

PRELIMINARY OFFICIAL STATEMENT DATED _____, 2021

NEW ISSUE—BOOK-ENTRY ONLY

RATINGS:

Fitch “_____”

S&P: “_____”

See “RATINGS” herein.

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the City, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2021 Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Code. Bond Counsel is of the opinion that interest on the Series 2021 Bonds is exempt from State of California personal income taxes. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual, or receipt of interest on, the Series 2021 Bonds. See “TAX MATTERS” herein.



\$ _____ *

**CITY OF HUNTINGTON BEACH
(ORANGE COUNTY, CALIFORNIA)
TAXABLE PENSION OBLIGATION BONDS, SERIES 2021**

Dated: Date of Delivery**Due: June 15, as shown on inside cover**

The \$ _____* aggregate principal amount of City of Huntington Beach Taxable Pension Obligation Bonds, Series 2021 (the “Series 2021 Bonds”), are being issued by the City of Huntington Beach (the “City”), pursuant to Articles 10 and 11 (commencing with Section 53570) of Chapter 3 of Division 2 of Title 5 of the Government Code of the State of California (the “Act”), a resolution of the City authorizing the issuance of the Series 2021 Bonds and a trust agreement, dated as of _____ 1, 2021 (the “Trust Agreement”), by and between the City and U.S. Bank National Association, as trustee (the “Trustee”). The Series 2021 Bonds will be issued pursuant to the Trust Agreement (i) to refund a portion of the City’s obligations under the CalPERS Contract (as described herein) consisting of 100% of the City’s unfunded accrued actuarial liability to the California Public Employee’s Retirement System as of _____, 2021, and (ii) to pay the costs of issuance related to the Series 2021 Bonds. See “PLAN OF FINANCE” and “ESTIMATED SOURCES AND USES OF FUNDS” herein. The Series 2021 Bonds and such additional bonds, if any, are referred to herein as “Bonds.”

The Series 2021 Bonds are issuable in denominations of \$5,000 and any integral multiple thereof. Interest on the Series 2021 Bonds is payable on June 15 and December 15 of each year, commencing December 15, 2021. See “THE BONDS” herein.

The Series 2021 Bonds will be delivered in fully registered form only, and, when delivered, 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 Series 2021 Bonds. Ownership interests in the Series 2021 Bonds may be purchased in book-entry form only. Principal of, premium, if any, and interest on the Series 2021 Bonds will be paid by the Trustee to DTC or its nominee, which will in turn remit such payment to its participants for subsequent disbursement to the beneficial owners of the Series 2021 Bonds. Purchasers will not receive certificates representing Series 2021 Bonds purchased by them. Beneficial interests in the Series 2021 Bonds may be held through DTC, Clearstream or Euroclear (each as defined herein), directly as a participant or indirectly through organizations that are participants in such systems. See “THE BONDS” herein and APPENDIX G – “PROVISIONS FOR BOOK-ENTRY ONLY SYSTEM AND GLOBAL CLEARANCE PROCEDURES.”

The Series 2021 Bonds are being offered for sale in those jurisdictions in the United States of America, the European Economic Area, the United Kingdom, Switzerland, several countries in Asia, and elsewhere where it is lawful to make such offers. The distribution of this Official Statement and the offering, sale and delivery of the Series 2021 Bonds in certain jurisdictions is restricted by law. See “INFORMATION CONCERNING OFFERING RESTRICTIONS IN CERTAIN JURISDICTIONS OUTSIDE THE UNITED STATES” in the introductory section of this Official Statement.

The Series 2021 Bonds are subject to optional and mandatory sinking fund redemption, as described herein. See “THE BONDS—Redemption” herein.

The obligations of the City under the Series 2021 Bonds, including the obligation to make all payments of interest and principal when due, are obligations of the City imposed by law payable from funds to be appropriated by the City pursuant to the Public Employees’ Retirement Law, commencing with Section 20000 of the California Government Code and are absolute and unconditional, without any right of set-off or counterclaim. As provided in the Trust Agreement, all of the amounts held in the Bond Fund are pledged by the City to secure the payment of the principal or redemption price of and interest on the Bonds in accordance with their terms, the provisions of the Trust Agreement and the Act. The Bond Fund shall be funded pursuant to the terms of the Trust Agreement first, from Pension Tax Override Revenues up to the Secured Amount (each as defined herein) and second, from any other source of legally available funds of the City. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS” herein.

* Preliminary, subject to change.

MATURITY SCHEDULE
See inside front cover

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. EXCEPT TO THE EXTENT OF THE PENSION TAX OVERRIDE AS PROVIDED IN THE TRUST AGREEMENT, 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 OBLIGATION OF THE CITY TO MAKE PAYMENTS ON THE BONDS CONSTITUTE AN INDEBTEDNESS OF THE CITY, THE STATE, OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

This cover page contains information for quick reference only. It is not a summary of this issue. Potential purchasers must read the entire Official Statement to obtain information essential to making an informed investment decision.

The Series 2021 Bonds will be offered when, as and if issued, and received by the Underwriters, subject to the approval as to their validity by Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the City, and certain other conditions. KNN Public Finance, is serving as municipal advisor to the City in connection with the issuance of the Series 2021 Bonds. Certain legal matters will be passed upon for the City by Michael E. Gates, Esq., City Attorney, and by Orrick, Herrington & Sutcliffe LLP, as Disclosure Counsel. Certain legal matters will be passed on for the Underwriters by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California. It is anticipated that the Series 2021 Bonds will be available for delivery through DTC on or about _____, 2021.

Stifel

BofA Securities

Hilltop Securities

Dated: _____, 2021

MATURITY SCHEDULE*

\$ _____ Serial Bonds

CUSIP NO. PREFIX:† _____

Maturity (June 15)	Principal Amount	Interest Rate	Yield	CUSIP No. Suffix†
2022				
2023				
2024				
2025				
2026				
2027				
2028				
2029				
2030				
2031				
2032				
2033				
2034				
2035				
2036				
2037				
2038				
2039				
2040				
2041				
2042				
2043				
2044				

\$ _____ % Term Bonds due June 15, 204__ - Yield: _____% CUSIP No.† _____

* 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 the CUSIP Service Bureau, operated by Standard & Poor's, a division of The McGraw-Hill Companies, Inc. Neither the City nor the Underwriters shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

**INFORMATION CONCERNING OFFERING RESTRICTIONS
IN CERTAIN JURISDICTIONS OUTSIDE THE UNITED STATES**

REFERENCES IN UNDER THIS CAPTION TO THE “ISSUER” MEAN THE CITY OF HUNTINGTON BEACH AND REFERENCES TO “SERIES 2021 BONDS” OR “SECURITIES” MEAN THE CITY OF HUNTINGTON BEACH TAXABLE PENSION OBLIGATION BONDS, SERIES 2021.

THE INFORMATION UNDER THIS CAPTION HAS BEEN FURNISHED BY THE UNDERWRITERS, AND THE ISSUER MAKES NO REPRESENTATION AS TO THE ACCURACY, COMPLETENESS OR ADEQUACY OF THE INFORMATION UNDER THIS CAPTION.

COMPLIANCE WITH ANY RULES OR RESTRICTIONS OF ANY JURISDICTION RELATING TO THE OFFERING, SOLICITATION AND/OR SALE OF THE SERIES 2021 BONDS IS THE RESPONSIBILITY OF THE UNDERWRITERS, AND THE ISSUER SHALL NOT HAVE ANY RESPONSIBILITY OR LIABILITY IN CONNECTION THEREWITH. NO ACTION HAS BEEN TAKEN BY THE ISSUER THAT WOULD PERMIT THE OFFERING OR SALE OF THE SERIES 2021 BONDS, OR POSSESSION OR DISTRIBUTION OF THIS OFFICIAL STATEMENT OR ANY OTHER OFFERING OR PUBLICITY MATERIAL RELATING TO THE SERIES 2021 BONDS, OR ANY INFORMATION RELATING TO THE PRICING OF THE SERIES 2021 BONDS, IN ANY NON-U.S. JURISDICTION WHERE ACTION FOR THAT PURPOSE IS REQUIRED.

MINIMUM UNIT SALES

THE SERIES 2021 BONDS WILL TRADE AND SETTLE ON A UNIT BASIS (ONE UNIT EQUALING ONE SERIES 2021 BOND OF \$5,000 PRINCIPAL AMOUNT). FOR ANY SALES MADE OUTSIDE THE UNITED STATES, THE MINIMUM PURCHASE AND TRADING AMOUNT IS 30 UNITS (BEING 30 SERIES 2021 BONDS IN AN AGGREGATE PRINCIPAL AMOUNT OF \$150,000).

NOTICE TO PROSPECTIVE INVESTORS IN CANADA

THE SERIES 2021 BONDS MAY BE SOLD ONLY TO PURCHASERS PURCHASING, OR DEEMED TO BE PURCHASING, AS PRINCIPAL THAT ARE ACCREDITED INVESTORS, AS DEFINED IN NATIONAL INSTRUMENT 45-106 PROSPECTUS EXEMPTIONS OR SUBSECTION 73.3(1) OF THE SECURITIES ACT (ONTARIO), AND ARE PERMITTED CLIENTS, AS DEFINED IN NATIONAL INSTRUMENT 31-103 REGISTRATION REQUIREMENTS, EXEMPTIONS AND ONGOING REGISTRANT OBLIGATIONS. ANY RESALE OF THE SERIES 2021 BONDS MUST BE MADE IN ACCORDANCE WITH AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE PROSPECTUS REQUIREMENTS OF APPLICABLE SECURITIES LAWS.

SECURITIES LEGISLATION IN CERTAIN PROVINCES OR TERRITORIES OF CANADA MAY PROVIDE A PURCHASER WITH REMEDIES FOR RESCISSION OR DAMAGES IF THIS OFFICIAL STATEMENT (INCLUDING ANY AMENDMENT THERETO) CONTAINS A MISREPRESENTATION, PROVIDED THAT THE REMEDIES FOR RESCISSION OR DAMAGES ARE EXERCISED BY THE PURCHASER WITHIN THE TIME LIMIT PRESCRIBED BY THE SECURITIES LEGISLATION OF THE PURCHASER’S PROVINCE OR TERRITORY. THE PURCHASER SHOULD REFER TO ANY APPLICABLE PROVISIONS OF THE SECURITIES LEGISLATION OF THE PURCHASER’S PROVINCE OR TERRITORY FOR PARTICULARS OF THESE RIGHTS OR CONSULT WITH A LEGAL ADVISOR.

PURSUANT TO SECTION 3A.3 (OR, IN THE CASE OF SECURITIES ISSUED OR GUARANTEED BY THE GOVERNMENT OF A NON-CANADIAN JURISDICTION, SECTION 3A.4) OF NATIONAL INSTRUMENT 33-105 UNDERWRITING CONFLICTS (“NI 33-105”), THE UNDERWRITERS ARE NOT REQUIRED TO COMPLY WITH THE DISCLOSURE REQUIREMENTS OF NI 33-105 REGARDING UNDERWRITER CONFLICTS OF INTEREST IN CONNECTION WITH THIS OFFERING.

**NOTICE TO PROSPECTIVE INVESTORS IN
THE EUROPEAN ECONOMIC AREA AND THE UNITED KINGDOM**

THIS OFFICIAL STATEMENT HAS BEEN PREPARED ON THE BASIS THAT ALL OFFERS OF THE SECURITIES TO ANY PERSON THAT IS LOCATED WITHIN A MEMBER STATE OF THE EUROPEAN ECONOMIC AREA (“EEA”) OR THE UNITED KINGDOM WILL BE MADE PURSUANT TO AN EXEMPTION UNDER ARTICLE 1(4) REGULATION (EU) 2017/1129 (THE “PROSPECTUS REGULATION”) FROM THE REQUIREMENT TO PRODUCE A PROSPECTUS FOR OFFERS OF THE SECURITIES. ACCORDINGLY, ANY PERSON MAKING OR INTENDING TO MAKE ANY OFFER TO ANY PERSON LOCATED WITHIN A MEMBER STATE OF THE EEA OR THE UNITED

KINGDOM OF THE SECURITIES SHOULD ONLY DO SO IN CIRCUMSTANCES IN WHICH NO OBLIGATION ARISES FOR THE ISSUER OR ANY OF THE INITIAL PURCHASERS TO PRODUCE A PROSPECTUS OR SUPPLEMENT FOR SUCH AN OFFER. NEITHER THE ISSUER NOR THE INITIAL PURCHASERS HAVE AUTHORIZED, NOR DO THEY AUTHORIZE, THE MAKING OF ANY OFFER OF SECURITIES THROUGH ANY FINANCIAL INTERMEDIARY, OTHER THAN OFFERS MADE BY THE INITIAL PURCHASERS, WHICH CONSTITUTE THE FINAL PLACEMENT OF THE SECURITIES CONTEMPLATED IN THIS OFFICIAL STATEMENT.

THE OFFER OF ANY SECURITIES WHICH IS THE SUBJECT OF THE OFFERING CONTEMPLATED BY THIS OFFICIAL STATEMENT IS NOT BEING MADE AND WILL NOT BE MADE TO THE PUBLIC IN ANY MEMBER STATE OF THE EEA OR THE UNITED KINGDOM, OTHER THAN: (A) TO ANY LEGAL ENTITY WHICH IS A “QUALIFIED INVESTOR” AS SUCH TERM IS DEFINED IN THE PROSPECTUS REGULATION; (B) TO FEWER THAN 150 NATURAL OR LEGAL PERSONS (OTHER THAN “QUALIFIED INVESTORS” AS SUCH TERM IS DEFINED IN THE PROSPECTUS REGULATION); OR (C) IN ANY OTHER CIRCUMSTANCES FALLING WITHIN ARTICLE 1(4) OF THE PROSPECTUS REGULATION, SUBJECT TO OBTAINING THE PRIOR CONSENT OF THE RELEVANT UNDERWRITER FOR ANY SUCH OFFER; PROVIDED THAT NO SUCH OFFER OF THE SECURITIES SHALL REQUIRE THE ISSUER OR THE INITIAL PURCHASERS TO PUBLISH A PROSPECTUS PURSUANT TO ARTICLE 3 OF THE PROSPECTUS REGULATION OR A SUPPLEMENT TO A PROSPECTUS PURSUANT TO ARTICLE 23 OF THE PROSPECTUS REGULATION.

FOR THE PURPOSES OF THIS PROVISION, THE EXPRESSION AN “OFFER OF SECURITIES TO THE PUBLIC” IN RELATION TO THE SECURITIES IN ANY MEMBER STATE OF THE EEA OR THE UNITED KINGDOM MEANS THE COMMUNICATION IN ANY FORM AND BY ANY MEANS OF SUFFICIENT INFORMATION ON THE TERMS OF THE OFFER AND THE SECURITIES TO BE OFFERED SO AS TO ENABLE AN INVESTOR TO DECIDE TO PURCHASE THE SECURITIES.

EACH SUBSCRIBER FOR OR PURCHASER OF THE SERIES 2021 BONDS IN THE OFFERING LOCATED WITHIN A MEMBER STATE OR THE UNITED KINGDOM WILL BE DEEMED TO HAVE REPRESENTED, ACKNOWLEDGED AND AGREED THAT IT IS A “QUALIFIED INVESTOR” AS DEFINED IN THE PROSPECTUS REGULATION. THE ISSUER AND EACH UNDERWRITER AND OTHERS WILL RELY ON THE TRUTH AND ACCURACY OF THE FOREGOING REPRESENTATION, ACKNOWLEDGEMENT AND AGREEMENT.

PROHIBITION OF SALES TO EEA OR THE UNITED KINGDOM RETAIL INVESTORS – THE SERIES 2021 BONDS ARE NOT INTENDED TO BE OFFERED, SOLD OR OTHERWISE MADE AVAILABLE TO AND SHOULD NOT BE OFFERED, SOLD OR OTHERWISE MADE AVAILABLE TO ANY RETAIL INVESTOR IN THE EEA OR IN THE UNITED KINGDOM. FOR THESE PURPOSES, A RETAIL INVESTOR MEANS A PERSON WHO IS ONE (OR MORE) OF: (I) A RETAIL CLIENT AS DEFINED IN POINT (11) OF ARTICLE 4(1) OF DIRECTIVE 2014/65/EU (AS AMENDED, “MIFID II”); OR (II) A CUSTOMER WITHIN THE MEANING OF DIRECTIVE (EU) 2016/97 (THE “INSURANCE DISTRIBUTION DIRECTIVE”), WHERE THAT CUSTOMER WOULD NOT QUALIFY AS A PROFESSIONAL CLIENT AS DEFINED IN POINT (10) OF ARTICLE 4(1) OF MIFID II. CONSEQUENTLY NO KEY INFORMATION DOCUMENT REQUIRED BY REGULATION (EU) NO 1286/2014 (THE “PRIIPS REGULATION”) FOR OFFERING OR SELLING THE SERIES 2021 BONDS OR OTHERWISE MAKING THEM AVAILABLE TO RETAIL INVESTORS IN THE EEA OR IN THE UNITED KINGDOM HAS BEEN PREPARED AND THEREFORE OFFERING OR SELLING THE SERIES 2021 BONDS OR OTHERWISE MAKING THEM AVAILABLE TO ANY RETAIL INVESTOR IN THE EEA OR IN THE UNITED KINGDOM MAY BE UNLAWFUL UNDER THE PRIIPS REGULATION.

NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED KINGDOM

THIS OFFICIAL STATEMENT IS FOR DISTRIBUTION ONLY TO, AND IS DIRECTED SOLELY AT, PERSONS WHO (I) ARE OUTSIDE THE UNITED KINGDOM, (II) ARE INVESTMENT PROFESSIONALS, AS SUCH TERM IS DEFINED IN ARTICLE 19(5) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005, AS AMENDED (THE “FINANCIAL PROMOTION ORDER”), (III) ARE PERSONS FALLING WITHIN ARTICLE 49(2)(A) TO (D) OF THE FINANCIAL PROMOTION ORDER, OR (IV) ARE PERSONS TO WHOM AN INVITATION OR INDUCEMENT TO ENGAGE IN INVESTMENT ACTIVITY (WITHIN THE MEANING OF SECTION 21 OF THE FINANCIAL SERVICES AND MARKETS ACT 2000) IN CONNECTION WITH THE ISSUE OR SALE OF ANY SERIES 2021 BONDS MAY OTHERWISE BE LAWFULLY COMMUNICATED OR CAUSED TO BE COMMUNICATED (ALL SUCH PERSONS TOGETHER BEING REFERRED TO AS “RELEVANT PERSONS”). THIS OFFICIAL STATEMENT IS DIRECTED ONLY AT RELEVANT PERSONS AND MUST NOT BE ACTED ON OR RELIED ON BY PERSONS WHO ARE NOT RELEVANT PERSONS. ANY INVESTMENT OR INVESTMENT ACTIVITY TO WHICH THIS OFFICIAL STATEMENT RELATES IS AVAILABLE ONLY TO RELEVANT PERSONS AND WILL BE ENGAGED IN ONLY WITH RELEVANT PERSONS. ANY PERSON WHO IS NOT A RELEVANT PERSON SHOULD NOT ACT OR RELY ON THIS OFFICIAL STATEMENT OR ANY OF ITS CONTENTS.

