assurance that other risk factors not discussed herein will not become material in the future.*

## **Bonds are Unsecured General Fund Obligations of the City**

The obligation of the City to make debt service payments on the Bonds does not constitute an obligation of the City for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation.

The Trust Agreement does not create a pledge, lien or encumbrance upon the funds of the City. Pursuant to law, the Bonds are payable from any available funds of the City. The City covenants in the Trust Agreement to punctually pay the interest on and principal of every Bond in strict conformity with the terms thereof and of the Trust Agreement. The City is liable and may become liable on other obligations payable from general revenues, some of which may have a priority over payments of the principal of, and interest on, the Bonds, or which the City, in its discretion, may determine to pay prior to the principal of, and interest on, the Bonds.

A variety of national, state or regional factors, which are beyond the control of the City could reduce the City’s General Fund revenues or increase the City’s General Fund expenditures. If the amounts which

the City is obligated to pay in a Fiscal Year exceed the City's revenues for such year, the City may choose to make some payments rather than making other payments, including payments on the Bonds, based on the perceived needs of the City. The same result could occur if, because of California Constitutional limits on expenditures, the City is not permitted to appropriate and spend all of its available revenues or is required to expend available revenues to preserve the public health, safety and welfare. See "STATE CONSTITUTIONAL LIMITATIONS ON CITY REVENUES AND APPROPRIATIONS."

The City has the capacity to enter into other obligations payable from the City's General Fund without the consent of or prior notice to the Owners of the Bonds, and has expressly reserved the right to issue or incur other obligations for any of its corporate purposes. To the extent that additional obligations are incurred by the City, the funds available to make payments of the principal of, , and interest on, the Bonds 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 payment of the principal of, , and interest on, the Bonds. The same result could occur if State constitutional expenditure limitations were to prohibit the City from appropriating and spending all of its otherwise available revenues.

### **Cash Management**

The City has numerous internal or external means to manage its cash flow, including but not limited to interfund borrowing, intrafund borrowing and tax and revenue anticipation notes which may be employed to the extent the City Council is required to make budget adjustments in order to maintain a balanced budget. If the City does not take required actions and the budget remains out of balance, the cash requirements of the City may exceed available cash flow. The ability of the City to borrow on an interim basis to meet any cash shortfalls also may be limited if the budget remains out of balance for a sustained period of time. The City has the legal authority to issue "warrants" in place of cash to meet various types of expenditures or appropriations as an additional means to manage its cash flow. See "CITY FINANCIAL INFORMATION."

### **COVID-19 Pandemic**

The COVID-19 Pandemic has affected travel, commerce, investment values, and financial markets globally, and is widely expected to continue to affect economic output worldwide and within the City. While federal and state governments (including California) have enacted legislation and taken executive actions seeking to mitigate the negative public health and economic impacts of the Pandemic, no assurances can be given that these interventions will have the intended effects.

Negative economic impacts resulting from the COVID-19 Pandemic may or may not reduce or otherwise negatively affect revenues to the City's General Fund, however ultimate impact of the COVID-19 Pandemic on the City's operations and finances is unknown. The City has developed what it believes to be reasonable budgeted projections of the magnitude of these impacts on its revenues and on its expenditures, the COVID-19 Pandemic is ongoing and the City cannot predict how and when it will be resolved.

As of the date of this Official Statement, the City does not believe that the impacts of the COVID-19 Pandemic will prevent the City from principal and interest on the Bonds when due.

Additional information about the State's and the County's current status can be found at the State's website, [www.covid19.ca.gov](http://www.covid19.ca.gov) and at the County's website [www.ocCOVID19.ocHealthInfo.com/coronavirus-](http://www.ocCOVID19.ocHealthInfo.com/coronavirus-)

[in-oc](#) for up to date information regarding COVID-19 restrictions in place in the State and in the County. Reference to the State's and the County's website is included in this Official Statement for general information only and information on such website is not included in this Official Statement by reference to such website.

### **Limitation on Remedies; Bankruptcy**

The enforceability of the rights and remedies of the Holders of the Bonds are subject to a number of limitations, including bankruptcy, moratorium, insolvency or other laws affecting creditor's rights or remedies and is subject to general principles of equity (regardless of whether such enforceability is considered in equity or at law), to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against governmental entities in the State.

In addition, the rights and remedies of the Owners may be limited by and are subject to the provisions of federal bankruptcy laws and to other laws or equitable principles that may affect the enforcement of creditors' rights. The City is a governmental unit and therefore cannot be the subject of an involuntary case under the United States Bankruptcy Code (the "Bankruptcy Code"). However, the City is a municipality and therefore may seek voluntary protection from its creditors pursuant to Chapter 9 of the Bankruptcy Code for purposes of adjusting its debts. Should the City file for bankruptcy, there could be adverse effects on the Owners. In two situations in the State, holders of pension obligations bonds issued by cities that participate in CalPERS experienced significant losses in their investment in such pension obligation bonds as a result of the cities subsequently seeking voluntary protection from their creditors pursuant to Chapter 9 of the Bankruptcy Code.

If the City is in bankruptcy, the parties (including the Trustee and the Owners) may be prohibited from taking any action to collect any amount from the City or to enforce any obligation of the City, unless the permission of the bankruptcy court is obtained. These restrictions may also prevent the Trustee from making payments to the holders of the Bonds from funds in the Trustee's possession.

The Bonds are not secured by any property other than the funds that the City has actually deposited with the Trustee, and the City is not obligated to deposit any funds with the Trustee until the third business day prior to the applicable bond payment debt. The Bonds are not secured by the funds in the City treasury allocated to pay debt service on the Bonds. If the City is in bankruptcy, it may not be obligated to make any further deposits with the Trustee, it may not be obligated to make any further allocations to the payment of debt service, and it may not be obligated to turn over to the Trustee any moneys that have been allocated in the City treasury. As a result, the Bonds would likely be treated as unsecured obligations of the City in the bankruptcy case. Under such circumstances, the Owners could suffer substantial losses.