NOTICE TO PROSPECTIVE INVESTORS IN SWITZERLAND

THE SERIES 2021 BONDS MAY NOT BE PUBLICLY OFFERED, DIRECTLY OR INDIRECTLY, IN SWITZERLAND WITHIN THE MEANING OF THE SWISS FINANCIAL SERVICES ACT (THE “FINSA”), AND NO APPLICATION HAS BEEN OR WILL BE MADE TO ADMIT THE SERIES 2021 BONDS TO TRADING ON ANY TRADING VENUE (EXCHANGE OR MULTILATERAL TRADING FACILITY) IN SWITZERLAND. NEITHER THIS OFFICIAL STATEMENT NOR ANY OTHER OFFERING OR MARKETING MATERIAL RELATING TO THE SERIES 2021 BONDS (1) CONSTITUTES A PROSPECTUS PURSUANT TO THE FINSA OR (2) HAS BEEN OR WILL BE FILED WITH OR APPROVED BY A SWISS REVIEW BODY PURSUANT TO ARTICLE 52 OF THE FINSA, AND NEITHER THIS OFFICIAL STATEMENT NOR ANY OTHER OFFERING OR MARKETING MATERIAL RELATING TO THE SERIES 2021 BONDS MAY BE PUBLICLY DISTRIBUTED OR OTHERWISE MADE PUBLICLY AVAILABLE IN SWITZERLAND.

NOTICE TO PROSPECTIVE INVESTORS IN HONG KONG

WARNING. THE CONTENTS OF THIS OFFICIAL STATEMENT HAVE NOT BEEN REVIEWED BY ANY REGULATORY AUTHORITY IN HONG KONG. YOU ARE ADVISED TO EXERCISE CAUTION IN RELATION TO THE OFFER OF THE SERIES 2021 BONDS. IF YOU ARE IN ANY DOUBT ABOUT ANY OF THE CONTENTS OF THIS DOCUMENT, YOU SHOULD OBTAIN INDEPENDENT PROFESSIONAL ADVICE.

THIS DOCUMENT HAS NOT BEEN, AND WILL NOT BE, REGISTERED AS A PROSPECTUS IN HONG KONG NOR HAS IT BEEN APPROVED BY THE SECURITIES AND FUTURES COMMISSION OF HONG KONG PURSUANT TO THE SECURITIES AND FUTURES ORDINANCE (CHAPTER 571 OF THE LAWS OF HONG KONG) (“SFO”). THE SERIES 2021 BONDS MAY NOT BE OFFERED OR SOLD IN HONG KONG BY MEANS OF THIS DOCUMENT OR ANY OTHER DOCUMENT, AND THIS DOCUMENT MUST NOT BE ISSUED, CIRCULATED OR DISTRIBUTED IN HONG KONG, OTHER THAN TO ‘PROFESSIONAL INVESTORS’ AS DEFINED IN THE SFO AND ANY RULES MADE THEREUNDER. IN ADDITION, NO PERSON MAY ISSUE OR HAVE IN ITS POSSESSION FOR THE PURPOSES OF ISSUE, WHETHER IN HONG KONG OR ELSEWHERE, ANY ADVERTISEMENT, INVITATION OR DOCUMENT RELATING TO THE SERIES 2021 BONDS, WHICH IS DIRECTED AT, OR THE CONTENTS OF WHICH ARE LIKELY TO BE ACCESSED OR READ BY, THE PUBLIC OF HONG KONG (EXCEPT IF PERMITTED TO DO SO UNDER THE SECURITIES LAWS OF HONG KONG) OTHER THAN WITH RESPECT TO SERIES 2021 BONDS WHICH ARE OR ARE INTENDED TO BE DISPOSED OF ONLY (A) TO PERSONS OUTSIDE HONG KONG, OR (B) TO ‘PROFESSIONAL INVESTORS’ AS DEFINED IN THE SFO AND ANY RULES MADE THEREUNDER.

NOTICE TO PROSPECTIVE INVESTORS IN JAPAN

THE SERIES 2021 BONDS HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER ARTICLE 4, PARAGRAPH 1 OF THE FINANCIAL INSTRUMENTS AND EXCHANGE ACT OF JAPAN (ACT NO.25 OF 1948, AS AMENDED THE “FIEA”). IN RELIANCE UPON THE EXEMPTION FROM THE REGISTRATION REQUIREMENTS SINCE THE OFFERING CONSTITUTES THE PRIVATE PLACEMENT TO QUALIFIED INSTITUTIONAL INVESTORS ONLY AS PROVIDED FOR IN “I” OF ARTICLE 2, PARAGRAPH 3, ITEM 2 OF THE FIEA. A TRANSFEROR OF THE SERIES 2021 BONDS SHALL NOT TRANSFER OR RESELL THEM EXCEPT WHERE A TRANSFEREE IS A QUALIFIED INSTITUTIONAL INVESTORS AS DEFINED UNDER ARTICLE 10 OF THE CABINET OFFICE ORDINANCE CONCERNING DEFINITIONS PROVIDED IN ARTICLE 2 OF THE FIEA (THE MINISTRY OF FINANCE ORDINANCE NO.14 OF 1993, AS AMENDED).

NOTICE TO PROSPECTIVE INVESTORS IN SOUTH KOREA

THIS OFFICIAL STATEMENT IS NOT, AND UNDER NO CIRCUMSTANCES IS TO BE CONSIDERED AS, A PUBLIC OFFERING OF SECURITIES IN SOUTH KOREA FOR THE PURPOSES OF THE FINANCIAL INVESTMENT SERVICES AND CAPITAL MARKETS ACT OF KOREA. THE SERIES 2021 BONDS HAVE NOT BEEN AND WILL NOT BE REGISTERED WITH THE FINANCIAL SERVICES COMMISSION OF SOUTH KOREA FOR PUBLIC OFFERING IN SOUTH KOREA UNDER THE FINANCIAL INVESTMENT SERVICES AND CAPITAL MARKETS ACT AND ITS SUBORDINATE DECREES AND REGULATIONS (COLLECTIVELY, THE “FSCMA”). THE SERIES 2021 BONDS MAY NOT BE OFFERED, REMARKETED, SOLD OR DELIVERED, DIRECTLY OR INDIRECTLY, OR OFFERED, REMARKETED OR SOLD TO ANY PERSON FOR RE-OFFERING OR RESALE, DIRECTLY OR INDIRECTLY, IN SOUTH KOREA OR TO ANY RESIDENT OF SOUTH KOREA (AS DEFINED IN THE FOREIGN EXCHANGE TRANSACTIONS LAW OF SOUTH KOREA AND ITS SUBORDINATE DECREES AND REGULATIONS (COLLECTIVELY, THE “FETL”)) WITHIN ONE YEAR OF THE ISSUANCE OF THE SERIES 2021 BONDS, EXCEPT AS OTHERWISE PERMITTED UNDER APPLICABLE SOUTH KOREAN LAWS AND REGULATIONS, INCLUDING THE FSCMA AND THE FETL.

NOTICE TO PROSPECTIVE INVESTORS IN TAIWAN

THE SERIES 2021 BONDS HAVE NOT BEEN AND WILL NOT BE REGISTERED OR FILED WITH, OR APPROVED BY THE FINANCIAL SUPERVISORY COMMISSION OF TAIWAN, THE REPUBLIC OF CHINA ("TAIWAN") AND/OR OTHER REGULATORY AUTHORITY OR AGENCY OF TAIWAN PURSUANT TO RELEVANT SECURITIES LAWS AND REGULATIONS OF TAIWAN AND MAY NOT BE ISSUED, OFFERED, OR SOLD IN TAIWAN THROUGH A PUBLIC OFFERING OR IN CIRCUMSTANCES WHICH CONSTITUTE AN OFFER WITHIN THE MEANING OF THE SECURITIES AND EXCHANGE ACT OF TAIWAN OR RELEVANT LAWS AND REGULATIONS THAT REQUIRES A REGISTRATION, FILING OR APPROVAL OF THE FINANCIAL SUPERVISORY COMMISSION AND/OR OTHER REGULATORY AUTHORITY OR AGENCY OF TAIWAN. THE SERIES 2021 BONDS MAY BE MADE AVAILABLE OUTSIDE TAIWAN FOR PURCHASE OUTSIDE TAIWAN BY INVESTORS RESIDING IN TAIWAN DIRECTLY, BUT MAY NOT BE OFFERED OR SOLD IN TAIWAN EXCEPT TO QUALIFIED INVESTORS VIA A TAIWAN LICENSED INTERMEDIARY TO THE EXTENT PERMITTED BY APPLICABLE LAWS OR REGULATIONS.

CITY OF HUNTINGTON BEACH

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CITY COUNCIL

Kim Carr, *Mayor*
Tito Ortiz, *Mayor Pro-Tem*
Barbara Delgleize, *Member*
Dan Kalmick, *Member*
Natalie Moser, *Member*
Erik Peterson, *Member*
Mike Posey, *Member*

CITY STAFF

Oliver Chi, *City Manager*
Travis Hopkins, *Assistant City Manager*
Robin Estanislau, *City Clerk*
Michael E. Gates, *City Attorney*
Alisa Backstrom, *City Treasurer*
Joyce Zacks, *Deputy City Treasurer*
Dahle Bulosan, *Chief Financial Officer*
Sunny Rief, *Assistant Chief Financial Officer*

SPECIAL SERVICES

Bond Counsel and Disclosure Counsel

Orrick, Herrington & Sutcliffe LLP
Los Angeles, California

Municipal Advisor

KNN Public Finance
Los Angeles, California

Trustee

U.S. Bank National Association
Los Angeles, California

No dealer, broker, salesperson or other person has been authorized by the City or the Underwriters to give any information or to make any representations other than as set forth herein and, if given or made, such other information or representation must not be relied upon as having been authorized by the City or the Underwriters. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Series 2021 Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the Series 2021 Bonds. Statements contained in this Official Statement that 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 facts.

The information set forth in this Official Statement has been obtained from official sources and other sources that are believed to be reliable, but it is not guaranteed as to accuracy or completeness, and is not to be construed as a representation of the Underwriters. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances 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 Series 2021 Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. The Underwriters have provided the following sentence for inclusion in this Official Statement: The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

This Official Statement contains forward-looking statements within the meaning of the Federal securities laws. Such statements are based on currently available information, expectations, estimates, assumptions, projections and general economic conditions. Such words as expects, intends, plans, believes, estimates, anticipates or variations of such words or similar expressions are intended to identify forward-looking statements and include, but are not limited to, statements under the captions "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS," "CITY FINANCIAL INFORMATION" and "OTHER FINANCIAL INFORMATION." The forward-looking statements are not guarantees of future performance. Actual results may vary materially from what is contained in a forward-looking statement. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. No assurance is given that actual results will meet the City's forecasts in any way, regardless of the level of optimism communicated in the information. The City assumes no obligation to provide public updates of forward-looking statements.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2021 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING TRANSACTIONS, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITERS MAY OFFER AND SELL THE SERIES 2021 BONDS TO CERTAIN DEALERS AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE INSIDE COVER PAGE OF THIS OFFICIAL STATEMENT, AND SUCH PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS.

CUSIP data herein is provided by the CUSIP Service Bureau, operated by Standard & Poor's, a division of The McGraw-Hill Companies, Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services Bureau. 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 Series 2021 Bonds. Neither the City nor the Underwriters is responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the Series 2021 Bonds or as included herein. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Series 2021 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 Series 2021 Bonds.

The City maintains a website, however, the information presented therein is not a part of this Official Statement and should not be relied on in making an investment decision with respect to the Series 2021 Bonds.

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OFFICIAL STATEMENT

§ _____ *

CITY OF HUNTINGTON BEACH (ORANGE COUNTY, CALIFORNIA) TAXABLE PENSION OBLIGATION BONDS, SERIES 2021

INTRODUCTION

The following introduction presents a brief description of certain information in connection with the Series 2021 Bonds (as defined below) and is qualified in its entirety by reference to the entire Official Statement and the documents summarized or described herein. References to, and summaries of, provisions of the Constitution and the laws of the State of California (the “State”) and any documents referred to herein do not purport to be complete and such references are qualified in their entirety by reference to the complete provisions thereof. Capitalized terms used in this Official Statement and not defined elsewhere herein have the meanings given such terms in the Trust Agreement (as defined below). See APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF THE TRUST AGREEMENT—Definitions.”

General Description

This Official Statement, including the cover page, the inside cover page and the attached appendices (this “Official Statement”), provides certain information concerning the issuance of \$_____ aggregate principal amount of Taxable Pension Obligation Bonds, Series 2021 (the “Series 2021 Bonds”). The Series 2021 Bonds are being issued by the City of Huntington Beach (the “City”), pursuant to Articles 10 and 11 (commencing with Section 53570) of Chapter 3 of Division 2 of Title 5 of the Government Code of the State of California (the “State”), a resolution of the City authorizing the issuance of the Series 2021 Bonds and a trust agreement, dated as of _____ 1, 2021 (the “Trust Agreement”), by and between the City and U.S. Bank National Association, as trustee (the “Trustee”).

Pursuant to its contract with respect to the City’s Safety Plan and the City’s Miscellaneous Plan, effective October 1, 1945 (as amended to date, and as may further be amended from time to time, the “CalPERS Contract”) with the Board of Administration of the California Public Employee’s Retirement System (“CalPERS” or the “System”) and Section 20000 *et seq.* of the State Government Code (the “Retirement Law”), the City is obligated to make payments to CalPERS arising as a result of retirement benefits accruing to members of CalPERS. The City’s obligations under the Retirement Law include, among others, the requirement to amortize the unfunded accrued actuarial liability (the “UAAL”) with respect to such retirement benefits. The Series 2021 Bonds will be issued pursuant to the Trust Agreement (i) to refund a portion of the City’s obligations to the System under the CalPERS Contract (as described herein) consisting of 100% of the City’s UAAL to the System as of _____, 2021, and (ii) to pay the costs of issuance related to the Series 2021 Bonds. See “PLAN OF FINANCE” and “ESTIMATED SOURCES AND USES OF FUNDS” herein.

The City levies an annual retirement tax to meet its obligations under the CalPERS Contract — a provision in the City Charter since 1966 (the “Pension Tax Override”). The proceeds of such tax will be held by the City in a designated fund established for the Pension Tax Override (the “Pension Liability Debt Service Fund”). While not pledged to the payment of the Bonds, the City has covenanted in the Trust Agreement to make deposits to the Bond Fund first, from Pension Tax Override Revenues up to the

* Preliminary, subject to change.

Secured Amount (each as defined herein) and second, from any other source of legally available funds of the City, to be applied at its discretion. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS” herein.

Terms of the Series 2021 Bonds

The Series 2021 Bonds will mature on the dates and in the principal amounts set forth on the inside cover page of this Official Statement. Interest on the Series 2021 Bonds is payable semiannually on each June 15 and December 15 (each, an “Interest Payment Date”), commencing December 15, 2021, computed at the respective rates of interest set forth on the inside cover page of this Official Statement. The Series 2021 Bonds will be issuable in denominations of \$5,000 or any integral multiple thereof. The Series 2021 Bonds are subject to optional and extraordinary redemption as described herein. See “THE BONDS.”

Book-Entry Only

The Depository Trust Company, New York, New York (“DTC”). DTC will act as the depository of the Series 2021 Bonds and all payments due on the Series 2021 Bonds will be made to DTC or its nominee. Ownership interests in the Series 2021 Bonds may be purchased in book-entry form only. Beneficial interests in the Series 2021 Bonds may be held through DTC, DTC, Clearstream International S.A., a Deutsche Börse Group company, as operator of the Clearstream system (“Clearstream”), or Euroclear S.A./N.V., a bank organized under the laws of the Kingdom of Belgium, as operator of the Euroclear system (“Euroclear”), directly as a participant or indirectly through organizations that are participants in such system. See APPENDIX G – “PROVISIONS FOR BOOK-ENTRY ONLY SYSTEM AND GLOBAL CLEARANCE PROCEDURES” for a description of DTC, Clearstream, Euroclear, and certain of their responsibilities, and the provisions for registration and registration of transfer of the Series 2021 Bonds if the book-entry-only system of registration is discontinued.

Security and Sources of Payment for the Series 2021 Bonds

The obligations of the City under the Series 2021 Bonds, including the obligation to make all payments of interest and principal when due, are obligations of the City imposed by law payable from funds to be appropriated by the City pursuant to the Public Employees’ Retirement Law, commencing with Section 20000 of the California Government Code (the “Retirement Law”) and are absolute and unconditional, without any right of set-off or counterclaim. The Trust Agreement provides for the establishment and maintenance in trust a special fund designated the “Bond Fund.” Also in the Trust Agreement, the City has covenanted to establish and maintain the Pension Liability Debt Service Fund. Subject only to the provisions of the Trust Agreement permitting the application thereof for the purposes and on the terms and conditions set forth therein, all of the amounts held in the Bond Fund are pledged by the City to secure the payment of the principal or redemption price of and interest on the Bonds in accordance with their terms, the provisions of the Trust Agreement and the Act. As described herein, the Bond Fund shall be funded pursuant to the terms of the Trust Agreement first, from Pension Tax Override Revenues up to the Secured Amount (each as defined herein) and second, from any other source of legally available funds of the City.

Pursuant to the Trust Agreement, not later than five (5) Business Days prior to each Interest Payment Date, the City is obligated to deposit or cause to be deposited with the Trustee for deposit into the Bond Fund the amount which will equal the amount of the principal of and interest on the Bonds coming due on such Interest Payment Date. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS” herein.

In the June 1978 election in which state voters approved Proposition 13, Huntington Beach voters approved a City Charter amendment allowing the City to participate in any retirement system, rather than only the State-run system. The Charter amendment also permitted the City to impose property taxes to meet its obligations for the retirement system — a provision in the City Charter since 1966. California courts have held that Proposition 13, discussed below under the heading “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS,” permits additional property taxation to pay for pension plans with special tax authority approved by voters prior to July 1, 1978; provided the imposition of such tax is limited to the funding of employee retirement benefits at a level not in excess of the retirement benefits in existence prior to July 1, 1978 (the “Pre-Proposition 13 Pension Liability”). The City applies Pension Tax Override revenues to pay obligations under the City’s Safety Plan. An independent actuary, Bartel Associates, LLC (“Bartel”) has certified that 89% of the Safety Plan’s current UAAL constitutes Pre-Proposition 13 Pension Liability under the CalPERS Contract.

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. EXCEPT TO THE EXTENT OF THE PENSION TAX OVERRIDE AS PROVIDED IN THE TRUST AGREEMENT, 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 OBLIGATION OF THE CITY TO MAKE PAYMENTS ON THE BONDS CONSTITUTE AN INDEBTEDNESS OF THE CITY, THE STATE, OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

No Reserve Fund

The City has not funded a reserve fund in connection with the issuance of the Series 2021 Bonds.

Validation

The authorization by the City of the issuance of the Series 2021 Bonds as obligations of the City imposed by law, and as to the validity and conformity of the Series 2021 Bonds with all applicable provisions of law, were validated by a judgment of the Superior Court of the State of California in and for the County of Orange entered on May 18, 2020. The time period for the filing of appeals with respect to the judgment has expired. No appeals were filed and therefore, the judgment is final. See “VALIDATION” herein.

The City

The City is a municipal corporation and chartered city of the State. See “THE CITY,” “CITY FINANCIAL INFORMATION” and APPENDIX A – “GENERAL, ECONOMIC AND DEMOGRAPHIC INFORMATION RELATING TO THE CITY.”

As discussed under the caption “CERTAIN RISK FACTORS – Infectious Disease Outbreak – COVID-19”, the finances and operations of the City have been and will continue to be impacted by COVID-19. Particular financial impacts have hit the City’s sales tax revenues and transient occupancy tax revenues. However, the City has been proactive in its planning. The City budget for fiscal year 2020-21 was introduced on June 1, 2020 and adopted on June 29, 2020. Of particular note, the General Fund budget is structurally balanced, with no reliance on one-time revenues to balance the budget.

Continuing Disclosure

The City has covenanted in the Continuing Disclosure Certificate (the “Continuing Disclosure Certificate”) to provide, or cause to be provided, to the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access system (the “EMMA System”), for purposes of Rule 15c2-12(b)(5) (the “Rule”) adopted by the U.S. Securities and Exchange Commission (the “SEC”) under the Securities Exchange Act of 1934, as amended, certain annual financial information and operating data of the type set forth herein including, but not limited to, its audited financial statements and notice of certain enumerated events. See “CONTINUING DISCLOSURE.” See also APPENDIX F – “FORM OF CONTINUING DISCLOSURE CERTIFICATE” for a description of the specific nature of the annual report and notices of enumerated events and a summary description of the terms of the Continuing Disclosure Certificate pursuant to which such reports and notices are to be made.

Certain Risk Factors

Certain events could affect the ability of the City to pay debt service on the Series 2021 Bonds when due. See “CERTAIN RISK FACTORS” for a discussion of certain factors that should be considered, in addition to other matters set forth herein, in evaluating an investment in the Series 2021 Bonds.

Forward-Looking Statements

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements.” Such statements are generally identifiable by the terminology used such as “plan,” “expect,” “estimate,” “budget” or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Although such expectations reflected in such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. The City is not obligated to issue any updates or revisions to the forward-looking statements if, or when, its expectations, or events, conditions or circumstances on which such statements are based change.

Other Information

The descriptions herein of the Trust Agreement and any other agreements relating to the Series 2021 Bonds are qualified in their entirety by reference to such documents, and the descriptions herein of the Series 2021 Bonds are qualified in their entirety by the forms thereof and the information with respect thereto included in the aforementioned documents. See APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF THE TRUST AGREEMENT.” Copies of the documents are on file and, upon request and payment to the City of a charge for copying, mailing and handling, from the Chief Financial Officer, City of Huntington Beach, 2000 Main Street, Huntington Beach, CA 92648, telephone (714) 536-5630.

The information and expressions of opinion herein speak only as of their date and are subject to change without notice. Neither the delivery of this Official Statement nor any sale made hereunder nor any future use of this Official Statement, under any circumstances, creates any implication that there has been no change in the affairs of the City since the date hereof.

The presentation of information, including tables of receipt of revenues, is intended to show recent historical information and is not intended to indicate future or continuing trends in the financial

position or other affairs of the City. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue or be repeated in the future.

PLAN OF FINANCE

General

The Series 2021 Bonds are being issued to: (i) to refund a portion of the City's obligations to CalPERS under the CalPERS Contract consisting of 100% of the City's UAAL to the California Public Employee's Retirement System as of _____, 2021 (the "Unfunded Liability") and (ii) to pay the costs of issuance related to the Series 2021 Bonds. See "ESTIMATED SOURCES AND USES OF FUNDS" herein.

CalPERS has notified the City as to the amount of the Unfunded Liability based on the June 30, 2019 actuarial valuations, which are the most recent actuarial valuations performed by CalPERS for the City's Miscellaneous Plan and Safety Plan. Based on the June 30, 2019 actuarial valuation as reported by CalPERS to the City, CalPERS has projected the City's total UAAL to be \$[426,388,332] as of [April 1, 2021], consisting of \$[156,228,555] with respect to the City's Miscellaneous Plan and \$[270,159,777] with respect to the City's Safety Plan. The Series 2021 Bonds are being issued to refund 100 percent of the Unfunded Liability. With this deposit, the City will have fully funded its Unfunded Liability and will not be required to make any further payments to CalPERS with respect to the Unfunded Liability refinanced by the Series 2021 Bonds. It is possible that CalPERS will determine at a future date that an additional unfunded liability exists that is attributable to the City if actual plan experience differs from the current actuarial estimates.

CalPERS has confirmed the calculation of the City's total UAAL to be \$[426,388,322] as of the date of delivery of the Series 2021 Bonds. See "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS – Pension Tax Override Revenues" herein. The City's obligations under the CalPERS Contract are, and the City's obligations with respect to the Series 2021 Bonds upon issuance, including the obligation to make all payments of interest and principal when due, will be obligations of the City imposed by law and are absolute and unconditional, without any right of set-off or counterclaim.

Report of Independent Actuary

On June 6, 1978, California voters approved an amendment (commonly known as both Proposition 13 and the Jarvis-Gann Initiative) to the California Constitution. California courts have held that Proposition 13 added certain limits to the levy of taxes and valuation of property, but permits additional property taxation to pay for pension plans with special tax authority approved by voters prior to July 1, 1978; provided the imposition of such tax is limited to the funding of safety employee retirement benefits at a level not in excess of the retirement benefits in existence prior to July 1, 1978 (the "Pre-Proposition 13 Pension Liability"). In determining and confirming the amount of the Secured Amount available to pay debt service on an amount of the Series 2021 Bonds, the City engaged Bartel to review the cost of its CalPERS Plans, the City's unfunded liability and the application of the Pension Tax Override to pay for benefits either contracted for or effective before July 1, 1978. At that time, the retirement benefit was set at 2% @ 50 for benefits under the Safety Fire Plan, and ½ Pay @ 55* for

* The ½ Pay @ 55 formula provides a benefit of ½ pay to employees retiring at age 55 or later with 20 or more years of service. The retirement benefit is lower for retirement before age 55. For retirements with 20 or fewer years of service retiring at age 55 or later, the equivalent benefit factor is 2.5% for each year of service. The benefit factor is lower for those with more service or retiring before age 55.

benefits under the Police and other Safety Plan, The only Safety benefit improvement effective after July 1, 1978 that affect the City’s CalPERS contribution rates has been 2% @ 50 for Police and other Safety, 3% @50 for all Safety. Bartel identified four possible methods to determine the cost of benefit improvements made after July 1, 1978: (1) Short Term Cash Flow, (2) Normal Cost, (3) Use No (or Limited) Excess Assets, and (4) Use A Portion of Excess Assets. Bartel recommended that the only possible method that the City has sufficient and reliable information to perform a reasonable estimate is the Normal Cost method. This method is based on CalPERS Contract Amendment Analysis. The information suggests the best and most reasonable, long term indicator of cost is the change in Normal Cost due to the benefit improvements. By application of the Pension Tax Override to pay for benefits either contracted for or effective before July 1, 1978, the estimated June 30, 2019 unfunded actuarial liability of the Safety Plan attributable to benefits contracted for or effective before July 1, 1978 is [\$240.4] million or 89% of total unfunded actuarial liability of the Safety Plan. See “SECURITY AND SOURCE OF PAYMENT FOR THE BONDS – Pension Tax Override Revenues” herein.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds realized upon the sale of, or in connection with, the Series 2021 Bonds are as follows:

Estimated Sources:

Principal Amount of Series 2021 Bonds

Total Sources

Estimated Uses:

Funding of the Unfunded Liability⁽¹⁾

Costs of Issuance⁽²⁾

Total Uses

⁽¹⁾ See “PLAN OF FINANCE.”

⁽³⁾ Includes, but is not limited to, the Underwriters’ discount, the fees and expenses of Bond Counsel, Disclosure Counsel, the Municipal Advisor, the Trustee, the Actuary, and the rating agencies, costs of printing the Official Statement, and other costs incurred by the City in connection with the issuance and delivery of the Series 2021 Bonds.

THE BONDS

General

The Series 2021 Bonds will be issued only in fully registered form, in denominations of \$5,000 and any integral multiple thereof and will mature on the dates and in the principal amounts and bear interest at the rates (based on a 360-day year of twelve 30-day months) set forth on the inside front cover hereof. Interest on the Series 2021 Bonds will be payable semiannually on June 15 and December 15 of each year, commencing December 15, 2021 (each, an “Interest Payment Date”).

The Series 2021 Bonds will each be dated their date of original delivery, issued in fully registered form, without coupons, 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 Series 2021 Bonds. Ownership interests in the Series 2021 Bonds may be purchased in book-entry form only. Purchasers will not receive certificates representing Series 2021 Bonds purchased by them. Beneficial interests in the Series 2021 Bonds may be held through DTC, Clearstream or Euroclear as operator of the Euroclear System, directly as a participant or indirectly through organizations that are

participants in such systems. See APPENDIX G – “PROVISIONS FOR BOOK-ENTRY ONLY SYSTEM AND GLOBAL CLEARANCE PROCEDURES.” Payments of principal of, premium, if any, and interest on the Series 2021 Bonds will be paid by the Trustee to DTC, which is obligated in turn to remit such principal, premium, if any, and interest to its DTC Participants for subsequent disbursement to the beneficial owners of the Series 2021 Bonds.

Payment of interest on the Series 2021 Bonds due on or before the maturity or prior redemption thereof will be made to the person whose name appears in the registration books kept by the Trustee as the Owner thereof as of the close of business on the Record Date for an Interest Payment Date, whether or not such day is a Business Day, such interest to be paid by check mailed on the Interest Payment Date by first class mail to such Owner at the address as it appears in such books; provided that upon the written request of an Owner of \$1,000,000 or more in aggregate principal amount of Series 2021 Bonds received by the Trustee prior to the applicable Record Date, interest will be paid by wire transfer in immediately available funds. “Record Date” means the first day (whether or not such day is a Business Day) of the month of each Interest Payment Date. For a further description of the Series 2021 Bonds, see “– Redemption Provisions” below and APPENDIX D — “SUMMARY OF CERTAIN PROVISIONS OF THE TRUST AGREEMENT.”

The Series 2021 Bonds are being offered for sale in those jurisdictions in the United States of America, the European Economic Area, the United Kingdom, Switzerland, several countries in Asia, and elsewhere where it is lawful to make such offers. The distribution of this Official Statement and the offering, sale and delivery of the Series 2021 Bonds in certain jurisdictions is restricted by law. See “INFORMATION CONCERNING OFFERING RESTRICTIONS IN CERTAIN JURISDICTIONS OUTSIDE THE UNITED STATES” in the introductory section of this Official Statement.

Optional Redemption of the Series 2021 Bonds

Optional Redemption. The Series 2021 Bonds are subject to optional redemption prior to their maturity at the option of the City, in whole or in part, on any date on or after June 15, 20__, from any source of available funds, at a redemption price equal to 100% of the principal amount of the Series 2021 Bonds to be redeemed, plus unpaid, accrued interest thereon to the date of redemption, without premium.

Make-Whole Optional Redemption. From the date of issuance of the Series 2021 Bonds to but not including ____ 15, 20__, the Series 2021 Bonds are subject to redemption prior to their respective stated maturities, at the option of the City, from lawfully available funds deposited in the Optional Redemption Account, as a whole or in part (in such order of maturity as shall be selected by the City in a written order of the City filed with the Trustee, which may be made through DTC, by *pro rata* pass-through distribution of principal as described under “– Selection of Bonds for Redemption” below), on any date, at a redemption price equal to the greater of:

- (1) 100% of the principal amount of such Series 2021 Bonds to be redeemed; or
- (2) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date or dates of such Series 2021 Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which such Series 2021 Bonds are to be redeemed, discounted to the date on which such Series 2021 Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, [(i) with respect to the Series 2021 Bonds maturing on June 15, 20__ through and including June 15, 20__, at the Treasury Rate, and (ii) with respect to the Series 2021 Bonds maturing on June 15, 20__ through and including June 15, 20__, at the Treasury Rate, plus __ basis points],

plus, in each case, accrued interest on such Series 2021 Bonds to be redeemed to the redemption date.

“Treasury Rate” as such term is used in “Make-Whole Optional Redemption” above means, with respect to any redemption date for a particular Series 2021 Bond, the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two Business Days prior to the redemption date (excluding inflation indexed securities) (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the redemption date to the maturity date of the Series 2021 Bond to be redeemed; provided, however, that if the period from the redemption date to such maturity date is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used.

Calculation of Make-Whole Optional Redemption Price. The redemption price of the Series 2021 Bonds to be redeemed at the option of the City as described in “Make-Whole Optional Redemption” above will be determined by an independent accounting firm, investment banking firm or municipal advisor retained by the City at the City’s expense to calculate such redemption price. The City and the Trustee shall be furnished with the redemption price by such independent accounting firm, investment banking firm or municipal advisor and the City and the Trustee may conclusively rely on the determination of such redemption price by such independent accounting firm, investment banking firm or municipal advisor and will not be liable for such reliance.

Mandatory Sinking Fund Redemption of the Series 2021 Bonds

The Series 2021 Bonds maturing on June 15, 20__ and bearing interest at the rate of ____% are subject to mandatory sinking fund redemption, in part (as described below), on June 15 in each year, commencing _____ 15, 20__, at a redemption price equal to 100% of the principal amount of the Series 2021 Bonds to be redeemed, without premium, plus accrued interest thereon to the date of redemption, in the aggregate respective principal amounts in the respective years as follows:

Redemption Date (June 1)	Principal Amount
20__	
20__	
20__	
20__	
20__ (maturity)	

The Series 2021 Bonds maturing on June 15, 20__ and bearing interest at the rate of ____% are subject to mandatory sinking fund redemption, in part (as described below), on June 15 in each year, commencing _____ 15, 20__, at a redemption price equal to 100% of the principal amount of the Series 2021 Bonds to be redeemed, without premium, plus accrued interest thereon to the date of redemption, in the aggregate respective principal amounts in the respective years as follows:

Redemption Date (June 1)	Principal Amount
20__	
20__	
20__	
20__	
20__ (maturity)	

[In the event that the Term Bonds are optionally redeemed, in part, the foregoing mandatory sinking fund payments will be reduced as nearly as practicable on a *pro rata* basis in integral multiples of \$5,000.]

Notice of Redemption

Notice of redemption will be mailed by first-class mail by the Trustee, not less than 20 nor more than 60 days prior to the redemption date to the respective Owners of the Series 2021 Bonds designated for redemption at their addresses appearing on the registration books of the Trustee. Each notice of redemption will state the date of such notice, the redemption price, if any, (including the name and appropriate address of the Trustee), the CUSIP number (if any) and ISIN number (if any) of the maturity or maturities, and, if less than all of any such maturity is to be redeemed, the distinctive certificate numbers of the Series 2021 Bonds of such maturity, to be redeemed and, in the case of Series 2021 Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice will also state that on said date there will become due and payable on each of said Series 2021 Bonds the redemption price, if any, thereof and in the case of a Bond to be redeemed in part only, the specified portion of the principal amount thereof to be redeemed, together with interest accrued thereon to the redemption date, and that from and after such redemption date interest thereon will cease to accrue, and will require that such Series 2021 Bonds be then surrendered at the address of the Trustee specified in the redemption notice; provided, however, that any such notice of redemption may be cancelled and annulled by a Written Request of the City given to the Trustee at least five days prior to the date fixed for redemption, whereupon the Trustee will forthwith give appropriate notice of such cancellation and annulment to all the recipients of such notice of redemption. The failure of any Owner to receive notice pursuant to the Trust Agreement or any defect therein shall not invalidate any of the proceedings taken in connection with such redemption.

With respect to any notice of any optional redemption of Bonds, such notice may state that such redemption is conditional upon receipt by the Trustee, on or prior to the date fixed for such redemption, of moneys that, together with other available amounts held by the Trustee, are sufficient to pay the redemption price of, and accrued interest on, the Bonds to be redeemed, and that if such moneys is not so received, such notice will be of no force and effect and the City will not be required to redeem such Bonds. In the event a notice of redemption of Bonds contains such a condition and such moneys are not so received, the redemption of Bonds as described in the conditional notice of redemption will not be made and the Trustee will, within a reasonable time after the date on which such redemption was to occur, give notice to the persons and in the manner in which the notice of redemption was given, that such moneys were not so received and that there will be no redemption of Bonds pursuant to such notice of redemption.

If notice of redemption has been duly given as aforesaid and money for the payment of the redemption price of the Bonds called for redemption is held by the Trustee, then on the redemption date designated in such notice Bonds so called for redemption shall become due and payable, and from and after the date so designated interest on such Bonds shall cease to accrue, and the Owners of such Bonds shall have no rights in respect thereof except to receive payment of the redemption price thereof.

All Bonds redeemed pursuant to the provisions of the Trust Agreement will be canceled by the Trustee upon surrender thereof and destroyed.

Selection of Bonds for Redemption

Whenever provision is made for the redemption of less than all of the Bonds of a particular maturity, the Trustee will select the Bonds to be redeemed from all Bonds not previously called for redemption (a) with respect to any optional redemption of Bonds, as directed in a Written Certificate of the City, and (b) with respect to any other redemption of Additional Bonds, among maturities, as provided in the Supplemental Trust Agreement pursuant to which such Additional Bonds are issued, and by lot among Bonds of the same Series with the same maturity in any manner which the Trustee in its sole discretion deems appropriate and fair. The Trustee will promptly notify the Authority and the City in writing of the numbers of the Bonds so selected for redemption on such date. For purposes of such selection, any Bond may be redeemed in part in Authorized Denominations.

The City may direct the Trustee to redeem such Bonds (including the Series 2021 Bonds) on a *pro rata* basis as to each Owner in whose name such Bonds are registered on the Record Date immediately preceding a redemption date. “Pro rata” is determined, in connection with any mandatory sinking fund redemption or any optional redemption, in part, by multiplying the principal amount of the Bonds of such maturity to be redeemed on the applicable redemption date by a fraction, the numerator of which is equal to the principal amount of the Bonds of such maturity owned by an Owner, and the denominator of which is equal to the total amount of the Bonds of such maturity then Outstanding immediately prior to such redemption date, and then rounding the product down to the next lower integral multiple of \$5,000, provided that the portion of any Bonds to be redeemed are required to be in Authorized Denominations and all Bonds of a maturity to remain outstanding following any redemption are required to be in authorized denominations.