The City may be able, without the consent and over the objection of the Trustee or the Owners, to alter the priority, interest rate, payment terms, maturity dates, payment sources, covenants, and other terms or provisions of the Trust Agreement and the Bonds, as long as the bankruptcy court determines that the alterations are fair and equitable.

There may be delays in payments on the Bonds while the court considers any of these issues. There may be other possible effects of a bankruptcy of the City that could result in delays or reductions in payments on the Bonds, or result in losses to the Owners. Regardless of any specific adverse determinations in a City bankruptcy proceeding, the fact of a City bankruptcy proceeding could have an adverse effect on the liquidity and value of the Bonds.

*Treatment of Pension Obligation Bonds in Recent Municipal Bankruptcies.* Recent bankruptcies in the cities of Stockton, San Bernardino and the City of Detroit, Michigan have addressed obligations held by holders of pension obligation securities. In the Stockton bankruptcy the bankruptcy court found that CalPERS was an unsecured creditor of the city with a claim on parity with those of other unsecured creditors. In the San Bernardino bankruptcy, the bankruptcy court held that in the event of a municipal bankruptcy, payments on pension obligation bonds, such as the Bonds, were unsecured obligations and not entitled to the same priority of payments made to CalPERS. A variety of events, including, but not limited to, additional rulings adverse to the interests of bond owners in the Stockton, San Bernardino and Detroit bankruptcy cases or additional municipal bankruptcies, could prevent or materially adversely affect the rights of Beneficial Owners to receive payments on the Bonds in the event the City files for bankruptcy. Accordingly, in the event of bankruptcy, Beneficial Owners may not recover the full amount of principal and interest due on the Bonds.

The opinion to be delivered by Bond Counsel concurrently with the execution and delivery of the Bonds will be subject to various limitations on remedies including those related to bankruptcy and the various other legal opinions to be delivered concurrently with the issuance of the Bonds will be similarly qualified. See APPENDIX G—FORM OF OPINION OF BOND COUNSEL. In the event that the City fails to comply with its covenants under the Trust Agreement or fails to pay debt service payments on the Bonds, there can be no assurance of the availability of remedies adequate to protect the interest of the Beneficial Owners of the Bonds.

### **Pension Benefit and OPEB Liability**

Many factors influence the amount of the City's pension benefit and OPEB liabilities, including, without limitation, inflationary factors, changes in statutory provisions of CalPERS retirement system laws, changes in the level of benefits provided or in the contribution rates of the City, increases or decreases in the number of covered employees, changes in actuarial assumptions or methods (including but not limited to the assumed rate of return), and differences between actual and anticipated investment experience of CalPERS. Any of these factors could give rise to additional liability of the City to its pension plans or its OPEB plan, as a result of which the City would be obligated to make additional payments to its pension plans or OPEB plan in order to fully fund the City's obligations to its pension plan or OPEB plan.

### **Natural Calamities**

*General.* From time to time, the City has been and could be subject to natural calamities, including, but not limited to, earthquake, flood or wildfire, that may adversely affect economic activity in the City, and which could have a negative impact on City finances. There can be no assurance that the occurrence of any natural calamity would not cause substantial damage to persons, property and structures in the City and could have a substantial negative effect on the City's General Fund.

*Seismic.* Like most regions in California, the City is in an area of significant seismic activity. Soils in lowland areas away from major faults may also be unable to support buildings during major earthquakes. Landslides are likely on hillsides during major earthquakes. Damage resulting from such an event could have a material adverse effect on the City's financial condition as well, through unexpected recovery costs and reduced tax and other revenues.

*Flood.* Like most of California, the City is subject to unpredictable seasonal rainfall, with periods of intense and sustained precipitation occurring every few years. The City is not located within in the 100-year floodplain.

*Wildfire.* In recent years, wildfires have caused extensive damage to cities throughout the State. In some instances, entire neighborhoods have been destroyed. Areas effected by wildfires may be more prone to flooding and mudslides. In addition to the direct impact of wildfires on health and safety and property damage, the smoke from wildfires has negatively impacted the quality of life in the City and may have short-term and future impacts on residential and commercial activity in the City.

Recent wildfires in the State have been driven in large measure by drought conditions and low humidity. Experts expect that California will continue to be subject to wildfire conditions as a result in changing weather patterns due to climate change.

While the City is not in a wildfire severity zone and the City believes the possibility of wildfire damage within the City is low, there can be no assurances that wildfires will not occur within the City or the region or that the City will not be negatively impacted by sustained smoky conditions caused by wildfires. Damage resulting from such an event could have a material adverse effect on the City's financial condition as well, through unexpected recovery costs and reduced tax and other revenues.

### **Hazardous Substances**

One of the most serious risks in terms of the potential reduction in the value or use of a parcel of property is a claim with regard to a hazardous substance. In general, the owners, lessors and/or lessees of a parcel of real property may be required by law to remedy conditions of the parcel relating to releases or threatened releases of hazardous substances. The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as "CERCLA" or the "Superfund Act," is the most well-known and widely applicable of these laws, but California laws with regard to hazardous substances are also stringent and similar in application. Under many of these laws, the owner (or operator) is obligated to remedy a hazardous substance condition of property whether or not the owner (or operator) has contributed to or caused contamination with the hazardous substances. The effect, therefore, should property in the City be affected by a hazardous substance, is to reduce both marketability and the value of property by the costs of remedying the condition. While the City is not currently aware of any such condition, it is possible that such hazardous substance conditions do currently exist and that the City has not been made aware of their existence.

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

During the most recent recession, the State faced a structural deficit that resulted in substantial annual deficits and reductions in expenditures. Although the State has had a budget surplus in the more recent fiscal years, according to the State there remain a number of major risks and pressures that threaten the State's financial condition, including the threat of recession, potential changes to federal fiscal policies and unfunded long-term liabilities of more than \$200 billion related to pensions and other post-retirement benefits. These risks and financial pressures could result in future reductions or deferrals in amounts payable to the City. The State's financial condition and budget policies affect local public agencies throughout California. To the extent that the State budget process results in reduced revenues to the City, the City will be required to adjust its budget. State budget policies can also impact conditions in the local economy and could have an adverse effect on the local economy and the City's major revenue sources.

No prediction can be made by the City as to whether the State will encounter budgetary problems in future fiscal years, and if it were to do so, it is not clear what measures would be taken by the State to balance its budget, as required by law. In addition, the City cannot predict the final outcome of future State budget negotiations, the impact that such budgets will have on City finances and operations or what actions will be taken in the future by the Legislature and the Governor to deal with changing State revenues and expenditures. There can be no assurance that actions taken by the State to address its financial condition will not materially adversely affect the financial condition of the City. Current and future State budgets will be affected by national and State economic conditions and other factors over which the City has no control (see "STATE BUDGET INFORMATION"). The ability of the state to divert funds from the City has been limited by Proposition 1A and Proposition 22, which are discussed herein. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES, REVENUES AND APPROPRIATIONS."

### **Increased Internet Use May Reduce Sales Tax Revenues**

The increasing use of the Internet to conduct electronic commerce may affect the levels of the sales tax revenues collected by the City. Online sales of physical products by businesses located in the State, and online sales of physical products delivered to the State by businesses located outside of the State are generally subject to the sales taxes. However, the City believes that many of these transactions may avoid taxation either through error or deliberate non-reporting and this potentially reduces the amounts of the sales tax revenues collected. As a result, the more that the Internet is used to conduct electronic commerce, along with the failure to collect sales taxes on such online purchases, the more that the City may experience reductions sales tax collections. On September 23, 2011, Governor Jerry Brown signed into law a settlement with Amazon.com Inc., one of the largest internet retailers in the State. As a result, beginning in September 2012, Amazon started collecting taxes from its online sales in the State, to remit to the California Department of Tax and Fee Administration ("CDTFA"). On June 21, 2018, in the case of South Dakota v. Wayfair, the Supreme Court of the United States ruled that state and local governments have the authority to require out-of-state vendors with no local physical presence in a state to collect and remit sales taxes to state and local governments. As of April 1, 2019, retailers located outside of the State are required to register with CDTFA, collect the California use tax and pay the tax to CDTFA based on the amount of their sales into California, even if they do not have a physical presence in the state, with exceptions for retailers with California sales below certain volume and dollar thresholds. The City cannot predict the degree that the collection of the California use tax on such retailers will affect the collection of sales taxes on a going forward basis.

### **Secondary Market Risk**

There can be no assurance that there will be a secondary market for purchase or sale of the Bonds, and from time to time there may be no market for them, depending upon prevailing market conditions, the financial condition or market position of firms who may make the secondary market and the financial condition of the City.

### **Risks Related to Cyber Security**

The City relies on computers and technology to conduct its operations. The City and its departments face cyber threats from time to time including, but not limited to, hacking, viruses, malware and other forms of technology attacks. The City owns and operates its own enterprise class data network

servicing the municipal city government and its operations. The City has retained information technology professionals to support, maintain and protect these operations locally in a purpose-built and physically secure environment. This network and its operations are governed by and in compliance with all applicable governmental regulations as well as the City's own administrative regulations. Within the City's operations and guidance is an active cyber-security program designed to protect from, and to quickly identify and mitigate, a multitude of complex security threats. While no network is completely immune from all possible compromise, the City exercises its due diligence in protecting the data it possesses and the systems it operates. To date, there have been no significant cyber-attacks on the City's computers and technologies.

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

### **Changes in Law**

There can be no assurance that the electorate of the State will not at some future time adopt additional initiatives or that the Legislature will not enact legislation that will amend the laws or the Constitution of the State resulting in a reduction of the General Fund revenues of the City and consequently, having an adverse effect on the security for the Bonds.

### **ABSENCE OF LITIGATION**

At the time of delivery of and payment for the Bonds, the City will certify that there is no action, suit, proceeding, inquiry, or investigation, at law or in equity, before or by any court or regulatory agency, public board, or body pending or threatened against the City affecting the existence or the titles its officers or seeking to restrain or to enjoin the issuance, sale, or delivery of the Bonds, or the application of the proceeds thereof in accordance with the Trust Agreement, or in any way contesting or affecting the validity or enforceability of the Bonds, any agreement entered into between the City and any purchaser of the Bonds, the Trust Agreement or any other applicable agreements or any action of the City contemplated by any of said documents, or in any way contesting the completeness or accuracy of this Official Statement or any amendment or supplement thereto, or contesting the powers of the City or its authority with respect to the Bonds or any action of the City contemplated by any of said documents, nor, to the knowledge of the City, is there any basis therefor.

### **CONTINUING DISCLOSURE**

Pursuant to the Rule, the City has agreed, for the benefit of holders of the Bonds, to provide certain financial information and operating data relating to the City and the balances of funds relating to the Bonds, by not later than March 31 of each fiscal year commencing with the report for the 2020-21 fiscal year (the "Annual Information"), and to provide notices of the occurrence of certain enumerated events. The Annual Information and notices of enumerated events will be filed by the City with the Municipal Securities Rulemaking Board (the "MSRB") via its Electronic Municipal Market Access ("EMMA") system. The nature of the information to be provided in the Annual Information and the notices of enumerated events is set forth in APPENDIX E—FORM OF CONTINUING DISCLOSURE CERTIFICATE.