If the Series 2021 Bonds are in book-entry form at the time of such redemption, any direction for the *pro rata* redemption Bonds would be subject to written notice to DTC in accordance with the Trust Agreement and the *pro rata* reduction in principal provision included in the DTC Letter of Representations of the City on file with DTC, in accordance with the operational arrangements of DTC then in effect. The Underwriters have advised the Trustee and the City that the Series 2021 Bonds will be made eligible for partial redemption to be treated by DTC in accordance with its rules and procedures as a “*pro rata* pass-through distribution of principal.” In connection with each such redemption, the Trustee will include in the written notice of redemption described above the dollar amount per \$1,000 principal amount payable on account of principal and accrued interest to effect a *pro rata* reduction through a pass-through distribution of principal on the related redemption date. DTC will be responsible for distributing the principal and accrued interest among its Direct Participants, as applicable, *pro rata* in accordance with its rules and procedures for a *pro rata* pass-through distribution of principal based upon the beneficial interest in the Series 2021 Bonds being redeemed that DTC records list as owned by each DTC Direct Participant as of the record date for such payment. Any failure of the Trustee to provide such notice, or of DTC or its participants or any other intermediary to make such selection or proportional allocation, for whatever reason, will not affect the sufficiency or the validity of the redemption of the Series 2021 Bonds. In addition, if DTC’s prevailing operational arrangements do not allow for allocation of a redemption on a *pro rata* pass-through distribution of principal basis, the portion of the Series 2021 Bonds to be redeemed on such redemption date will be selected in accordance with DTC’s then existing rules and procedures, and may be by lot.

So long as there is a Securities Depository for the Series 2021 Bonds, there will be only one registered Owner and neither the City nor the Trustee will have responsibility for prorating partial redemptions among beneficial owners of the Series 2021 Bonds.

Clearing Systems for the Series 2021 Bonds

DTC will act as the initial securities depository for the Series 2021 Bonds. Euroclear and Clearstream are participants of DTC and facilitate the clearance and settlement of securities transactions by electronic book entry transfer between their respective account holders. The information in this section and in APPENDIX G – “PROVISIONS FOR BOOK-ENTRY ONLY SYSTEM AND GLOBAL CLEARANCE PROCEDURES” concerning DTC and DTC’s book entry system, and the Euroclear and Clearstream systems has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

So long as the Series 2021 Bonds are held in book-entry form by DTC, all payments of principal of, optional redemption and make-whole optional redemption, if any, and interest on the Series 2021 Bonds will be made pursuant to DTC’s rules and procedures. See APPENDIX G – “PROVISIONS FOR BOOK-ENTRY ONLY SYSTEM AND GLOBAL CLEARANCE PROCEDURES.”

In the event (i) DTC determines not to continue to act as Securities Depository for the Series 2021 Bonds, or (ii) DTC shall no longer so act and gives notice to the Trustee of such determination, or (iii) the City determines that DTC is no longer able to carry out its functions as Securities Depository or the City determines that it is in the best interest of the City to remove DTC from its functions as Securities Depository, DTC’s services may be discontinued and the Series 2021 Bonds may be transferred pursuant to the terms of the Trust Agreement. Generally, with respect to transfer of the Series 2021 Bonds, the Trust Agreement provides that if the City determines to replace DTC or its successor with another qualified Securities Depository, then upon receipt of the Outstanding Series 2021 Bonds by the Trustee, a single new Series 2021 Bond shall be executed and delivered in the aggregate principal amount of the Series 2021 Bonds then Outstanding, registered in the name of such replacement qualified Securities Depository or its nominee, as the case may be. Upon the discontinuance or termination of the services of DTC with respect to the Series 2021 Bonds, unless a substitute Securities Depository is appointed by the City to undertake the functions of DTC under the Trust Agreement, the City is obligated to deliver Series 2021 Bond certificates to or upon the order of the Beneficial Owners of such Series 2021 Bonds, as described in the Trust Agreement, and such Series 2021 Bonds shall no longer be restricted to being registered in the registration books kept by the Trustee in the name of the Nominee, but may be registered in whatever name or names Owners transferring or exchanging such Series 2021 Bonds shall designate, in accordance with the provisions of the Trust Agreement.

THE INFORMATION CONTAINED HEREIN AND IN APPENDIX G CONCERNING DTC, CLEARSTREAM AND EUROCLEAR AND THEIR BOOK-ENTRY SYSTEMS HAS BEEN OBTAINED FROM DTC, CLEARSTREAM AND EUROCLEAR, RESPECTIVELY, AND THE CITY MAKES NO REPRESENTATION AS TO THE COMPLETENESS OR THE ACCURACY OF SUCH INFORMATION OR AS TO THE ABSENCE OF MATERIAL ADVERSE CHANGES IN SUCH INFORMATION SUBSEQUENT TO THE DATE OF THIS OFFICIAL STATEMENT.

SECURITY AND SOURCE OF PAYMENT FOR THE BONDS

General

The City is a member of the California Public Employees’ Retirement System (“CalPERS”), an agent multiple-employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State, including the City. As such, the City is obligated by the Retirement Law and the CalPERS Contract, to make contributions to CalPERS to (a) fund pension benefits for City employees

who are members of CalPERS, (b) amortize the unfunded actuarial liability with respect to such pension benefits, and (c) appropriate funds for such purposes. The City participates in two retirement plans (with tiers within such plans) under the CalPERS Contract. The City is authorized pursuant to Articles 10 and 11 (commencing with Section 53570) of Chapter 3 of Division 2 of Title 5 of the California Government Code (the “Refunding Bond Law”), to issue bonds for the purpose of refunding obligations evidenced by the CalPERS Contract. The proceeds from the sale of the Series 2021 Bonds (exclusive of costs of issuance) will be used to refund the City’s obligations to CalPERS evidenced by the two retirement plans in which the City participates pursuant to the CalPERS Contract and representing the current UAAL with respect to certain pension benefits under the Retirement Law. The authorization by the City of the issuance of the Series 2021 Bonds as obligations of the City imposed by law, and as to the validity and conformity of the Series 2021 Bonds with all applicable provisions of law, were validated by a judgment of the Superior Court of the State of California in and for the County of Orange entered on May 18, 2020. See “VALIDATION” herein.

Bond Payments

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 payable from funds to be appropriated by the City pursuant to the Retirement Law and are absolute and unconditional, without any right of set-off or counterclaim. The Trust Agreement provides for the establishment and maintenance in trust a special fund designated the “Bond Fund.” Subject only to the provisions of the Trust Agreement permitting the application thereof for the purposes and on the terms and conditions set forth therein, all of the amounts held in the Bond Fund are pledged by the City to secure the payment of the principal or redemption price of and interest on the Bonds in accordance with their terms, the provisions of the Trust Agreement and the Act. Said pledge shall constitute a first lien on such assets.

The Trust Agreement provides that not later than five (5) Business Days prior to each Interest Payment Date, the City is obligated to deposit or cause to be deposited with the Trustee for deposit into the Bond Fund an amount of the principal of and interest on the Bonds coming due on such Interest Payment Date. The Bond Fund shall be funded pursuant to the terms of the Trust Agreement first, from Pension Tax Override Revenues up to the Secured Amount (each as defined herein) and second, from any other source of legally available funds of the City.

In the event that, on the first Business Day of the month of each Interest Payment Date, amounts in the Bond Fund are insufficient to pay the principal, if any, of and interest on the Bonds due and payable on such Interest Payment Date, the Trustee shall immediately notify the City of the amount of such insufficiency. Upon being so notified, the City shall, prior to the close of business on the Business Day immediately preceding such Interest Payment Date, deliver or cause to be delivered to the Trustee immediately available funds in an amount equal to the amount of such insufficiency. Immediately upon receipt thereof, the Trustee shall deposit such funds in the Bond Fund.

On each Interest Payment Date, the Trustee shall withdraw from the Bond Fund for payment to the Owners of the Bonds the principal, if any, of and interest on the Bonds then due and payable. If there are insufficient funds in the Bond Fund to pay the principal, if any, of and interest on the Bonds, the Trustee shall apply the available funds first to the payment of interest on the Bonds, then to the payment of principal of the Bonds.

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 obligation of the City to make payments on the Bonds constitute an indebtedness of the City, the State, or any of its political subdivisions within the

meaning of any constitutional or statutory debt limitation or restriction. See “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS” herein.

Pension Tax Override Revenues

By City Charter amendment adopted at the 1978 general election, allowing the City to participate in any retirement system, rather than only the State-run system, the City imposed property taxes to meet its obligations under the CalPERS Contract — a provision in the City Charter since 1966 (the “Pension Tax Override”). In 1983-84, the Pension Tax Override was set at a rate not to exceed \$0.04930 cents per \$100 of assessed valuation. In August 2012, Chapter 3.07 of the Municipal Code capped the Pension Tax Override tax rate to the fiscal year 2012-13 rate of \$0.01500 per \$100 of assessed value. This is the currently applied rate. In accordance with the Trust Agreement, all Pension Tax Override Revenues, together with any interest earned thereon, when and as received by the City, will be immediately deposited and held in the Pension Liability Debt Service Fund. The City further agrees and covenants that all such Pension Tax Override Revenues shall be accounted for separately and apart from all other money, funds, accounts or other resources of the City. In fiscal year 2019-20, the City received approximately \$_____ of Pension Tax Override Revenues. The City expects no part of the revenues generated by the Pension Tax Override to be allocable to the Huntington Beach Redevelopment Successor Agency as tax increment revenues.

California courts have held that Proposition 13, discussed below under the heading “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS,” permits additional property taxation to pay for pension plans with special tax authority approved by voters prior to July 1, 1978; provided the imposition of such tax is limited to the funding of employee retirement benefits at a level not in excess of the retirement benefits in existence prior to July 1, 1978 (the “Pre-Proposition 13 Pension Liability”). Among other matters, the City’s validation action with respect to this financing judicially validated the application of the revenues generated by the Pension Tax Override toward the payment of debt service on the Series 2021 Bonds to the extent the Series 2021 Bonds fund Pre-Proposition 13 Pension Liability under the CalPERS Contract. An independent actuary, Bartel has certified that 89% of the current Safety Plan UAAL constitutes Pre-Proposition 13 Pension Liability under the CalPERS Contract. Bartel has also certified that for the fiscal year starting July 1, 2020, the estimated normal cost for the Safety Plan is \$10,360,000 and the estimated normal cost attributable to Pre-Proposition 13 Pension Liability is \$8,216,000. Of the City’s required normal and unfunded liability contribution rates as percentages of payroll projected by CalPERS for fiscal year 2020-21 at 60.8%, (Safety Plan), 52.0% of payroll with respect to the Safety Plan constitutes Pre-Proposition 13 Pension Liability. These required contributions are reflected in the City’s fiscal year 2020-21 budget.

The City’s fiscal year 2020-21 unfunded liability payments for its Miscellaneous and Safety plans totaling \$31,484,000 were prepaid to CalPERS on July 15, 2020. See “PLAN OF FINANCE – Report of Independent Actuary” herein.

Under the Trust Agreement, the Pension Tax Override Revenues will be available to pay a portion of the debt service on the Bonds in an amount up to the extent of the Secured Amount. Pension Tax Override Revenues are only available to pay debt service on the Bonds to the extent of the Secured Amount. The term “Secured Amount” means debt service on an amount of Bonds (including a *pro rata* share of costs of issuance) the proceeds of which have been used to fund Pre-Proposition 13 Pension Liability under the CalPERS Contract. The Secured Amount with respect to the Series 2021 Bonds will be determined at the time of issuance of the Series 2021 Bonds. Based upon Bartel’s certification of the percentage of the UAAL for the Safety Plan, the Secured Amount with respect to the Series 2021 Bonds is approximately \$_____ annually (representing that portion of debt service allocable to the [\$240.4] million or 89% of total unfunded actuarial liability of the Safety Plan). The Secured Amount is the total

amount of the Pension Tax Override Revenues that may be applied to pay debt service on the Series 2021 Bonds until maturity, representative of a portion of the aggregate UAAL and aggregate debt service of the Series 2021 Bonds.* Based on Pension Tax Override Revenues received in fiscal year 2019-20, the City expects approximately ___%* of annual debt service on the Series 2021 Bonds will be payable from Pension Tax Override Revenues, such amount allocable to the current Safety Plan portion of the UAAL.]

In the case of the issuance of Additional Bonds, the Secured Amount with respect thereto will be determined at the time of issuance of such Bonds under the Trust Agreement; and if less than all of the proceeds of a Series of Bonds issued under the Trust Agreement are used to fund Pre-Proposition 13 Pension Liability under the CalPERS Contract.

As defined in the Trust Agreement, “Pension Tax Override” means the *ad valorem* tax override annually levied at the rate of \$0.01500 per \$100 of the assessed value of all taxable property within the City pursuant to Article XIII A, Section 1(b)(1) of the California Constitution.

“Pension Tax Override Authorization” means City Charter Section 607, adopted and ratified by the City Council on January 17, 1966.

“[Pension Tax Override Fund]” means the Pension Liability Debt Service Fund established by the City in accordance with the Trust Agreement.

“Pension Tax Override Revenues” means all of the revenues received by or payable to the City from the Pension Tax Override.

“Pre-Proposition 13 Pension Liability” means employee retirement benefits at a level not in excess of the retirement benefits in existence prior to July 1, 1978 under the CalPERS Contract.

In accordance with the Trust Agreement, Pension Tax Override Revenues, when and as received by the City, will be deposited and held in the Pension Liability Debt Service Fund. The City further agrees and covenants that all such Pension Tax Override Revenues shall be accounted for separately and apart from all other money, funds, accounts or other resources of the City.

Not later than five (5) Business Days prior to each Interest Payment Date, the City will transfer from the Pension Liability Debt Service Fund to the Trustee an amount which, together with amount simultaneously transferred to the Trustee for deposit in the Bond Fund, and the amount then on deposit in the Bond Fund, will equal the amount of the principal of and interest on the Bonds coming due on such Interest Payment Date. The Trustee shall, upon receipt of the amount required to be transferred by the City pursuant to this subsection, deposit such amount in the Bond Fund.

The City has covenanted pursuant to the Trust Agreement that so long as any Bonds remain outstanding, (a) the City will, or cause the County to, annually levy and collect the Pension Tax Override; (b) the City will take such steps as are lawfully permitted by the City to enforce the collection of the Pension Tax Override; provided, that so long as the County acts as the collection agency for property taxes in the City (including the Pension Tax Override), the City shall be deemed to be in compliance with this subsection (b) unless the County fails to perform its duties to collect the Pension Tax Override; (c) the City Council will not amend, or permit the amendment by initiative of, any legislative action heretofore taken by the City Council in respect of the levy of the Pension Tax Override to reduce the rate at which the Pension Tax Override is levied or reduce the property or classes of property against which it

* Preliminary, subject to change.

is levied; and (d) the City Council will not repeal, or permit the repeal by initiative of, the Pension Tax Override Authorization.

A challenge to the Pension Tax Override was narrowly defeated in 2012 with the failure to reach the requisite 50% majority on a ballot question entitled, “A Huntington Beach Levy of Property Tax for Municipal Purposes, Measure Z” which appeared on the November 6, 2012 ballot. If Measure Z had been approved, the Pension Tax Override would have been repealed.

The Pension Tax Override was the subject of a prior judgment of the Orange County Superior Court. That judgment was subsequently upheld by the Appellate Court on appeal, in the case of *Howard Jarvis Taxpayers Assn. v. County of Orange, and Real Party in Interest, City of Huntington Beach*, Orange County Superior Court Case No. 818780, which invalidated certain property taxes collected by the County of Orange on behalf of the City to the extent that such taxes exceeded the City’s employer contribution for retirement benefits that were in effect prior to July 1, 1978, or amendments thereto mandated by the California Legislature. Following that decision, the City agreed to a tax rate not to exceed \$0.01500 per \$100 of assessed value annually.

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. EXCEPT TO THE EXTENT OF THE PENSION TAX OVERRIDE AS PROVIDED IN THE TRUST AGREEMENT, 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 OBLIGATION OF THE CITY TO MAKE PAYMENTS ON THE BONDS CONSTITUTE AN INDEBTEDNESS OF THE CITY, THE STATE, OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

For summary information on the receipt of Pension Tax Override Revenues, see “CITY FINANCIAL INFORMATION – Principal Sources of General Fund Revenues.” As discussed above, Pension Tax Override Revenues are only available to pay debt service to the extent of the Secured Amount, with such payments to be available *pro rata* among Outstanding Bonds. For further discussion of the levy and collection of taxes such as the Pension Tax Override see “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS.”

Debt Service Schedule

The following table sets forth the annual debt service schedule for the Series 2021 Bonds by fiscal year (assuming no optional redemption prior to the scheduled maturity of the Series 2021 Bonds) and the portion of total annual debt service payments eligible for payment from the Pension Override Tax.

Debt Service Schedule

Year Ending [June 30]	Principal	Interest	Total Debt Service Payments	Projected Pension Tax Override Revenues *
2020				
2021				
2022				
2023				
2024				
2025				
2026				
2027				
2028				
2029				
2030				
2031				
2032				
2033				
2034				
2035				
2036				
2037				
2038				
2039				
2040				
2041				
2042				
2043				
2044				
Total				

* Amount shown is fiscal year 2019-20 revenues, without any increase in the proceeds of the Pension Tax Override. See "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS - Pension Tax Override Revenues."

Source: Stifel, Nicolaus & Company, Incorporated

Additional Bonds

The City may from time to time issue additional bonds for (i) the purpose of satisfying any obligation of the City to make payments to the System pursuant to the Retirement Law relating to pension benefits accruing to the System's members, and/or for payment of all costs incidental to or connected with the issuance of additional bonds for such purpose, and/or (ii) the purpose of refunding any Bonds then Outstanding, including payment of all costs incidental to or connected with such refunding. Such additional bonds may be issued on a parity with the Series 2021 Bonds without the consent of any Owner. For more information regarding the issuance of additional bonds, see APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF THE TRUST AGREEMENT – Additional Bonds."

Limited Obligations

THE BONDS ARE GENERAL OBLIGATIONS OF THE CITY PAYABLE FROM ANY LAWFULLY AVAILABLE FUNDS OF THE CITY AND ARE NOT LIMITED AS TO PAYMENT TO ANY SPECIAL SOURCE OF 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. EXCEPT TO THE EXTENT OF THE PENSION TAX OVERRIDE AS PROVIDED IN THE TRUST AGREEMENT, 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 OBLIGATION OF THE CITY TO MAKE PAYMENTS ON THE BONDS CONSTITUTE AN INDEBTEDNESS OF THE CITY, THE STATE, OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

THE CITY

Founded in the late 1880's, Huntington Beach was incorporated as a general law city in 1909 and became a charter city in 1937. The City has a City Council/City Manager form of government. The City Council has seven members, each of whom is elected to a four-year term. City Council Members are limited to two consecutive terms. There are three elected department heads, the City Attorney, City Clerk and City Treasurer. The position of Mayor is filled on a rotating basis.

The City encompasses 31.6 square miles (26.4 square miles is land, 5.2 square miles is water) in the coastal area of Orange County, California, adjacent to the Cities of Costa Mesa, Fountain Valley, Newport Beach, Seal Beach and Westminster. The City is approximately 40 miles southeast of Los Angeles and 90 miles northwest of San Diego. As of January 1, 2020, the State of California Finance Department estimated its population at 201,281.

On August 22, 2011, the City completed the process of annexation of the adjacent community of Sunset Beach, a 134-acre, formerly unincorporated area of about 1,000 residents. The area was placed under the City's sphere of influence by the Local Agency Formation Commission (LAFCO), which oversees the process of municipal boundary changes, in an effort to reduce the number of Orange County "islands," the generally small, unincorporated areas that are hard to serve.