In the past five years the City has not materially defaulted on any of its obligations its continuing disclosure undertakings including, without limitation, to timely provide annual reports in accordance with the Rule.

### **MUNICIPAL ADVISOR**

Fieldman, Rolapp & Associates, Inc. (the “Municipal Advisor”), is registered as a “Municipal Advisor” with the Securities Exchange Commission and Municipal Securities Rulemaking Board. The Municipal Advisor has assisted the City in connection with the planning, structuring, sale and issuance of the Bonds. The Municipal Advisor is not obligated to undertake, and has not undertaken to make, an independent verification of or to assume responsibilities for the accuracy, completeness or fairness of the information contained in this Official Statement not provided by the Municipal Advisor. The fees of the Municipal Advisor in respect to the Bonds are contingent upon their sale and delivery. The Municipal Advisor is an independent advisory firm and not engaged in the business of underwriting, trading or distributing municipal or other public securities.

### **LEGAL MATTERS**

All legal matters in connection with the execution and delivery of the Bonds are subject to the approval of Quint & Thimmig LLP, Larkspur, California, Bond Counsel. Bond Counsel’s opinion with respect to the Bonds will be substantially in the form set forth in APPENDIX G—FORM OF OPINION OF BOND COUNSEL. Certain legal matters will also be passed on for the City by Quint & Thimmig LLP, as Disclosure Counsel, and for the Underwriter by its counsel Katten Muchin Rosenman LLP, New York, New York. The fees and expenses of Bond Counsel, Disclosure Counsel and Underwriter’s counsel are contingent upon the execution and delivery of the Bonds.

### **VALIDATION**

On August 18, 2021, the City, acting pursuant to the provisions of sections 860 *et seq.* of the California Code of Civil Procedure, filed a complaint in the Superior Court of the State for the County of Orange seeking judicial validation of the Bonds and certain other matters, including the Trust Agreement. On November 4, 2021, the court entered a judgment to the effect, among other things, that the Bonds and were valid, legal and binding obligations of the City. The Trust Agreement was also the subject of the judgment. The time period for the filing of appeals with respect to the judgment has expired and no appeals were filed, therefore the judgment is final and unappealable. In issuing its opinion as to the validity of the Bonds, Bond Counsel has relied upon the entry of the foregoing judgment.

### **TAX MATTERS**

In the opinion of Quint & Thimmig LLP, Bond Counsel, under existing law, interest on the Bonds is exempt from State personal income taxes. Bond Counsel expresses no opinion as to any other tax consequences regarding the Bonds. **INTEREST ON THE BONDS IS NOT EXCLUDED FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES.**

The complete text of the final opinion that Bond Counsel expects to deliver upon the delivery of the Bonds is set forth in APPENDIX G—FORM OF OPINION OF BOND COUNSEL.

## UNDERWRITING

The Bonds are being purchased by BofA Securities Inc. (the “Underwriter”). The Underwriter agrees to purchase the Bonds at a price of \$\_\_\_\_\_ (representing the \$\_\_\_\_\_.00 aggregate principal amount of the Bonds, less \$\_\_\_\_\_ of Underwriter’s discount). The Purchase Agreement relating to the Bonds provides that the Underwriter will purchase all of the Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in said Purchase Agreement, approval of certain legal matters by counsel and certain other conditions. After a bona fide initial public offering at the price stated on the inside cover page hereof, the Underwriter may offer and sell the Bonds to certain dealers and others at prices lower than the initial public offering price. The offering price may be changed from time to time by the Underwriter.

The Underwriter has entered into a distribution agreement with its affiliate Merrill Lynch, Pierce, Fenner & Smith Incorporated (“MLPF&S”). As part of this arrangement, the Underwriter may distribute securities to MLPF&S, which may in turn distribute such securities to investors through the financial network of MLPF&S. As part of this arrangement, the Underwriter may compensate MLPF&S as a dealer for their selling efforts with respect to the Bonds.

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

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

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

## RATING

S&P Global Ratings, a Standard & Poor’s Financial Services LLC business (“S&P”) has assigned the rating of “\_\_\_” to the Bonds. Such rating reflects only the view of S&P and any desired explanation of the significance of such rating should be obtained from S&P at the following address: 55 Water Street, New York, NY 10041, (212) 208-8000. Generally, a rating agency bases its rating on the information and

materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such rating will continue for any given period of time or that such rating will not be revised downward or withdrawn entirely by S&P if, in the judgment of S&P, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price for the Bonds.

## **FINANCIAL STATEMENTS**

The City's Comprehensive Annual Financial Report for fiscal year ended June 30, 2021 is set forth in APPENDIX C—COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY OF LA HABRA FOR THE FISCAL YEAR ENDED JUNE 30, 2021. The City's Auditor was not requested to consent to the inclusion of its report in Appendix C and it has not undertaken to update financial statements included in Appendix C. No opinion is expressed by the City's Auditor with respect to any event subsequent to its report.

## **ADDITIONAL INFORMATION**

All of the preceding summaries of the Bonds, the Trust Agreement and other documents are made subject to the provisions of such documents respectively and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with the City for further information in connection therewith.

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

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

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.

The City will furnish a certificate dated the date of delivery of the Bonds, from an appropriate officer of the City, to the effect that to the best of such officer's knowledge and belief, and after reasonable investigation, (i) neither the Official Statement nor any amendment or supplement thereto contains any untrue statement of a material fact or omits to state any material fact necessary to make the statements therein, in light of the circumstances in which they were made, not misleading; (ii) since the date of the Official Statement, no event has occurred which should have been set forth in an amendment or supplement to the Official Statement which has not been set forth in such an amendment or supplement, and the Bonds, the Trust Agreement and other applicable agreements conform as to form and tenor to the descriptions thereof contained in the Official Statement; and (iii) the City has complied with all the agreements and has satisfied all the conditions on its part to be performed or satisfied under the Trust Agreement at and prior to the date of the issuance of the Bonds.

The execution and delivery of the Official Statement by the City have been duly authorized by the City Council on behalf of the City.

CITY OF LA HABRA

By \_\_\_\_\_  
James D. Sadro,  
*City Manager*

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**APPENDIX A**

**SUMMARY OF CERTAIN PROVISIONS OF THE TRUST AGREEMENT**

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## APPENDIX B

### GENERAL, ECONOMIC AND DEMOGRAPHIC INFORMATION RELATING TO THE CITY AND THE COUNTY

*The following information concerning the City of La Habra and Orange County is included only for the purpose of supplying general information regarding the City and the County. The Bonds are not a debt of the County, the State or any of its political subdivisions, and none of the County, the State nor any of their political subdivisions, except for the City, are liable therefor.*

*Although reasonable efforts have been made to include up-to-date information in this Appendix B, some of the information is not current due to delays in reporting of information by various sources. It should not be assumed that the trends indicated by the following data would continue beyond the specific periods reflected herein.*

*In addition, as described herein, the COVID-19 pandemic has materially impacted the national, State and local economies. The information in this Appendix B relates to time periods prior to the commencement of the COVID-19 pandemic and does not reflect such material impacts.*

#### **Introduction**

*City of La Habra.* The City of The City (the “City”), incorporated on January 20, 1925, is located in Orange County (the “County”) in the State of California (the “State”), approximately 20 miles east of downtown Los Angeles. The City is a suburban residential community that sits adjacent to the border between the County and Los Angeles County. The City is largely built out and encompasses an area of approximately 7.4 square miles (19 km<sup>2</sup>). The City is bordered by La Habra Heights on the north, Brea on the east, Fullerton on the south and southeast, La Mirada on the west and southwest and East Whittier on the west, Whittier on the northwest and a small unnamed section of unincorporated Los Angeles County on the northeast.

*Orange County.* The County was incorporated in 1889 and is located in the southern part of the State. The County is one of the major metropolitan areas in the state and nation. The County occupies a land area of 798 square miles with a coastline of 42 miles serving a population of over 3 million. It represents the third most populous county in the State and ranks sixth in the nation.

The County is a charter county as a result of the March 5, 2002, voter approval of Measure V, which provides for an electoral process to fill mid-term vacancies on the Board of Supervisors. Before Measure V, as a general law county, mid-term vacancies would otherwise be filled by gubernatorial appointment. In November 2008, voters approved Measure J, which added Article III, Section 301 to the Charter of The County requiring voter approval for increases in future retirement system benefits of any employee, legislative officer, or elected official of the County in the Orange County Employees Retirement System (OCERS) or any successor retirement system, with the exception of statutorily-established cost of living adjustments, salary increases, and annual leave or compensatory time cash-outs. In all other respects, the County is like a general law county. The County is governed by a five-member Board of Supervisors each of whom serves four-year terms, and annually elect a Chairman and Vice-Chairman. The supervisors represent districts that are each approximately equal in population. The County provides a full range of services countywide, for the unincorporated areas, and contracted through cities.

## Population

The table below summarizes population of the City, the County, and the State of California (the “State”) for the last five years.

### CITY OF LA HABRA, ORANGE COUNTY, and CALIFORNIA Population

Year	City of La Habra	Orange County	State of California
2017	62,425	3,180,125	39,352,398
2018	62,581	3,186,254	39,519,535
2019	63,464	3,185,378	39,605,361
2020	63,471	3,180,491	39,648,938
2021	62,808	3,153,764	39,466,855

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Source: California Department of Finance, E-4 Population Estimate for Cities, Counties, and the State, 2017-21, with 2010 Census Benchmark.

## Employment

The following table summarizes historical employment and unemployment for the County, the State and the United States:

### ORANGE COUNTY, CALIFORNIA, and UNITED STATES Civilian Labor Force, Employment, and Unemployment (Annual Averages)

Year	Area	Labor Force	Employment	Unemployment	Unemployment Rate <sup>(1)</sup>
2016	Orange County	1,602,400	1,538,000	64,300	4.0%
	California	19,102,700	18,065,000	1,037,700	5.4
	United States	159,187,000	151,436,000	7,751,000	4.9
2017	Orange County	1,619,200	1,562,600	56,600	3.5
	California	19,312,000	18,393,100	918,900	4.8
	United States	160,320,000	153,337,000	6,982,000	4.4
2018	Orange County	1,625,400	1,577,900	47,500	2.9
	California	19,398,200	18,582,800	815,400	4.2
	United States	162,075,000	155,761,000	6,314,000	3.9
2019	Orange County	1,623,400	1,578,300	45,100	2.8
	California	19,411,600	18,627,400	784,200	4.0
	United States	163,539,000	157,538,000	6,001,000	3.7
2020 <sup>(2)</sup>	Orange County	1,553,300	1,416,700	136,600	8.8
	California	18,821,200	16,913,100	1,908,100	10.1
	United States	160,742,000	147,795,000	12,947,000	8.1

Source: California Employment Development Department, Monthly Labor Force Data for Counties, Annual Average 2016-20, and US Department of Labor.

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

(2) Latest available full-year data.

## Major Industries in the County

The following table lists the top 10 employers within the County as of June 30, 2020.