See APPENDIX A – "GENERAL, ECONOMIC AND DEMOGRAPHIC INFORMATION RELATING TO THE CITY" for a general description of the City as well as certain demographic and statistical information.

CITY FINANCIAL INFORMATION

Financial Statements

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.

Change to June 30 Fiscal Year End. With the City Council's adoption of a new fiscal year end, changing its fiscal year end from September 30 to June 30, effective for fiscal year 2017-18, the City's financial period aligns with that of the State, the County, and with CalPERS. As a result, the summary financial information for fiscal year 2017-18 presents nine months of activities only.

Audited Financial Statements. The City retained the firm of Davis Farr LLP, Certified Public Accountants to examine the general purpose financial statements of the City as of and for the City's fiscal year ended June 30, 2020. The City is the recipient of the Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting for the fiscal year ended June 30, 2020 and has been for 34 consecutive years. The audited financial statements for fiscal year ended June 30, 2020, are attached hereto as APPENDIX B – "COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2020." The City has not requested, and the auditor has not provided, any review or update of such financial statements in connection with their inclusion in this Official Statement.

Budgetary Process

The City Council adopts an annual budget with appropriations for all City funds prior to the beginning of the fiscal year, which begins on July 1 of each year. The City Council has the legal authority to amend the budget at any time during the fiscal year. 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 department level within each fund, and for the capital improvement budget it is each individual capital improvement project within each fund. A Department Head, with the Chief Financial Officer's approval, may transfer appropriations (with no dollar limitation) within like categories (operating and capital expenditures) of the same department. Transfers of appropriations for salaries and benefits require additional approval of the City Manager or his designee. All other appropriation changes 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.

As discussed under the caption "CERTAIN RISK FACTORS – Infectious Disease Outbreak – COVID-19", the finances and operations of the City have been and will continue to be impacted by COVID-19. The COVID-19 outbreak is ongoing, and the ultimate geographic spread of the virus, the duration and severity of the outbreak, and the economic and other actions that may be taken by governmental authorities to contain the outbreak or to address its impacts are uncertain. The spread of COVID-19 has altered the behavior of businesses and people in a manner that has had a negative effect on global and local economies. The activities that generate, in particular, sales and use taxes, property taxes, and transient occupancy taxes, actually received by the City may be adversely affected by the spread of COVID-19. There can be no guarantee that sales and use taxes, property taxes, and transient occupancy taxes resulting from changes in consumer activity and to be collected in the future will be consistent with historical collection trends.

The City budget for fiscal year 2020-21 was introduced on June 1, 2020 and adopted on June 29, 2020. Of particular note, the General Fund budget is structurally balanced, with no reliance on one-time revenues to balance the budget.

To date, the City has received \$14.3 million in CARES Act funding passed through various agencies, including the State of California and County of Orange. These revenues and related expenditures are not included in the General Fund, but are reported separately in a Grants Special Revenue Fund. CARES Act proceeds deposited therein were applied by the City only to the payment of COVID-19 related expenditures and costs. Additionally, the City was awarded an additional \$648,000 from the County of Orange for Small Business Relief, to be used to fund a micro-grant program for small businesses negatively impacted by COVID-19.

The City's fiscal year 2020-21 budgeted General Fund revenues remain conservative at \$210.5 million as the nation continues to experience the effects of the COVID-19 pandemic. Property tax receipts for fiscal year 2019-20 were largely unaffected by the pandemic, and current economic indicators show that the financial growth of property tax will continue to increase at a moderate pace in fiscal year 2020-21. The economic impacts of the COVID-19 pandemic to sales tax, transient occupancy tax, and use of money and property are expected to continue through fiscal year 2020-21 and are budgeted accordingly.

The City's adopted budget for fiscal year 2020-21 identifies \$21.0 million in expenditure reductions to balance the General Fund budget, including: operating budget reductions; continuation of the hiring freeze for all non-essential personnel; a planned reduction in workforce of approximately 5% of total full-time positions within the City; reductions in overtime and part-time personnel, and reduced transfers to General Liability, Infrastructure, and Equipment Replacement funds. The planned reduction was achieved through a voluntary early separation program, which closed October 5, 2020, with 97 employees electing to participate in the plan. This program, coupled with an extensive reorganization plan, will provide an estimated \$6 million in General Fund savings for Fiscal Year 2020-21, with ongoing savings in excess of \$6 million annually in future years.

The following tables show the City's budget and actual results for General Fund revenues and expenditures for fiscal year 2016-17 through fiscal year 2019-20, and the adopted budget for fiscal year 2020-21. [The City's expects City Council review of its mid-year budget update and adjustments on February 16, 2021. Currently, the City does not expect material adjustments to its adopted budget to be materially adverse to those budget projections.]

City of Huntington Beach
General Fund Budget Summary
Fiscal Years 2016-17 through 2017-18
(in Thousands)

	Fiscal Year 2016-17 Adopted Budget	Fiscal Year 2016-17 Actual	Nine-Month 2017-18 Adopted Budget	Nine-Month 2017-18 Actual
REVENUES				
Property Taxes ⁽¹⁾	\$ 80,120	\$ 80,826	\$ 79,058	\$ 80,614
Sales Taxes	41,441	40,371	30,758	31,364
Utility Taxes	19,837	19,303	13,743	14,014
Other Taxes	17,844	17,991	14,599	14,883
License and Permits	8,336	8,736	6,128	6,247
Fines, Forfeitures and Penalties	5,090	3,995	2,989	3,048
Use of Money and Property	16,363	16,555	10,931	11,211
Intergovernmental	3,676	3,831	3,521	3,901
Charges for Current Services	26,132	24,800	18,401	18,132
Other	1,312	1,492	2,102	1,502
Total Revenues	\$220,151	\$217,900	\$182,230	\$184,916
EXPENDITURES				
Current:				
City Council	364	333	301	279
City Manager	2,403	2,116	2,190	1,928
City Treasurer	209	201	178	134
City Attorney	2,667	3,052	2,097	2,037
City Clerk	971	830	647	602
Finance	5,884	5,763	5,009	4,376
Human Resources ⁽²⁾	5,864	5,535	5,431	5,323
Community Development	7,313	6,770	5,940	5,428
Fire	45,710	46,746	36,976	36,304
Information Services	6,931	6,384	5,402	5,225
Police	74,144	73,543	57,520	57,218
Community Services	10,453	10,652	8,016	6,410
Library Services	4,270	4,246	3,807	3,283
Public Works	22,954	22,081	19,557	19,009
Non-Departmental ⁽²⁾	23,641	25,163	22,128	20,048
Debt Service:				
Principal	1,414	981	524	311
Interest	32	186	87	87
Total Expenditures	\$215,224	\$214,582	\$175,810	\$168,002
Excess of Revenues				
Over Expenditures	4,927	3,318	6,420	16,914
OTHER FINANCING SOURCES (USES)				
Transfers In	929	221	1,463	152
Transfers Out	(5,836)	(6,068)	(13,400)	(13,400)
Total Other Financing Sources (Uses)	(4,907)	(5,847)	(11,937)	(13,248)
Net Change in Fund Balances	20	(2,529)	(5,517)	3,666
Fund Balance – Beginning of Year	62,847	62,847	61,180	61,180
Prior Period Adjustment	862	862	3,788	3,788
Fund Balance – Beginning Restated	63,709	63,709	64,968	64,968
Fund Balance – End of Year	\$ 63,729	\$ 61,180	\$ 59,451	\$ 68,634

⁽¹⁾ Beginning with the fiscal year ended June 30, 2020, the Pension Tax Override is no longer reported in the General Fund; instead, these revenues are included in the Pension Liability Debt Service Fund.

⁽²⁾ Beginning with the fiscal year ended June 30, 2019, non-departmental expenditures are no longer presented separately but are included as part of functional expenditures. Human Resources expenditures are no longer presented separately but are included as part of the City Manager budget beginning with the fiscal year ended June 30, 2020.

Source: City of Huntington Beach Finance Department.

City of Huntington Beach
General Fund Budget Summary
Fiscal Years 2018-19 through 2020-21
(in Thousands)

	Fiscal Year 2018-19 Adopted Budget	Fiscal Year 2018-19 Actual	Fiscal Year 2019-20 Adopted Budget	Fiscal Year 2019-20 Actual	Fiscal Year 2020-21 Adopted Budget
REVENUES					
Property Taxes ⁽¹⁾	\$ 85,909	\$ 89,367	\$ 89,732	\$87,497	\$87,966
Sales Taxes	42,993	43,942	41,203	41,063	39,227
Utility Taxes	18,360	18,788	17,906	18,149	16,605
Other Taxes	20,092	20,227	20,926	17,499	12,416
License and Permits	7,594	8,292	7,858	8,368	7,358
Fines, Forfeitures and Penalties	4,316	4,300	4,519	3,403	3,282
Use of Money and Property	17,236	19,859	17,272	17,510	14,500
Intergovernmental	2,903	4,974	3,074	4,102	3,130
Charges for Current Services	25,656	25,390	27,132	25,501	24,630
Other	1,378	1,492	1,460	2,395	1,396
Total Revenues	\$226,437	\$236,631	\$231,082	\$225,487	\$210,510
EXPENDITURES					
Current:					
City Council	428	369	454	394	396
City Manager	2,862	2,656	3,872	4,045	6,472
City Treasurer	264	248	260	297	284
City Attorney	2,877	2,874	2,811	2,898	3,034
City Clerk	1,053	981	926	874	1,005
Finance	6,559	6,467	6,481	6,174	6,164
Human Resources ⁽²⁾	7,455	6,362	--	--	--
Community Development	8,501	7,960	9,600	9,184	9,201
Fire	52,376	53,547	52,623	55,030	48,488
Information Services	7,790	7,938	7,766	7,812	7,475
Police	84,378	82,098	84,506	85,993	79,702
Community Services	10,122	9,414	9,930	9,064	8,924
Library Services	4,998	4,710	4,930	4,752	4,844
Public Works	28,162	28,289	27,838	27,264	26,844
Non-Departmental ⁽²⁾	--	--	--	--	--
Debt Service:					
Principal	1,321	1,379	1,078	1,637	2,075
Interest	203	177	195	218	194
Total Expenditures	\$219,349	\$215,469	\$213,270	\$215,636	\$205,103
Excess of Revenues					
Over Expenditures	7,088	21,162	17,812	9,851	5,408
OTHER FINANCING SOURCES (USES)					
Transfers In	499	13	1,514	172	13
Transfers Out	(9,896)	(10,796)	(19,190)	(8,948)	(5,421)
Total Other Financing Sources (Uses)	(9,397)	(10,783)	(17,676)	(8,776)	(5,408)
Net Change in Fund Balances	(2,309)	10,379	136	1,075	--
Fund Balance – Beginning of Year	68,634	68,634	79,013	79,013	80,088
Prior Period Adjustment	--	--	--	--	--
Fund Balance – Beginning Restated	68,634	68,634	79,013	79,013	80,088
Fund Balance – End of Year	\$ 66,325	\$ 79,013	\$ 79,149	\$ 80,088	\$80,088

(1) Beginning with the fiscal year ended June 30, 2020, the Pension Tax Override is no longer reported in the General Fund; instead, these revenues are included in the Pension Liability Debt Service Fund.

(2) Beginning with the fiscal year ended June 30, 2019, non-departmental expenditures are no longer presented separately but are included as part of functional expenditures. Human Resources expenditures are no longer presented separately but are included as part of the City Manager budget beginning with the fiscal year ended June 30, 2020.

Source: City of Huntington Beach Finance Department.

City Financial Management Policies

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) establishing parameters for issuing and managing debt supported by the General Fund, Enterprise Funds and any other related funding entity of the City.

Economic Uncertainties Reserve Policy. The City's Economic Uncertainties Reserve Policy states the goal of achieving an Economic Uncertainties Reserve Commitment equal to the value of the two months of General Fund expenditures adopted budget amount. As of June 30, 2020, the City had an Economic Uncertainties Reserve balance of \$25,010,000. Since this date, there have been no changes to the reserve. The current goal for the reserve balance represents 11.5% of the fiscal year 2020-21 General Fund adopted budget.

Appropriations and use of these funds will be reserved for emergency situations including, but not limited to the following:

- An unplanned, major event such as catastrophic disaster requiring expenditures over 5% of the General Fund adopted budget
- Budgeted revenue in excess of \$1 million taken by another government entity
- Drop in projected/actual revenue of more than 5% of the General Fund adopted revenue budget

Once established, appropriations from these reserves can only be made by formal City Council action. Should the Economic Uncertainties Reserve commitment be used, and its level falls below the minimum amount of two months of General Fund expenditures adopted budget, the goal is to replenish the fund within three fiscal years.

The City has never appropriated funds from the Economic Uncertainties Reserve.

Pension Liability Funding Policy. Beginning fiscal year 2013-14, the City implemented a unique "One Equals Five" plan for reducing its unfunded liability for the City's CalPERS pension plans. Based on an analysis conducted by the City's actuary, each additional \$1 million contributed to the City's pension plans will potentially benefit the City five times over resulting in \$5 million in taxpayer savings over a 25-year period. The City has set aside a minimum of \$1 million each year towards this plan since its establishment. This funding has never been utilized and is set aside in a Section 115 Trust. [On [March 1], 2021, the City Council adopted an Unfunded Accrued Liability Pension Funding Policy (the "Unfunded Accrued Liability Pension Funding Policy"), formally requiring the following each fiscal year, unless set aside by a 6/7th vote of the City Council:

- Annual \$1.5 million contribution to the City's Section 115 Trust. Section 115 Trust assets to be restricted and only accessed to pay CalPERS costs to reduce volatility and offset unexpected pension rate increases.
- Perpetual Set-Aside of 50% of Pension Refinance Savings. Based on the City's estimated savings of \$978,000 in fiscal year 2021-22, 50% of that savings amount, or \$489,000 (to be adjusted annually by CPI), will be budgeted on an annual basis for deposit into the City's Section 115 Trust to offset any future UAAL costs that arise. This deposit to be in addition to the annual \$1.5 million contribution.

- Annual set-aside of an additional 50% of any General Fund surplus at year-end and deposit into a City held General Fund Pension Rate Stabilization Reserve, to be restricted and only accessed to pay CalPERS costs to reduce volatility and offset unexpected pension rate increases.
- Accelerated Payment Schedule is established to provide parameters for the payment for any new UAAL, only using available amounts in the Section 115 Trust and the General Fund Pension Rate Stabilization Reserve to meet this accelerated schedule.
- Annual Assessment of Additional Discretionary Payments (“ADP”) to be Made to CalPERS. After completion of the City’s annual audit, the City will make an assessment and determination to utilize any available reserves or one-time savings from the prior fiscal year to be appropriated as an ADP, provided there is no adverse effect the general operations of the City. ADP’s may be deposited with CalPERS, invested in the City’s Section 115 Trust, or set-aside in the General Fund Pension Rate Stabilization Reserve.
- Additional Discretionary Payments (“ADP”) may be deposited with CALPERS at any time. After completion of the City’s annual audit, all discretionary fund reserve balances will be reviewed by City staff. Based on any budgetary constraints at that time, an assessment should be coordinated to determine the cost / benefit

The Unfunded Accrued Liability Pension Funding Policy establishes a process for the City to accelerate the payoff for any future UAAL that develops as calculated annually by CalPERS. The City’s overall objective under the policy is to fund its CalPERS pension plan up to 100% of the total accrued liability, and no less than 80%, whenever possible. The funding policy is intended to support the decision making process of the City Council and should be consistent with the overall purpose and goals of the City’s pension plan. See APPENDIX H – “CITY UNFUNDED PENSION LIABILITY POLICY.”

Investment Policy. The investment of funds of the City (except pension and retirement funds) is made in accordance with the City’s 2021 Investment Policy, as approved on February 1, 2021 (the “Investment Policy”), and Section 53601 *et seq.* of the California Government Code. The Investment Policy is subject to revision at any time and is reviewed at least annually to ensure compliance with the stated objectives of safety, liquidity, yield, and current laws and financial trends. All amounts held under the Trust Agreement are invested at the direction of the City in Permitted Investments, as defined in the Trust Agreement, and are subject to certain limitations contained therein. See APPENDIX C – “CITY INVESTMENT POLICY” and APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF THE TRUST AGREEMENT – Deposit and Investments of Money in Funds.”

Current Investments

The assets of the City’s investment portfolio, as of December 31, 2020, are shown in the following table:

Investment Portfolio of the City
As of December 31, 2020
(in Thousands)

Type	Par Value	Market Value	Book Value	% of Portfolio	Days to Maturity
Federal Agency Issues – Coupon	\$ 49,000	\$ 50,982	\$ 49,168	20.45%	718
Local Agency Inv. Fund (LAIF)	41,551	41,551	41,551	17.28	1
OC Investment Pool	75,110	75,110	75,110	31.26	1
Treasury Securities – Coupon	8,000	8,324	7,978	3.32	1,150
Medium Term Notes	15,000	15,730	15,274	6.35	870
Corporate Bonds	50,899	52,643	51,309	21.34	534
Total Investments	\$239,560	\$244,340	\$240,390	100.00%	355

Source: City of Huntington Beach

Reliance on State Budget

Approximately 56.7% (consisting of the sales tax, property tax and the motor vehicle license fee) of the City’s General Fund revenues included in the budget for fiscal year 2019-20 consisted of payments collected by the State and passed-through to local governments or collected by the County and allocated to local governments by State law. Approximately 60.4% of the City’s General Fund revenues included in the budget for fiscal year 2020-21 are expected to come from such sources. There can be no assurance that any future State budget difficulties will not adversely affect the City’s revenues or its ability to pay the principal of and interest due on the Series 2021 Bonds under the Trust Agreement. See “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES, REVENUES AND APPROPRIATIONS – Proposition 1A of 2004” and “CERTAIN RISK FACTORS – State Budgets.”

Principal Sources of General Fund Revenues

The following table shows the City’s General Fund tax revenues by source for the most recent five fiscal years received or anticipated for fiscal years ending September 30, 2016 through June 30, 2020. The current spread of COVID-19 has altered the behavior of businesses and people in a manner that has had significant negative effects on global and local economies, which initially are expected to materially impact sales and use taxes, property taxes, and transient occupancy taxes resulting from changes in consumer activity, reduced travel and related use of lodging facilities within the City. There can be no assurances what long-term effect the current spread of COVID-19 will have on the levels consumer and business activity in the City for a period of time. See “CERTAIN RISK FACTORS – Infectious Disease Outbreak – COVID-19” and the detail in the sections below describing General Fund tax revenues by source, sales taxes and other taxes. As noted above, the approximately \$14.3 million in CARES Act funding received to date is not included in the table below. These revenues and related expenditures are not included in the General Fund, but are reported separately in a Grants Special Revenue Fund.