### ORANGE COUNTY Top 10 Employers as of June 30, 2020

Employer	Employees	% of Total
Walt Disney Co.	32,000	2.04%
UC Irvine	24,174	1.54
County of Orange	18,435	1.17
St. Joseph Health System	14,000	.89
Kaiser Permanente	8,200	.52
Albertsons	7,535	.48
Boeing Co.	6,500	.41
Hoag Memorial Hospital	6,500	.41
Walmart Inc.	6,200	.39
Target Corporation	6,000	.38
Total Top 10	129,544	8.23

Source: Orange County Fiscal Year 2019-20 Comprehensive Annual Financial Report. Latest available full-year data.

## Construction Activity

The following table reflects the five-year history of building permit valuation for the City and the County:

### CITY OF LA HABRA Building Permits and Valuation (Dollars in Thousands)

	2016	2017	2018	2019	2020 <sup>(1)</sup>
<u>Permit Valuation:</u>					
New Single-family	\$ 3,882	\$23,316	\$ 2,176	\$ 4,214	\$ 3,867
New Multi-family	34,618	-	4,096	1,667	-
Res. Alterations/Additions	7,868	7,361	7,571	7,317	6,486
Total Residential	46,370	30,678	13,844	13,199	10,353
Total Nonresidential	36,518	14,953	5,046	13,546	14,944
Total All Building	<u>82,888</u>	<u>45,631</u>	<u>18,890</u>	<u>26,746</u>	<u>25,298</u>
<u>New Dwelling Units:</u>					
Single Family	12	111	14	22	20
Multiple Family	335	-	19	8	-
Total	<u>347</u>	<u>111</u>	<u>33</u>	<u>30</u>	<u>20</u>

### ORANGE COUNTY Building Permits and Valuation (Dollars in Thousands)

	2016	2017	2018	2019	2020 <sup>(1)</sup>
<u>Permit Valuation:</u>					
New Single-family	\$1,464,920	\$1,809,779	\$1,442,020	\$ 1,094,668	\$ 902,643
New Multi-family	1,195,586	880,561	726,503	1,010,555	582,219
Res. Alterations/Additions	491,132	498,259	582,094	537,089	386,094
Total Residential	3,151,639	3,188,600	2,750,618	2,642,313	1,870,957
Total Nonresidential	2,495,687	2,090,028	3,532,284	3,152,501	1,984,321
Total All Building	<u>5,647,326</u>	<u>5,278,629</u>	<u>6,282,903</u>	<u>5,794,814</u>	<u>3,855,278</u>
<u>New Dwelling Units:</u>					
Single Family	4,226	5,097	3,975	3,125	2,863
Multiple Family	7,908	5,197	4,130	7,169	3,032
Total	<u>12,134</u>	<u>10,294</u>	<u>8,105</u>	<u>10,294</u>	<u>5,895</u>

Source: Construction Industry Research Board: "Building Permit Summary."

Note: Columns may not sum to totals due to independent rounding.

(1) Latest available full year data.

## Household Effective Buying Income

"Effective Buying Income" is defined as personal income less personal tax and nontax payments, a number often referred to as "disposable" or "after-tax" income. Personal income is the aggregate of wages and salaries, other labor-related income (such as employer contributions to private pension funds), proprietor's income, rental income (which includes imputed rental income of owner-occupants of non-farm

dwellings), dividends paid by corporations, interest income from all sources, and transfer payments (such as pensions and welfare assistance). Deducted from this total are personal taxes (federal, state and local), nontax payments (fines, fees, penalties, etc.) and personal contributions to social insurance. According to U.S. government definitions, the resultant figure is commonly known as “disposable personal income.”

The following table summarizes the median household effective buying income for the City, the County, the State and the nation for the past five years.

**CITY OF LA HABRA, ORANGE COUNTY,  
STATE OF CALIFORNIA AND UNITED STATES  
Median Household Effective Buying Income**

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
La Habra	\$ 57,391	\$ 60,260	\$ 65,507	\$ 69,750	\$ 72,981
Orange County	66,303	69,088	73,894	75,672	78,648
California	55,681	59,646	62,637	65,870	67,956
United States	48,043	50,735	52,841	55,303	56,790

Source: Nielsen, Inc.

**APPENDIX C**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY OF LA HABRA  
FOR THE YEAR ENDED JUNE 30, 2021**

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**APPENDIX D**

**CITY OF LA HABRA INVESTMENT POLICY**

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## APPENDIX E

### FORM OF CONTINUING DISCLOSURE CERTIFICATE

This CONTINUING DISCLOSURE CERTIFICATE (the “Disclosure Certificate”) is executed and delivered by the CITY OF LA HABRA (the “City”) in connection with the issuance by the City of its \$ \_\_\_\_\_\* City of La Habra (Orange County, California) Pension Obligation Bonds, Series 2021 (Federally Taxable) (the “Bonds”). The Bonds are being issued pursuant to a trust agreement, dated as of [December] 1, 2021 (the “Trust Agreement”), by and between the City and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”). The City covenants and agrees as follows:

Section 1. Definitions. In addition to the definitions set forth above and, in the Trust Agreement, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section 1, the following capitalized terms shall have the following meanings:

“*Annual Report*” means any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“*Annual Report Date*” means the date that is nine months after the end of the City’s fiscal year (currently March 31 based on the City’s fiscal year end of June 30).

“*Dissemination Agent*” shall mean, initially, Urban Futures Incorporated or any successor Dissemination Agent designed in writing by the City and which has been filed with the then current Dissemination Agent a written acceptance of such designation.

“*Fiscal Year*” means any twelve-month period beginning on July 1 in any year and extending to the next succeeding June 30, both dates inclusive, or any other twelve-month period selected and designated by the City as its official fiscal year period under a certificate of the City filed with the Trustee.

“*MSRB*” means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule, or any other repository of disclosure information that may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

“*Official Statement*” means the final official statement executed by the City in connection with the issuance of the Bonds.

“*Participating Underwriter*” means BofA Securities Inc., the original underwriter of the Bonds.

“*Rule*” means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as it may be amended from time to time.

“*Significant Events*” means any of the events listed in Section 5(a) of this Disclosure Certificate.

Section 2. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the holders and beneficial owners of the Bonds and in order to assist the Participating Underwriter in complying with the Rule.

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\* Preliminary, subject to change.

Section 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than the Annual Report Date, commencing March 31, 2022, with the report for fiscal year 2020-21 provide to the MSRB, in an electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. Not later than 15 Business Days prior to the Annual Report Date, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). If by 15 Business Days prior to the Annual Report Date the Dissemination Agent (if other than the City) has not received a copy of the Annual Report, the Dissemination Agent shall contact the City to determine if the City is in compliance with the previous sentence. The Annual Report may be submitted as a single document or as separate documents comprising a package and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report, and later than the Annual Report Date, if not available by that date. If the City's fiscal year changes, it shall give notice of such change in the same manner as for a Significant Event under Section 5(c). 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 the City hereunder.

(b) If the City does not provide (or cause the Dissemination Agent to provide) an Annual Report by the Annual Report Date, the City in a timely manner shall provide (or cause the Dissemination Agent to provide) to the MSRB, in an electronic format as prescribed by the MSRB, a notice in substantially the form attached as Exhibit A.

(c) With respect to each Annual Report, the Dissemination Agent shall:

(i) determine each year prior to the Annual Report Date the then-applicable rules and electronic format prescribed by the MSRB for the filing of annual continuing disclosure reports; and

(ii) if the Dissemination Agent is other than the City, file a report with the City certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, and stating the date it was provided.

Section 4. Content of Annual Reports. The City's Annual Report shall contain or incorporate by reference the following:

(a) The City's audited financial statements prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the City's audited financial statements are not available by the Annual Report Date, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Unless otherwise provided in the audited financial statements filed on or prior to the annual filing deadline for Annual Reports provided for in Section 3 above, financial information and operating data with respect to the City for preceding fiscal year, substantially similar to that provided in the Official Statement, as follows:

- (i) General Fund Statement of Revenues, Expenditures and Changes in Fund Balance;
- (ii) General Fund Balance Sheet;
- (iii) General Fund Tax Revenues By Source;
- (iv) Assessed Valuations
- (v) Top 10 Principal Property Taxpayers; and
- (vi) Outstanding principal amount of the Bonds as of the end of the most recently completed fiscal year.

(c) In addition to any of the information expressly required to be provided under this Disclosure Certificate, the City shall provide such further material information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

(d) Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which are available to the public on the MSRB's Internet web site or filed with the Securities and Exchange Commission. The City shall clearly identify each such other document so included by reference.

#### Section 5. Reporting of Significant Events.

(a) The City shall give, or cause to be given, notice of the occurrence of any of the following Significant Events with respect to the Bonds:

(i) Principal and interest payment delinquencies;

(ii) Non-payment related defaults, if material;

(iii) Unscheduled draws on debt service reserves reflecting financial difficulties;

(iv) Unscheduled draws on credit enhancements reflecting financial difficulties;

(v) Substitution of credit or liquidity providers, or their failure to perform;

(vi) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security;

(vii) Modifications to rights of security holders, if material;

(viii) Bond calls, if material, and tender offers;

(ix) Defeasances;

(x) Release, substitution, or sale of property securing repayment of the securities, if material;

(xi) Rating changes;

(xii) Bankruptcy, insolvency, receivership or similar event of the City or other obligated person;

(xiii) The consummation of a merger, consolidation, or acquisition involving the City or an obligated person, or the sale of all or substantially all of the assets of the City or an obligated person (other than in the ordinary course of business), the entry into a definitive agreement to undertake such an action, or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;

(xiv) Appointment of a successor or additional trustee or the change of name of a trustee, if material;

(xv) The incurrence of a financial obligation of the City or other obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the City or other obligated person, any of which affect security holders, if material; or

(xvi) A default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the City or other obligated person, any of which reflect financial difficulties.

(b) Whenever the City obtains knowledge of the occurrence of a Significant Event, the City shall, or shall cause the Dissemination Agent (if not the City) to, file a notice of such occurrence with the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of the Significant Event. Notwithstanding the foregoing, notice of Significant Events described in subsection (a)(viii) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds under the Trust Agreement.

(c) The City acknowledges that the events described in subparagraphs (a)(ii), (a)(vii), (a)(viii) (if the event is a bond call), (a)(x), (a)(xiii), (a)(xiv) and (a) (xv) of this Section 5 contain the qualifier “if material.” The City shall cause a notice to be filed as set forth in paragraph (b) above with respect to any such event only to the extent that the City determines the event’s occurrence is material for purposes of U.S. federal securities law. The City intends that the words used in paragraphs (xv) and (xvi) and the definition of “financial obligation” to have the meanings ascribed thereto in SEC Release No. 34-83885 (August 20, 2018) or any further guidance or release provided by the SEC.

(d) For purposes of this Disclosure Certificate, any event described in paragraph (a)(xii) above is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City.

Section 6. Identifying Information for Filings with the MSRB. All documents provided to the MSRB under this Disclosure Certificate shall be accompanied by identifying information as prescribed by the MSRB.

Section 7. Termination of Reporting Obligation. The City’s obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds.

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 Dissemination Agent, with or without appointing a successor Dissemination Agent. Any Dissemination Agent may resign by providing 30 days’ written notice to the City.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Bonds, or type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by holders of the Bonds in the manner provided in the Trust Agreement for amendments to the Trust Agreement with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Bonds.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first annual financial information filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing financial statements, the annual financial information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the City to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative.