**City of Huntington Beach
General Fund Tax Revenues by Source
(in Thousands)**

Source	Fiscal Year 2016-17 Actual	Nine-Month 2017-18 Actual	Fiscal Year 2018-19 Actual	Fiscal Year 2019-20 Actual	Adopted Budget 2020-21
Property Taxes	\$ 75,035	\$ 74,999	\$ 82,992	\$ 87,497	\$ 87,966
Pension Override Tax ⁽¹⁾	5,791	5,615	6,375	--	--
Property Tax Revenues	80,826	80,614	89,367	87,497	87,966
Sales and Use Taxes	40,371	31,364	43,942	41,063	39,227
Utility Taxes	19,303	14,014	18,788	18,149	16,605
Other Taxes ⁽²⁾	17,991	14,883	20,227	17,489	12,416
Total Tax Revenues	\$158,491	\$140,875	\$172,324	\$164,198	\$156,214

⁽¹⁾ Beginning with the fiscal year ended June 30, 2020, the Pension Tax Override is no longer reported in the General Fund; instead, these revenues are included in the Pension Liability Debt Service Fund.

⁽²⁾ Includes Transient Occupancy Taxes, Franchise Taxes and other taxes.

Source: City of Huntington Beach Finance Department

Deposits to the Grants Special Revenue Fund in the past year were allocated to Community Development Block Grant, HOME Grant, street improvement and traffic signal grants and projects, and COVID-19 related expenditures that are expected to be reimbursed by FEMA and/or funded with CARES Act Funds from the State. CARES Act proceeds deposited therein were applied by the City only to the payment of COVID-19 related expenditures and costs.

As described in further detail below, COVID-19 has impacted sales and use taxes and transient occupancy taxes resulting from changes in consumer activity, reduced travel and related use of lodging facilities within the City. Property taxes were the single largest revenue source to the General Fund in fiscal year 2018-19, representing approximately 37.8% of revenues, followed by sales taxes representing approximately 18.6%. These sources represented an aggregate of approximately 56.3% of the actual General Fund revenues for fiscal year 2018-19 and represent an aggregate of approximately 56.7% and 60.4% of General Fund revenues in the City's fiscal year 2019-20 actuals and fiscal year 2020-21 adopted budget. As discussed above, Pension Tax Override Revenues are only available to pay debt service to the extent of the Secured Amount, with such payments to be available *pro rata* among Outstanding Bonds. For further discussion of the levy and collection of taxes such as the Pension Tax Override see "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS."

For a discussion of potential State Budget impacts on General Fund revenues, see "– State Budgets." For a discussion of property tax revenues and sales taxes, see "PROPERTY TAXES" and "SALES TAXES" below.

PROPERTY TAXES

Ad Valorem Property Taxes

General. The County levies a one percent property tax on behalf of all taxing agencies in the County, including the City. The taxes collected are allocated on the basis of a formula established by State law enacted in 1979. Under this formula, the County and all other taxing entities receive a base year allocation plus an allocation on the basis of "situated" growth in assessed value (new construction, change of

ownership, inflation) prorated among the jurisdictions which serve the tax rate areas within which the growth occurs. Tax rate areas are specifically defined geographic areas which were developed to permit the levying of taxes for less than county-wide or less than city-wide special and school districts. In addition, the County levies and collects additional approved property taxes and assessments on behalf of any taxing agency within the County.

Taxes are levied for each fiscal year on taxable real and personal property which is situated in the County as of the preceding January 1. However, upon a change in ownership of real property or completion of new construction, State law permits an accelerated recognition and taxation of increases in real property assessed valuation (known as a "floating lien date"). For assessment and collection purposes, property is classified either as "secured" or "unsecured" and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State and County assessed property secured by a lien which is sufficient, in the opinion of the assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll." See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS" herein.

Retirement Tax. In accordance with the City Charter, the City imposes a retirement tax (the "Pension Tax Override") to meet its obligations under its contract with the California Public Employees' Retirement System (CalPERS). The City has levied such tax since 1966. In fiscal year 1983-84, the Pension Tax Override was set at a rate not to exceed \$0.04930 cents per \$100 of assessed valuation. In August 2012, Chapter 3.07 of the Municipal Code capped the Pension Tax Override tax rate to the fiscal year 2012-13 rate of \$0.01500 per \$100 of assessed value. This is the currently applied rate. Revenues generated by the Pension Tax Override are applied to pay the costs of retirement benefits for public safety employees.

California courts have held that Proposition 13, discussed below under the heading "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS," permits additional property taxation to pay for pension plans with special tax authority approved by voters prior to July 1, 1978; provided the imposition of such tax is limited to the funding of safety employee retirement benefits at a level not in excess of the retirement benefits in existence prior to July 1, 1978 (the "Pre-Proposition 13 Pension Liability").

Tax Levies, Collections and Delinquencies. Property taxes are levied by the County for each fiscal year on taxable real and personal property which is situated in the County. Property taxes collected in advance are recorded as deferred revenue and recognized as revenue in the year they become available. The County levies, bills and collects property taxes for the City. Property taxes paid to the City by the County within 60 days after the end of the fiscal year are "available" and are, therefore, recognized as revenue.

For assessment and collection purposes, property is classified either as "secured" or "unsecured" and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State/assessed public utilities property and property the taxes on which are a lien on real property sufficient, in the opinion of the County Assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll."

Secured and unsecured property taxes are levied based on the assessed value as of January 1, the lien date, of the preceding fiscal year. Secured property tax is levied on October 1 and due in two installments, on November 1 and March 1. Collection dates are December 10 and April 10 which are also the delinquent dates. At that time, delinquent accounts are assessed a penalty of 10%. Accounts that remain unpaid on June 30 are charged an additional 1.5 % per month. Such property may thereafter be redeemed by payment of a penalty of 1.5% per month to the time of redemption, plus costs and a

redemption fee. If taxes are unpaid for a period of five years or more, the property is deeded to the State and then is subject to sale by the County Treasurer. Although the County maintains a Teeter Plan, which is an alternative method for the distribution of secured property taxes to local agencies, the City has elected not to be included in the County's Teeter Plan. See "CERTAIN RISK FACTORS – Infectious Disease Outbreak - COVID-19" for the potential of a grant of waivers on penalties, based on application and approval, benefiting taxpayers that do not make timely payment of property taxes, due to the COVID-19 virus.

Unsecured property tax is levied on July 1 and due on July 31, and has a collection date of August 31 which is also the delinquent date. A 10% penalty attaches to delinquent unsecured taxes. If unsecured taxes are unpaid at 5:00 p.m. on October 31, an additional penalty of 1.5% attaches to them on the first day of each month until paid. The taxing authority 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 assessee.

Assessed Valuation. All property is assessed using full cash value as defined by Article XIII A of the State Constitution. State law provides exemptions from *ad valorem* property taxation for certain classes of property such as churches, colleges, nonprofit hospitals and charitable institutions.

Future assessed valuation growth allowed under Article XIII A (new construction, certain changes of ownership, 2% inflation) will be allocated on the basis of "situs" among the jurisdictions that serve the tax rate area within which the growth occurs. Local agencies and schools will share the growth of "base" revenues from the tax rate area. Each year's growth allocation becomes part of each agency's allocation in the following year. The availability of revenue from growth in tax bases to such entities may be affected by the establishment of redevelopment agencies which, under certain circumstances, may be entitled to revenues resulting from the increase in certain property values. The State Board of Equalization is directing county assessors to use 1.036 percent as the Proposition 13 inflation adjustment factor for Fiscal Year 2021-22. The Proposition 13 inflation adjustment factor is applied to all parcels that have not been reduced under Proposition 8 due to the economic downturn.

The passage of Assembly Bill 454 in 1987 changed the manner in which unitary and operating non-unitary property is assessed by the State Board of Equalization. The legislation deleted the formula for the allocation of assessed value attributed to such property and imposed a State-mandated local program requiring the assignment of the assessment value of all unitary and operating non-unitary property in each county of each State assessee other than a regulated railway company. The legislation established formulas for the computation of applicable county-wide rates for such property and for the allocation of property tax revenues attributable to such property among taxing jurisdictions in the county beginning in fiscal year 1988-89. This legislation requires each county to issue each State assessee, other than a regulated railway company, a single tax bill for all unitary and operating non-unitary property.

Assessment Appeals. Property tax values determined by the County Assessor may be subject to appeal by property owners. Assessment appeals are annually filed with the Assessment Appeals Board for a hearing and resolution. The resolution of an appeal may result in a reduction to the County Assessor's original taxable value and a tax refund to the applicant/property owner.

Each assessment appeal could result in a reduction of the taxable value of the real property, personal property or possessory interest of the property which is the subject of the appeal. Alternatively,

an appeal may be withdrawn by the applicant or the Assessment Appeals Board may deny or modify the appeal at a hearing or by stipulation.

Effect of Delinquencies and Foreclosures on Property Tax Collections. As described above, once an installment of property tax becomes delinquent, penalties are assessed commencing on the applicable delinquency date until the delinquent installment(s) and all assessed penalties are paid. In the event of foreclosure and sale of property by a mortgage holder, all past due property taxes, penalties and interest are required to be paid before the property can be transferred to a new owner.

In the most recent cycle of increased foreclosure activity within the State, the greatest impacts to date are in regions of the Central Valley, the Inland Empire, and other areas in the State where the large numbers of new mortgages were originated in more affordable areas. The increased level of default and foreclosure activity has resulted in downward pressure on home prices in the affected areas.

Set forth in the tables below are assessed valuation for secured and unsecured property within the City of Huntington Beach for the ten most recent fiscal years and the current fiscal year and tax levies and collections (as of the close of each fiscal year) for the ten most recent fiscal years.

**Gross Assessed Value of All Taxable Property
(Dollars in Thousands)**

Fiscal Year	Secured	Unsecured	Total⁽¹⁾	Percent Increase
2010-11	\$25,584,186	\$1,090,869	\$26,675,055	1.0%
2011-12	25,553,372	1,170,004	26,723,376	0.2
2012-13	26,988,540	1,056,938	28,045,479	4.9
2013-14	28,059,691	1,106,038	29,165,729	4.0
2014-15	29,797,376	989,809	30,787,185	5.6
2015-16	31,260,013	1,132,728	32,392,741	5.2
2016-17	32,596,119	1,067,760	33,663,879	3.9
2017-18	34,240,137	1,100,077	35,340,214	5.0
2018-19	36,002,850	1,117,879	37,120,729	5.0
2019-20	37,741,614	1,145,838	38,887,451	4.8
2020-21	39,450,207	1,111,018	40,561,224	4.3

⁽¹⁾ Excludes redevelopment project area incremental assessed valuation.

Source: City of Huntington Beach Finance Department; County of Orange Auditor Controller

General Fund Property Tax Levies and Collections
Secured Taxes
(Dollars in Thousands)

Fiscal Year	Total Levy⁽¹⁾	Total Collections⁽²⁾	Delinquency Amount⁽³⁾	Delinquency Percent
2010-11	\$44,014	\$43,572	\$ 746	1.7%
2011-12	44,304	43,562	660	1.5
2012-13	47,162	46,577	565	1.2
2013-14	49,808	49,108	545	1.1
2014-15	52,188	51,335	519	1.0
2015-16	55,886	54,462	1,263	2.3
2016-17	58,258	57,006	1,253	2.2
2017-18	62,418	60,205	2,073	3.3
2018-19	63,934	62,844	920	1.4
2019-20	66,411	65,263	1,092	1.6

⁽¹⁾ Excludes refunds and collection charges.

⁽²⁾ Includes delinquent tax collections. Although the County maintains a Teeter Plan, which is an alternative method for the distribution of secured property taxes to local agencies, the City has elected not to be included in the County's Teeter Plan.

⁽³⁾ As of end of fiscal year.

Source: City of Huntington Beach Finance Department

In 1978, the voters of the State passed Proposition 8, a constitutional amendment to Article XIII A that allows a temporary reduction in assessed value when real property suffers a decline in value. A decline in value occurs when the current market value of real property is less than the current assessed (taxable) factored base year value as of the lien date, January 1.

See also "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS – Article XIII A of the California Constitution."

Principal Taxpayers. The following table sets forth the principal property taxpayers in the City as of fiscal year 2020-21, the most current information available.

**Top Ten Property Taxpayers
Fiscal Year 2020-21
(Dollars in Thousands)**

	Property Owner	Primary Land Use	2020-21 Assessed Valuation	% of Total
1.	AES HB Energy LLC	Utility	\$ 793,855	1.96%
2.	Bella Terra Associates LLC*	Commercial	389,326	0.96
3.	SoCal Holding LLC*	Possessory Interest	239,724	0.59
4.	PCH Beach Resort LLC	Commercial	225,367	0.56
5.	DCO Pacific City LLC	Residential	221,223	0.55
6.	Huntington Gateway Industrial*	Industrial	188,695	0.47
7.	McDonnell Douglas Corp/Boeing*	Commercial	170,588	0.42
8.	LSRef4 Shark* Huntington LLC	Residential	167,305	0.41
9.	The Waterfront Hotel LLC	Commercial	145,907	0.36
10.	Elan Multifamily LLC*	Residential	139,445	0.34
Total Top Ten			\$ 2,681,435	6.61
All other Properties			37,879,789	93.39
City Total			\$40,561,224	100.00

Source: Orange County Assessor

* Pending appeals on parcels as of January 2021.

Motor Vehicle In-Lieu Tax

Vehicle license fees (“VLF”) are assessed as a percentage of a vehicle’s depreciated market value for the privilege of operating a vehicle on California’s public highways. The City receives a portion of VLF collected Statewide. Several years ago, the Statewide VLF was reduced by approximately two-thirds. However, the State continued to remit to cities and counties the same amount that those local agencies would have received if the VLF had not been reduced, known as the “VLF backfill.” The State VLF backfill was phased out and as of fiscal year 2011-12 all of the VLF is now received through an in-lieu payment from State property tax revenues. The backfill is funded from property tax revenue (*i.e.*, property tax in lieu of VLF). The in lieu property tax is allocated to local governments based on growth in assessed valuation.

There can be no assurance that the property tax revenues the City currently expects to receive will not be reduced pursuant to State legislation enacted in the future. If the property tax formula is permanently changed in the future it could have a material adverse effect on the receipt of property tax revenue by the City. There can be no assurance that any future State budget difficulties will not adversely affect the City’s revenues or its ability to pay the principal of and interest due on the Series 2021 Bonds under the Trust Agreement. See “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES, REVENUES AND APPROPRIATIONS – Proposition 1A of 2004” and “CERTAIN RISK FACTORS – State Budgets.”

SALES TAXES

A sales tax is imposed on retail sales or consumption of personal property. Sales tax revenues total \$43.9 million or 18.6% of the City’s total General Fund revenues for fiscal year 2018-19. The current spread of COVID-19 has altered the behavior of businesses and people in a manner that has had

significant negative effects on global and local economies, including reducing travel and related use of lodging facilities, and consumer spending. See “CERTAIN RISK FACTORS – Infectious Disease Outbreak – COVID-19.” As a result of the COVID-19 pandemic, national consumer spending dropped in the fourth quarter of fiscal year 2019-20. Actual General Fund revenues are \$41.1 million or 18.2% for fiscal year 2019-20, and \$39.2 million or 18.6% of budgeted General Fund revenues for fiscal year 2020-21.

Sales Tax Rates. The City’s sales tax revenue represents the City’s share of the sales and use tax, imposed on taxable transactions occurring within the City’s boundaries. Sales and use taxes are imposed under the Bradley-Burns Uniform Local Sales and Use Tax Law.

The following table shows components of the City’s current 7.75% sales and use tax rate.

**City of Huntington Beach
Sales Tax Rate
As of July 1, 2020**

Jurisdiction	Rate
State	6.00%
City portion of State	1.25
Orange County Transportation Authority	0.50
Total	7.75%

Source: State of California, Board of Equalization

On March 30, 2020, the Governor signed an Executive Order providing emergency relief for businesses generating less than \$1,000,000 in annual sales to delay filing for 30 days until July 31, 2020. The impacts of this Order are unknown at this time.

OTHER TAXES

Utility Taxes

The City levies a utility users tax on users for the consumption of various utilities in the City including water, telephone, natural gas, electric, and cable television services. The City levies a 5% tax for electricity, gas, and water services. In November 2010, in furtherance of a telecommunications modernization ordinance adopted in consideration of the application of State law to certain features of its then existing ordinance, the City introduced a successful ballot measure and the electorate of the City voted to reduce the utility users tax rate for telecommunications and video services from 5% to 4.9%, effectively immediately. Revenue from this source can be volatile, as it reflects not only changes in utility rates, but also business activities and changes in technology. Electricity and natural gas sales are sensitive to weather (warmer winters and cooler summers reduce demand). Revenues generated from the utility users tax represented approximately 7.9% and 8.0% of the City’s total General Fund revenues for fiscal year 2018-19 and actual revenues for fiscal year 2019-20, and 7.9% of the projected General Fund revenues for fiscal year 2020-21.

Transient Occupancy Tax

Transient occupancy tax (TOT) accrues to the City at a rate of 10% of room charges from its 24 inns, motels, hotels, and resorts. TOT receipts represent \$14 million or 5.9% of the City’s total General

Fund revenues on the fiscal year 2018-19, \$9.6 million or 4.3% of the actual General Fund revenues for fiscal year 2019-20, and approximately \$6.9 million or 3.3% of projected General Fund revenues for fiscal year 2020-21. This revenue source is the most impacted by the effects of the COVID-19 pandemic due to the stay-at-home orders. Declines in transient occupancy tax resulted from the shelter-in-place orders related to the COVID-19 pandemic began in the fourth quarter of fiscal year 2019-20 and are projected to continue through fiscal year 2020-21. The City cannot predict when, or if, travel and tourism activity will return to the level of such activity which existed prior to the outbreak of the COVID-19 pandemic. None of the hotels in the City are currently closed.

On December 21st, City Council approved Ordinance 4224, establishing a set of regulations, standards, and a permitting process for short-term rentals (STRs) affecting residential districts citywide. The Ordinance permits only home-hosted STRs in Huntington Beach. Unhosted STRs are allowed in Sunset Beach only for properties that apply for permits within the first six months of fee establishment, and hosted STRs for properties that apply after the initial six month period. The TOT rate of 10% would be assessed on all STRs. The STR permit fee is being developed and the estimated additional TOT revenue anticipated from short-term rentals is under review.

Other Taxes

In addition, the City levies a franchise tax on its gas, electric, cable television and trash collection franchises based on franchise agreements between the City and the franchise agency. Revenues generated from franchise taxes represented approximately \$6.2 million or 2.6% of the City's total General Fund revenues on the fiscal year 2018-19, approximately \$7.9 million or 3.5% of the actual General Fund revenues for fiscal year 2019-20, and \$5.5 million or 2.6% of projected revenues for fiscal year 2020-21. The City's Utility Users Tax, Measure P was approved with 68.6% voting to approve the ballot question on the November 2, 2010 ballot. Measure P was proposed to raise more revenue for the City by expanding the type of services to which the City's existing utility tax would be applied. The tax, after Measure P, was applied to telephone and video services regardless of the specific type of technology or method of billing. At the same time, the tax rate was reduced from 5% to 4.9%.