The Dissemination Agent shall not be obligated to enter into any amendment increasing or affecting its duties or obligations hereunder.

A notice of any amendment made pursuant to this Section 9 shall be filed in the same manner as for a Significant Event under Section 5(b).

Section 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Significant Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Significant Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Significant Event.

Section 11. Default. If the City fails to comply with any provision of this Disclosure Certificate, the Participating Underwriter or any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Trust 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) Article IX of the Trust Agreement is hereby made applicable to this Disclosure Certificate as if this Disclosure Certificate were (solely for this purpose) contained in the Trust Agreement. The Dissemination Agent shall be entitled to the protections and limitations from liability afforded to the Trustee thereunder. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall have no duty or obligation to review any information provided to it by the City hereunder and shall not be deemed to be acting in any fiduciary capacity for the City, the Bond holders or any other party. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

(b) The Dissemination Agent shall be paid compensation by the City for its services provided hereunder in accordance with its schedule of fees as amended from time to time, and shall be reimbursed for all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder.

Section 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, the Participating Underwriter and the Owners and Beneficial Owners from time to time of the Bonds and shall create no rights in any other person or entity.

Date: [Closing Date]

CITY OF LA HABRA

By \_\_\_\_\_  
City Manger

ACKNOWLEDGED:

URBAN FUTURES, INCORPORATED, as  
Dissemination Agent

By \_\_\_\_\_  
Authorized Officer

**EXHIBIT A**

**NOTICE TO EMMA OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: City of La Habra

Name of Issue: City of La Habra (Orange County, California) Pension Obligation Bonds, Series 2021  
(Federally Taxable)

Date of Issuance: [Closing Date]

NOTICE IS HEREBY GIVEN that the Obligor has not provided an Annual Report with respect to the above-named Issue as required by the Continuing Disclosure Certificate, dated [Closing Date], furnished by the Issuer in connection with the Issue. The Issuer anticipates that the Annual Report will be filed by \_\_\_\_\_.

Dated: \_\_\_\_\_

URBAN FUTURES, INCORPORATED, as  
Dissemination Agent

By \_\_\_\_\_  
Title \_\_\_\_\_

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## APPENDIX F

### BOOK-ENTRY ONLY SYSTEM

*The information in this Appendix F, concerning The Depository Trust Company, New York, New York (“DTC”), and DTC’s book-entry system, has been furnished by DTC for use in official statements and the City takes no responsibility for the completeness or accuracy thereof. The City cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest or principal with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation of ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix F. The current “Rules” applicable to DTC are on file with the Securities and Exchange Commission and the current “Procedures” of DTC to be followed in dealing with DTC Participants are on file with DTC. Information Furnished by DTC Regarding its Book-Entry Only System*

1. The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Bonds (as used in this Appendix F, 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 issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

2. DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has an S&P Global Ratings rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com). Information set forth in such website is not incorporated herein by reference.

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC’s records. The ownership interest of each actual purchaser of each Security (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not 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 the notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 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 City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the paying agent or bond trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the paying agent or bond trustee, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the paying agent or bond trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to the City or the paying agent or bond trustee. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

10. The City may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

11. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

## APPENDIX G

### FORM OF OPINION OF BOND COUNSEL

[Letterhead of Quint & Thimmig LLP]

[Closing Date]

City of La Habra  
110 East La Habra Boulevard  
La Habra, California 90633

**OPINION:** \$ \_\_\_\_\_ \* City of La Habra (Orange County, California) Pension Obligation Bonds, Series 2021 (Federally Taxable)

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Members of the City Council:

We have acted as bond counsel to the City of La Habra (the "City") in connection with the issuance by the City of \$ \_\_\_\_\_ \*principal amount of City of La Habra (Orange County, California) Pension Obligation Bonds, Series 2021 (Federally Taxable) (the "Bonds"), pursuant to the provisions of Articles 9 and 11 of Chapter 3 (commencing with section 53550) of Division 2 of Title 5 of the California Government Code (the "Act"), a Trust Agreement, dated as of December 1, 2021, by and between the City and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trust Agreement"), and a resolution adopted by the City Council of the City on July 19, 2021 (the "Resolution"). We have examined the law and such certified proceedings and other papers as we deemed necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the City contained in the Trust Agreement, the Resolution and in the certified proceedings and certifications of public officials and others furnished to us, without undertaking to verify such facts by independent investigation.

Based upon our examination, we are of the opinion, as of the date hereof, that:

1. The City is duly created and validly existing as a general law city and municipal corporation with power to enter into the Trust Agreement, to perform the agreements on its part contained therein and to issue the Bonds.
2. The Bonds constitute legal, valid and binding obligations of the City enforceable in accordance with their terms and payable solely from the sources provided therefor in the Trust Agreement.
3. The Trust Agreement has been duly authorized, executed and delivered by the City and constitutes a legal, valid and binding obligation of the City enforceable against the City in accordance with its terms.
4. Interest on the Bonds is includible in gross income for federal income tax purposes.
5. The interest on the Bonds is exempt from personal income taxation imposed by the State of California.

Ownership of the Bonds may result in other tax consequences to certain taxpayers, and we express no opinion regarding any such collateral consequences arising with respect to the Bonds.

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\* Preliminary, subject to change.

The rights of the owners of the Bonds and the enforceability of the Bonds and the Trust Agreement may be subject to the bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and also may be subject to the exercise of judicial discretion in accordance with general principles of equity.

Our opinion represents our legal judgment based upon such review of the law and the facts that we deem relevant to render our opinion and is not a guarantee of a result. This opinion is given as of the date hereof and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Respectfully submitted,