OTHER REVENUES

The following table illustrates other General Fund revenue sources:

City of Huntington Beach Other Revenue Sources (in Thousands)

Source	Fiscal Year Actual 2015-16	Fiscal Year Actual 2016-17	Nine- Month Actual 2017-18 ⁽¹⁾	Fiscal Year Actual 2018-19	Adopted Budget 2019-20	Fiscal Year Actual 2019-20	Adopted Budget 2020-21
Licenses and Permits	\$ 9,639	\$ 8,736	\$ 6,247	\$ 8,292	\$ 7,858	\$ 8,368	\$ 7,358
Fines and Forfeitures	5,144	3,995	3,048	4,300	4,519	3,403	3,282
Use of Money and Property	16,861	16,555	11,211	19,859	17,272	17,510	14,500
Intergovernmental	4,327	3,831	3,901	4,974	3,074	4,102	3,130
Charges for Current Services	25,813	24,800	18,132	25,390	27,132	25,501	24,630
Other Revenue	2,509	1,492	1,502	1,492	1,460	2,395	1,396
Total Other Revenues	\$64,293	\$59,409	\$44,041	\$64,307	\$61,315	\$61,279	\$54,296

⁽¹⁾ Fiscal year 2017-18 financial information presents nine months of activities only as the fiscal year change from September 30 to June 30 resulted in a reporting period from October 1, 2017 to June 30, 2018. Prior fiscal years ended September 30.

Source: City of Huntington Beach Finance Department

Licenses and Permits. These revenues consist primarily of building construction permit fees.

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

Use of Money and Property. These revenues consist primarily of investment earnings and lease/concession income.

Intergovernmental. These revenues consist primarily of reimbursements from Federal, State, and County sources.

Charges for Services. The City charges fees for plan checking, building inspection and a variety of other municipal services.

Other Revenues. These revenues consist of passport processing fees, sales of surplus city equipment, restitution and settlement payments as well as other miscellaneous and reimbursement revenues such as reimbursement for property damage.

The following two tables summarize the General Fund Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance of the City's General Fund for the fiscal years 2015-16 through 2019-20. As a result of City Council action taken December 18, 2017, the City's fiscal year changed from a September 30 year-end to a June 30 year-end. As a result, the summary financial information for fiscal year 2017-18 presents nine months of activities and the prior fiscal years included therein ended September 30 and each represent 12 months of activities.

City of Huntington Beach
General Fund Balance Sheet
Fiscal Years 2015-16 through 2019-20
(in Thousands)

	Fiscal Year Ended,				
	2016	2017	2018 ⁽⁵⁾	2019	2020
ASSETS:					
Cash and Investments	\$56,700	\$52,201	\$64,405	\$74,657	\$76,184
Cash and Investments with Fiscal Agent	--	--	--	--	--
Taxes Receivable	29,623	31,301	10,405	10,607	11,350
Other Receivables, Net	6,610	7,115	8,181	7,783	7,523
Prepays	--	--	41	23	120
Total Assets	\$92,933	\$90,617	\$83,032	\$93,070	\$95,177
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES:					
Liabilities:					
Accounts Payable	\$ 4,999	\$ 4,929	\$ 4,096	\$ 4,102	\$ 3,888
Accrued Payroll	4,360	2,871	4,365	4,286	5,389
Deposits Payable	1,691	1,349	1,924	2,070	2,360
Unearned Revenue	--	--	1,730	1,840	626
Claims Payable	--	--	--	--	--
Total Liabilities	\$11,050	\$ 9,149	\$12,115	\$12,298	\$12,263
Deferred Inflows of Resources:					
Unavailable Revenue	19,036	20,288	2,283	1,759	2,826
Total Deferred Inflows of Resources	19,036	20,288	2,283	1,759	2,826
Fund Balances:					
Nonspendable ⁽¹⁾	\$ --	\$ --	\$ 41	\$ 23	\$ 120
Restricted ⁽²⁾	2,637	2,671	6,384	8,154	9,320
Committed ⁽³⁾	25,011	25,011	25,011	25,011	25,010
Assigned ⁽⁴⁾	35,199	33,498	34,464	45,825	45,638
Unassigned	--	--	2,734	--	--
Total Fund Balance	\$62,847	\$61,180	\$68,634	\$79,013	\$80,088
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$92,933	\$90,617	\$83,032	\$93,070	\$95,177

- (1) Nonspendable includes amounts that are not in spendable form, such as inventories and prepaids, and other items that by definition are not in spendable form.
- (2) Restricted includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
- (3) Committed includes amounts that can be used only for the specific purposes determined by a formal action of the City Council. The City Council has authority to establish, modify, or rescind a fund balance commitment.
- (4) Assigned includes amounts that are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. The City Manager or designee has the authority to establish, modify, or rescind a fund balance assignment.
- (5) Fiscal year 2017-18 financial information presents nine months of activities only as the fiscal year change from September 30 to June 30 resulted in a reporting period from October 1, 2017 to June 30, 2018. Prior fiscal years ended September 30.

Source: City of Huntington Beach Comprehensive Annual Financial Report

City of Huntington Beach
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Fiscal Years 2015-16 through 2019-20
(in Thousands)

	Fiscal Year Ended,				
	2016	2017	2018 ⁽¹⁾	2019	2020
REVENUES:					
Property Taxes	\$ 86,382	\$ 80,826	\$ 80,614	\$ 89,367	\$ 87,497
Sales Taxes	36,097	40,371	31,364	43,942	41,063
Utility Taxes	19,482	19,303	14,014	18,788	18,149
Other Taxes	17,313	17,991	14,883	20,227	17,499
Licenses and Permits	9,639	8,736	6,247	8,292	8,368
Fines and Forfeitures	5,144	3,995	3,048	4,300	3,403
From Use of Money and Property	16,861	16,555	11,211	19,859	17,510
Intergovernmental	4,327	3,831	3,901	4,974	4,102
Charges for Current Services	25,813	24,800	18,132	25,390	25,501
Other	2,509	1,492	1,502	1,492	2,395
Total Revenues	\$223,567	\$217,900	\$184,916	\$236,631	\$225,487
EXPENDITURES:					
Current:					
City Council	318	333	279	369	394
City Manager	2,169	2,116	1,928	2,656	4,045
City Treasurer	204	201	134	248	297
City Attorney	2,539	3,052	2,037	2,874	2,898
City Clerk	790	830	602	981	874
Finance	5,659	5,763	4,376	6,467	6,174
Human Resources	6,582	5,535	5,323	6,362	--
Planning & Building	7,062	--	--	--	--
Community Development	--	6,770	5,428	7,960	9,184
Fire	46,106	46,746	36,304	53,547	55,030
Information Services	6,742	6,384	5,225	7,938	7,812
Police	71,638	73,543	57,218	82,098	85,993
Community Services	9,903	10,652	6,410	9,414	9,064
Library Services	4,077	4,246	3,283	4,710	4,752
Public Works	21,411	22,081	19,009	28,289	27,264
Non-Departmental	24,460	25,163	20,048	--	--
Debt Service					
Principal	163	981	311	1,379	1,637
Interest	41	186	87	177	218
Total Expenditures	\$209,864	\$214,582	\$168,002	\$215,469	\$215,636
Excess (Deficiency) of Revenues					
Over (Under) Expenditures	13,703	3,318	16,914	21,162	9,851
OTHER FINANCING SOURCES (USES):					
Transfers In	13	221	152	13	172
Transfers Out	(15,661)	(6,068)	(13,400)	(10,796)	(8,948)
Total Other Financing Sources (Uses)	(15,648)	(5,847)	(13,248)	(10,783)	(8,776)
Net Change in Fund Balances	(1,945)	(2,529)	3,666	10,379	1,075
Fund Balances – Beginning of Year	64,792	62,847	61,180	68,634	79,013
Prior Period Adjustments	--	862	3,788	--	--
Fund Balance Beginning Restated	64,792	63,709	64,968	68,634	79,013
Fund Balances – End of Year	\$ 62,847	\$ 61,180	\$ 68,634	\$ 79,013	\$ 80,088

⁽¹⁾ Fiscal year 2017-18 financial information presents nine months of activities only as the fiscal year change from September 30 to June 30 resulted in a reporting period from October 1, 2017 to June 30, 2018. The prior fiscal years ended September 30 and represent 12 months of activities.

Source: City of Huntington Beach Comprehensive Annual Financial Report

OTHER FINANCIAL INFORMATION

Labor Relations

City employees are represented by eight labor union associations, the principal one being Huntington Beach Municipal Teamsters which represents approximately 39.1% of all City employees. Currently 94.3% of all permanent City employees are covered by negotiated agreements. Negotiated agreements have the following expiration dates:

Negotiated Employee Agreements

Bargaining Unit	Contract Expiration Date	Number of Employees
Huntington Beach Municipal Teamsters	Expired 9/30/2020	306
Management Employees' Organization	Expired 10/31/2020	86
Police Officers' Association	6/30/2023	234
Police Management Association	Expired 6/30/2020	12
HB Firefighters' Association	6/30/2021	103
Fire Management Association	Expired 9/30/2017	5
Marine Safety Officers' Association	Expired 3/31/2018	14
Surf City Lifeguard Employees' Association	Expired 6/30/2019	21

Source: City of Huntington Beach Finance Department

The expired contracts are currently under active negotiations. The City has never had an employee work stoppage.

Risk Management

The City is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City records the liability claims as expenditures in the Self Insurance General Liability Internal Service Fund and the workers' compensation claims in the Self Insurance Workers' Compensation Internal Service Fund. The full amount of claims is reported as a liability in the government-wide financial statements. Liabilities include amounts incurred, but not reported.

Liability claims up to \$1,000,000 are paid from the City's Self Insurance General Liability Internal Service Fund. The City currently purchases liability insurance in the open marketplace, which provides insurance for claims costs exceeding the City's self-insured retention of \$1,000,000. The maximum coverage limit is \$30,000,000, which is inclusive of the self-insured retention. Claims that exceed the maximum limit of liability are covered by the City's Self-Insurance General Liability Internal Service Fund. There were no liability claims in the last three years that exceeded the coverage limit.

Workers' compensation claims of up to \$1,000,000 per claim are paid from the Self Insured Workers' Compensation Internal Service Fund. Excess workers' compensation coverage is purchased through the CSAC-Excess Insurance Authority. Payments for claims from \$1,000,000 to statutory limits are covered by CSAC-Excess Insurance Authority.

All funds of the City participate in the program and make payments to these funds based on estimated cost information.

The Self Insurance Workers' Compensation Internal Service Fund had a \$14.2 million deficit as of June 30, 2020. The City has established plans to help reduce the deficit in this fund. This will be accomplished by additional transfers from the General Fund, proprietary funds, and other governmental funds in which employees are charged over the next nine years.

See Note 9 in APPENDIX B – “COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2020.”

Employee Retirement Plan - CalPERS

General. The City contributes to the California Public Employees' Retirement System (CalPERS), an agent, which is a multiple-employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within California. Benefit provisions and all other requirements are established by state statute and city ordinance. Copies of CalPERS annual financial report may be obtained from their executive office: 400 P Street, Sacramento, CA 95814 or on their website: www.calpers.ca.gov. See Note 7 in APPENDIX B – “COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2020.”

The City makes two types of contributions for covered employees. The first contribution represents the amount the City is required to make (the employer rate). The second represents an amount, which is made by the employee, but is reimbursed to the employee by the City (the member rate). The member rate is set by contract and normally remains unchanged. The employer rate is an actuarially established rate, is set by CalPERS, and changes from year to year.

One of the most significant changes to the State and local financial landscape is the recently enacted Public Employees' Pension Reform Act (“PEPRA”) of 2013. While PEPRA will have no immediate impact to current pension costs, the law will reduce pension costs of virtually all public employers in the long term. New employees hired after December 31, 2012 will be enrolled in a plan with substantially lower benefits. In addition, new employees will be required to pay at least 50% of the pension costs. The City, as with virtually all public agencies in California, still has an underfunded pension plan for existing employees. The new reform legislation will have no impact on this unfunded liability. Pension contribution rates for existing employees are expected rise over the medium term. The City will be working with labor groups to increase the amount paid by employees in order to mitigate impacts upon the City's overall financial condition.

As a result of City Council action taken December 18, 2017, the City's fiscal year changed from a September 30 year-end to a June 30 year-end. The new June 30 fiscal year end aligns the City's financial period with that of the State, the County, and with CalPERS.

Actuarial Methods and Assumptions. In each actuarial valuation, the CalPERS actuary estimates the actuarial value of the assets (the “Actuarial Value”) of the CalPERS Plans at the end of the fiscal year (which assumes, among other things, that the rate of return during that fiscal year equaled the assumed rate of return of 7.75%). The CalPERS actuary uses a smoothing technique to determine Actuarial Value that is calculated based on certain policies. As described below, these policies changed significantly in recent years.

On January 1, 2013, PEPRA took effect. On April 17, 2013, the CalPERS Board of Administration approved a recommendation to change the CalPERS amortization and rate smoothing policies. Beginning with the June 30, 2013 valuations that set the 2015-16 rates, CalPERS would no

longer use an actuarial value of assets and will employ an amortization and smoothing policy that will pay for all gains and losses over a fixed 30-year period with the increases or decreases in the rate spread directly over a 5-year period.

At its April 17, 2013, meeting, CalPERS' Board of Administration (the "Board of Administration") approved a recommendation to change the CalPERS amortization and smoothing policies. Prior to this change, CalPERS employed an amortization and smoothing policy that spread investment returns over a 15-year period with experience gains and losses paid for over a rolling 30-year period. After this policy change, CalPERS commenced an amortization and smoothing policy that pays for all gains and losses amortized over a 20-year period with a five-year ramp-up and five-year ramp-down period. The new amortization and smoothing policy was used for the first time in the June 30, 2013 actuarial valuations in setting employer contribution rates for fiscal year 2015-16.

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

Also in 2014, CalPERS completed a 2-year asset liability management study incorporating actuarial assumptions and strategic asset allocation. On February 19, 2014, the Board of Administration adopted relatively modest changes to the current asset allocation that will reduce the expected volatility of returns. The Board of Administration also approved several changes to the demographic assumptions that more closely align with actual experience. The most significant of these is mortality improvement to acknowledge the greater life expectancies CalPERS reported seeing in its membership and expected continued improvements. The new actuarial assumptions were first used in the June 30, 2014 valuation to set the fiscal year 2016-17 contribution for public agency employers. The increase in liability due to new actuarial assumptions is amortized over a 20-year period with a 5-year ramp-up/ramp-down in accordance with Board of Administration policy. These new actuarial assumptions are set forth in this section.

On November 18, 2015, the Board of Administration adopted a funding risk mitigation policy intended to incrementally lower its discount rate – its assumed rate of investment return – in years of good investment returns, help pay down the pension fund's unfunded liability, and provide greater predictability and less volatility in contribution rates for employers. The policy establishes a mechanism to reduce the discount rate by a minimum of 0.05 percentage points to a maximum of 0.25 percentage points in years when investment returns outperform the then existing discount rate, currently 7.5%, by at least four percentage points. CalPERS staff modeling anticipates the policy will result in a lowering of the discount rate to 6.5% in about 21 years, improve funding levels gradually over time and cut risk in the pension system by lowering the volatility of investment returns. More information about the funding risk mitigation policy can be accessed through the CalPERS web site at the following website address: <https://www.calpers.ca.gov/page/newsroomicalpers-news/2015/adopts-funding-risk-mitigation-policy>. The reference to this website is provided for reference and convenience only. The information contained within the website may not be current, has not been reviewed by the City and is not incorporated in this Official Statement by reference.

In December 2016, the Board of Administration voted to lower the CalPERS discount rate from 7.5% to 7.0% over the following three years, advising plan members that this incremental lowering of the

discount rate would give employers more time to prepare for the changes in contribution costs. The discount rate changes approved by the Board of Administration for the current and next two fiscal years are as follows:

Fiscal Year 2018-19:	7.375%
Fiscal Year 2019-20:	7.250%
Fiscal Year 2020-21:	7.000%

For actuarial methods and assumptions, see Note 6 in APPENDIX B – “COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2020.” See also the tabular information for the Retirement Plan, the CalPERS City Safety Plan and the CalPERS City Municipal Plan under the heading “Required Supplementary Information” therein.

Projected Rates. The tables below show the employer contribution rates and projected employer contribution rates for the City’s Miscellaneous Plan and Safety Plan for the seven years from fiscal year 2019-20 through fiscal year 2025-26. The tables below show projected employer contribution rates (before cost sharing) for the current and following five fiscal years. The projected employer contribution rates are based on a CalPERS investment return assumption of 7.0 percent, which was adopted by the Board of Administration in December 2016. The actual investment return for fiscal year 2019-20 was not known at the time that the June 30, 2019 actuarial valuations were provided by CalPERS, in July 2020 (the “2020 CalPERS Report”). However, CalPERS reports that as of the preparation date of its report, the year to date return for the 2019-20 fiscal year was well below the 7.0 percent assumed return. To the extent the actual investment return for fiscal year 2019-20 differs from 7.0 percent, the actual contribution requirements will differ. The projections further assume that all actuarial assumptions will be realized and that no further changes to assumptions, contributions, benefits, or funding will occur during the projection period. Changes in the UAL due to actuarial gains or losses as well as changes in actuarial assumptions or methods are amortized using a 5-year ramp up, phasing in the impact of unanticipated changes in UAL over a 5-year period and attempting to minimize employer cost volatility from year to year. Required contributions can change gradually and significantly over the next five years. In years where there is a large increase in UAL the relatively small amortization payments during the ramp up period could result in a funded ratio that is projected to decrease initially while the contribution impact of the increase in the UAL is phased in. The projected contribution rates do not reflect that the City’s Miscellaneous Plan’s normal cost will decline over time as new employees are hired into PEPR and other lower cost benefit tiers.

The tables below do not reflect the City’s prepayment to CalPERS on July 15, 2020 of the fiscal year 2020-21 unfunded liability payments for its Miscellaneous and Safety plans totaling \$31,484,000. See “PLAN OF FINANCE – Report of Independent Actuary” herein. Further changes will result with the issuance of the Series 2021 Bonds to refund 100% of the Unfunded Liability. With this deposit, the City will have fully funded its Unfunded Liability and will not be required to make any further payments to CalPERS with respect to the Unfunded Liability refinanced by the Series 2021 Bonds. See “SECURITY AND SOURCE OF PAYMENT FOR THE BONDS – Debt Service Schedule.”

**City of Huntington Beach Miscellaneous Plan
Actual and Projected Future Pension Contribution Rates
Fiscal Years 2019-20 Through 2025-26**

Fiscal Year Ended (June 30)	Normal Cost Contribution Rate	UAL Payment	Total as a % of Payroll
2020	10.0%	\$12,765,260	35.9%
2021	10.8	13,849,615	38.9
2022	10.5	14,692,509	41.8
2023 [†]	10.3	15,844,000	43.1
2024 [†]	10.1	16,539,000	43.5
2025 [†]	9.9	17,373,000	44.0
2026 [†]	9.7	15,866,000	40.0

[†] CalPERS projected.

Source: City of Huntington Beach Finance Department and 2020 CalPERS Report.

**City of Huntington Beach Safety Plan
Actual and Projected Future Pension Contribution Rates
Fiscal Years 2019-20 Through 2025-26**

Fiscal Year Ended (June 30)	Normal Cost Contribution Rate	UAL Payment	Total as a % of Payroll
2020	20.9%	\$17,127,399	57.3%
2021	21.7	18,717,558	60.8
2022	21.2	20,222,418	64.4
2023 [†]	20.8	21,875,000	66.2
2024 [†]	20.5	22,957,000	66.9
2025 [†]	20.1	24,087,000	67.5
2026 [†]	19.7	24,813,000	67.3

[†] CalPERS projected.

Source: City of Huntington Beach Finance Department and 2020 CalPERS Report.

The member rates are as follows for fiscal years 2019-20 and 2020-21:

Miscellaneous - Classic	8.000%
Miscellaneous - PEPR	6.250
Safety – Classic	9.000
Safety – PEPR	11.750

The City's fiscal year 2019-20 annual employer contribution of \$42,725,000 was equal to the City's required and actual contributions and includes both the normal cost and UAL contribution. The required contribution was determined as part of the June 30, 2018, actuarial valuations provided by CalPERS in October 2019 (the "2019 CalPERS Report"), using the entry age normal actuarial cost method.

Public Employees' Pension Reform Act of 2013 (PEPRA). On January 1, 2013, the Public Employees' Pension Reform Act of 2013 (PEPRA) took effect, requiring that a public employer's contribution to a defined benefit plan, in combination with employee contributions to that defined benefit plan, shall not be less than the normal cost rate. Since fiscal year 2013-14, the percentage of City full-time employees (FTEs) enrolled in PEPRA has increased from 9.5% to 40.0%. The increase in the number of PEPRA members over the last eight fiscal years is shown below:

Fiscal Year	PEPRA Misc.	PEPRA Safety	Misc. Classic	Safety Classic	Total FTEs	Total PEPRA FTEs	% of PEPRA FTEs
2013-14	57	30	499	329	915	87	9.5%
2014-15	85	43	476	327	931	128	13.7
2015-16	116	55	452	308	931	171	18.4
2016-17	142	63	431	292	928	205	22.1
2017-18*	156	91	404	292	943	247	26.2
2018-19	174	103	363	269	909	277	30.5
2019-20	208	112	343	253	916	320	34.9
2020-21**	209	122	280	217	828	331	40.0

* Effective fiscal year 2017-18, the City changed its fiscal year from September 30 to June 30.

** Fiscal year 2020-21 data is current as of October 2020.

Source: City of Huntington Beach Finance Department

The City has begun negotiating with all eight of its collective bargaining units for employer cost-sharing retirement benefit concessions and have reached agreements with six:

The City and the Huntington Beach Firefighters' Association (HBFA) have agreed that HBFA "Classic" members pay 3% of the employer-paid contribution to CalPERS, effective November 2018. HBFA PEPRA members pay the difference between the required PEPRA employee contribution and 12%, which is currently 0.25% for the fiscal year 2019-20.

The City and the Fire Management Association (FMA) have agreed that FMA "Classic" members pay 2% of the employer-paid contribution to CalPERS, effective October 2016.

The City and the Police Management Association (PMA) have agreed that PMA "Classic" members pay 2% of the employer-paid contribution to CalPERS, effective January 2017.

The City and the Police Officers' Association (POA) have agreed that POA "Classic" sworn members will pay 2% of the employer-paid contribution to CalPERS, effective January 2020, increasing by an additional 1% per year through 2022, for a total cost share of 4%. POA "Classic" non-sworn members will pay 1.25% of the employer-paid contribution to CalPERS, effective January 2020. POA "PEPRA" sworn members will pay 1.25% of the employer-paid contribution to CalPERS, effective January 2020, not to exceed a total of 13% of pensionable compensation. POA "PEPRA" non-sworn members will pay 1.5% of the employer-paid contribution to CalPERS, effective January 2020, increasing by 1.25% in January 2021 for a total employee contribution not to exceed 9%.

The City and the Huntington Beach Municipal Teamsters (HBMT) have agreed that HBMT "Classic" and "PEPRA" members will pay 1% of the employer-paid contribution to CalPERS, effective October 1, 2019.

The City and the Management Employees' Organization (MEO) have agreed that MEO "Classic" and "PEPRA" members will pay 1% of the employer-paid contribution to CalPERS, effective November 1, 2019.

All bargaining units pay 100% of the required employee contributions for CalPERS. "Classic" members for Miscellaneous and Safety contribute 8% and 9%, respectively. PEPRA members for Miscellaneous and Safety pay 6.25% and 11.75%, respectively.

Negotiations with the Fire Management Association, Marine Safety Officers' Association, and Surf City Lifeguard Employee Association are ongoing.

Contributions. Section 20814(c) of the California Public Employee's Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the CalPERS actuary and shall be effective on the July 1 following notice of a change in the rate. 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.

Beginning with fiscal year 2017-18 CalPERS began collecting employer contributions toward the plan's unfunded liability as dollar amounts instead of the prior method of a contribution rate. According to CalPERS, this change was to address potential funding issues that could arise from a declining payroll or reduction in the number of active members in the plan. Funding the unfunded liability as a percentage of payroll could lead to the underfunding of the plans. Due to stakeholder feedback regarding internal needs for total contributions expressed as an estimated percentage of payroll, the CalPERS reports include such results in the contribution projection set forth in the tables below. These results are provided for information purposes only. Contributions toward the unfunded liability will continue to be collected as set dollar amounts.

The following tables set forth the City's required contributions for fiscal years 2014-15 through 2019-20. The City funded the required employer contribution in such fiscal years.

Miscellaneous Plan

Fiscal Year	Employer Normal Cost Rate	Total Employer Contribution (in thousands)	Required Employee Classic Rate	Required Employee PEPRA Rate
2014-15	24.843%	\$10,510	8.00%	6.25%
2015-16	26.483	11,238	8.00	6.25
2016-17	26.428	11,921	8.00	6.25
2017-18 ⁽¹⁾	28.428	9,734	8.00	6.25
2018-19	32.179	14,819	8.00	6.25
2019-20	35.902	16,878	8.00	6.25

Safety Plan

Fiscal Year	Employer Normal Cost Rate	Total Employer Contribution (in thousands)	Required Employee Classic Rate	Required Employee PEPRA Rate
2014-15	42.969%	\$19,125	9.00%	11.75%
2015-16	45.123	19,129	9.00	11.75
2016-17	45.701	19,468	9.00	11.00
2017-18 ⁽¹⁾	45.701	15,223	9.00	11.00
2018-19	51.009	23,062	9.00	11.00
2019-20	57.341	25,847	9.00	11.75

⁽¹⁾ Effective fiscal year June 30, 2018, the City changed its fiscal year end from September 30 to June 30, resulting in a one-time nine-month period for the October 1, 2017-June 30, 2018 period.

Source: *Huntington Beach CAFR for the Fiscal Year Ended June 30, 2020 and CalPERS actuarial reports for fiscal years.*

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

In December 2016, the Board of Administration voted to lower the discount rate from 7.5 percent to 7.0 percent over the subsequent three years. For public agencies including the City, the discount rate changes approved by the Board of Administration for the three fiscal years ending June 30, 2019, 2020, and 2021 are 7.375%, 7.25%, and 7.00%, respectively. Effective October 1, 2017, the City changed its fiscal year end from September 30 to June 30.

The City's net pension liability for each Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability is measured as of each June 30, using the annual actuarial valuation as of the prior June 30 rolled forward using standard update procedures. The City's changes in net pension liability for each Plan for the last 5 years as reported by CalPERS is shown below.

**Schedule of Funding Progress
Retirement Plan-Normal
(Dollars in Thousands)**

Measurement Period	Local Miscellaneous				Local Safety			
	Total Pension Liability	Fiduciary Net Position	Net Pension Liability	%	Total Pension Liability	Fiduciary Net Position	Net Pension Liability	%
6/30/2014	\$485,656	\$373,141	\$112,515	70.5	\$624,982	\$440,704	\$184,728	76.8
6/30/2015	493,569	371,115	122,454	75.2	639,852	441,234	198,618	69.0
6/30/2016	514,955	363,147	151,808	70.5	670,963	433,724	237,239	64.6
6/30/2017	557,090	393,812	163,278	70.7	729,281	472,474	256,807	64.8
6/30/2018	571,812	415,455	156,357	72.7	755,812	497,767	258,045	65.9
6/30/2019	591,598	432,522	159,076	73.1	782,326	518,644	263,682	66.3

Source: City of Huntington Beach CAFR as of June 30, 2020 and GASB 68 CalPERS Report as of measurement date June 30, 2019.

The Total Pension Liability, Fiduciary Net Assets, and Net Pension Liability calculations and sensitivity of the Net Pension Liability to Changes in the Discount Rate that follow are prepared using the requirements in GASB Statement No. 68 - Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27 ("GASB No. 68"). The plan fiduciary net position pursuant to the GASB No. 68 accounting valuation report may differ from the plan assets reported in the annual actuarial valuation report due to several reasons. For example, for the accounting valuations, CalPERS must keep items such as deficiency reserves and fiduciary self-insurance included as assets. These amounts are excluded for rate setting purposes in the actuarial valuation. The City has agreed in its Continuing Disclosure Certificate to update this table as part of its Annual Report.

The following table illustrates net pension liabilities and funded ratios for the past five fiscal years for each of the City's plans. The following table is an alternative presentation of the information set forth above, and the City will not update this table as part of its Annual Report.

**Schedule of Funding Progress
Retirement Plan-Normal
(Dollars in Thousands)**

Actuarial Valuation Date/Plan	Entry Age Normal Actuarial Accrued Liability (AAL)	Market Value of Assets	Unfunded Accrued Liability	Funded Ratio (Market Value)
6/30/2015				
Safety	\$ 654,038	\$440,552	\$213,486	67.4%
Miscellaneous	503,489	370,535	132,954	73.6
Total	\$1,157,527	\$811,087	\$346,440	
6/30/2016				
Safety	\$ 681,856	\$432,727	\$249,129	63.5%
Miscellaneous	522,362	362,308	160,054	69.4
Total	\$1,204,218	\$795,035	\$409,183	
6/30/2017				
Safety	\$ 721,352	\$471,442	\$249,910	65.4%
Miscellaneous	546,431	392,946	153,485	71.9
Total	\$1,267,783	\$864,388	\$403,395	
6/30/2018				
Safety	\$ 768,274	\$498,167	\$270,107	64.8%
Miscellaneous	581,854	415,788	166,066	71.5
Total	\$1,350,128	\$913,955	\$436,173	
6/30/2019				
Safety	\$ 791,607	\$518,802	\$272,805	65.5%
Miscellaneous	595,842	432,653	163,189	72.6
Total	\$1,387,449	\$951,455	\$435,994	

Source: City of Huntington Beach Finance Department and 2019 CalPERS Report.

For funded status of the plans, see Note 6 in APPENDIX B – “COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2020.” See also the tabular information for the Retirement Plan, the CalPERS City Safety Plan and the CalPERS City Municipal Plan under the heading “Required Supplementary Information” therein.

Volatility Ratios. As noted in the 2019 CalPERS Report, the actuarial calculations are based on a number of assumptions about very long-term demographic and economic behavior. Unless these assumptions (terminations, deaths, disabilities, retirements, salary growth, and investment return) are exactly realized each year, there will be differences on a year-to-year basis. The year-to-year differences between actual experience and the assumptions are called actuarial gains and losses and serve to lower or raise the employer’s rates from one year to the next. Therefore, the rates will inevitably fluctuate, especially due to the ups and downs of investment returns.

Asset Volatility Ratio (AVR). Plans that have higher asset to payroll ratios produce more volatile employer rates due to investment return. For example, a plan with an asset to payroll ratio of 8 may experience twice the contribution volatility due to investment return volatility, than a plan with an asset to payroll ratio of 4. As part of the 2019 CalPERS Report, CalPERS has provided the asset volatility ratio, a measure of each plan's current rate volatility, as shown in the table below. It should be noted that this ratio is a measure of the current situation. It Increases over time but generally tends to stabilize as the plan matures.

Liability Volatility Ratio. Plans that have higher liability to payroll ratios produce more volatile employer rates due to investment return and changes in liability. For example, a plan with a liability to payroll ratio of 8 is expected to have twice the contribution volatility of a plan with a liability to payroll ratio of 4. The liability volatility ratio is also included in the table below. It should be noted that this ratio indicates a longer-term potential for contribution volatility and the asset volatility ratio, described above, will tend to move closer to this ratio as the plan matures.

The following table illustrates rate volatility as of June 30, 2019.

	<u>Miscellaneous Plan</u>	<u>Safety Plan</u>
1. Market Value of Assets without Receivables	\$431,236,329	\$518,476,936
2. Payroll	43,309,805	43,194,672
3. Asset Volatility Ratio (AVR = 1. / 2.)	10.0	12.0
4. Accrued Liability	595,842,161	791,606,900
5. Liability Volatility Ratio (4. / 2.)	13.8	18.3

Source: 2020 CalPERS Reports.

Superfunded Status. Prior to enactment of the Public Employees' Pension Reform Act (PEPRA) that became effective January 1, 2013, a plan in superfunded status (actuarial value of assets exceeding present value of benefits) would normally pay a zero employer contribution rate while also being permitted to use its superfunded assets to pay its employees' normal member contributions.

However, Section 7522.52(a) of PEPRA states, "In any fiscal year a public employer's contribution to a defined benefit plan, in combination with employee contributions to that defined benefit plan, shall not be less than the total normal cost rate..." This means that not only must employers pay their employer normal cost regardless of plan surplus, but also, employers may no longer use superfunded assets to pay employee normal member contributions.

Internal Revenue Code Section 415. The limitations on benefits imposed by Internal Revenue Code Section 415 are taken into account in this valuation. Each year the impact of any changes in this limitation since the prior valuation is included and amortized as part of the actuarial gain or loss base. This results in lower contributions for those employers contributing to the Replacement Benefit Fund and protects CalPERS from prefunding expected benefits in excess of limits Imposed by federal tax law.

Internal Revenue Code Section 401(a)(17). The limitations on compensation imposed by Internal Revenue Code Section 401(a)(17) are taken into account in this valuation. Each year, the impact of any changes in the compensation limitation since the prior valuation is included and amortized as part of the actuarial gain or loss base.

Retirement Plan - Supplemental

The City provides a supplemental retirement plan (the “Supplemental Retirement Plan”) for all employees hired prior to 1997 (exact dates are different for various associations). The plan is a single-employer defined benefit plan. It is a defined benefit plan and will pay the retiree an additional amount to his or her CalPERS amount for life. The Supplemental Retirement Plan is a closed plan. Effective in 1998, new City employees are ineligible to participate in the plan (exact dates are different for various associations). The City’s contracts with employee bargaining associations, which establish the plan. These associations must agree to any changes to the plan. The amount will cease upon the employee’s death. The amount that is computed as a factor of an employee’s normal retirement allowance is computed at retirement and remains constant for his or her life. Of the 892 eligible employees reported on the September 30, 2017 valuation report (the most recent actuarial report), only 738 were receiving plan benefits.

For the year ended June 30, 2020, the City recognized pension expense in the amount of \$7,083,000 for the Supplemental Plan. The Supplemental Plan’s fiduciary net position as a percentage of the total pension liability was 83.04% as of June 30, 2020, for a net liability of \$12,057,000.

No separately prepared financial statements are prepared for this plan and it is not included in the financial report of any other pension plan. Prior to fiscal year 2008-09, the City had prefunded these benefits and recorded the amounts in a fiduciary fund. In fiscal year 2008-09, the City established the Supplemental Employee Retirement Plan and Trust, and transferred \$24,918,000 to an irrevocable trust from the prefunded amounts. The plan and trust are still reported as a fiduciary fund pension trust.

Below is the Supplemental Retirement Plan participant data at the June 30, 2020 measurement date:

Retirees and beneficiaries receiving benefits	728
Active Plan Members	116
Total Plan Participants	844

Source: City of Huntington Beach Finance Department

The City annually transfers amounts from the various City funds to a pension trust fund. The City is required under the Supplemental Employee Retirement Plan and Trust to contribute the actuarially determined rate of 2.0% of total payroll for all permanent employees for the year ended June 30, 2020. Administrative costs of this plan are financed through investment earnings.

For actuarial methods and assumptions, see Note 7 in APPENDIX B – “COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2020.” See also the tabular information for the Supplemental Retirement Plan under the heading “Required Supplementary Information” therein.

Since the City is required to adopt GASB 68 for the supplemental pension plan, the difference between the Total Pension Liability (TPL) and the Fiduciary Net Position (FNP) must be recorded as a liability in the government-wide financial statements. As of June 30, 2020, the amount of this liability is \$12,057,000, and the plan was 83.0% funded. Benefits are recognized when due and payable under plan provisions.

Other Post-Employment Benefits (OPEB)

The City administers the two other post-employment benefit (OPEB) plans as described below. As of June 30, 2019 measurement period, the plan was 88.9% funded. The Total OPEB Liability was \$32,845,000, the Plan Fiduciary Net Position was \$29,193,000, resulting in a net OPEB liability of \$3,652,000, of which \$3,263,000 is payable from Governmental Activities. The covered payroll (annual payroll of active employees covered by the plan) was \$79.7 million. See Note 8 in APPENDIX B – “COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2020.”

Post-Employment Medical Insurance. The City agreed, via contract, with each employee association to provide post-employment medical insurance to retirees. This OPEB is based on years of service and are available to all retirees who meet all three of the following criteria:

- At the time of retirement the employee is employed by the City
- At the time of retirement the employee has a minimum of ten years of service credit or is granted a service connected disability retirement
- Following official separation from the City, CalPERS grants a retirement allowance

The City’s obligation to provide the benefits to a retiree ceases when either of the following occurs:

- During any period the retiree is eligible to receive health insurance at the expense of another employer
- The retiree becomes eligible to enroll automatically or voluntarily in Medicare

If an employee is terminated prior to retirement from the City, no postemployment benefits are provided. Employees hired on or after October 1, 2014 are not eligible for this benefit.

The maximum subsidy a retiree is entitled to is \$344 per month after 25 years of service. If a retiree dies, the benefits that would be payable for his or her insurance are provided to the spouse or family for 18 months. Benefits for insurance premiums are payable based on the years of service credit for the retiree. The retiree may use the subsidy for any of the medical insurance plans that the City’s active employees may enroll.

PEMHCA. The City provides an agent multiple-employer defined benefit healthcare plan to retirees through CalPERS under the California Public Employees Medical and Hospital Care Act (PEMHCA), commonly referred to as CalPERS Health. PEMHCA provides health insurance through a variety of Health Maintenance Organization (HMO) and Preferred Provider Organization (PPO) options. The PEMHCA benefits are applied to all safety employee groups, based on retirement plan election.

The City utilizes the California Employers’ Retiree Benefit Trust (CERBT), an agent multiple-employer plan, for the postemployment medical insurance benefit. Benefits paid from the CERBT were \$814,000 for year ended June 30, 2020. The assets of the CERBT are excluded from the financial statements attached hereto as APPENDIX B since they are in an irrevocable trust administered by CalPERS. The City’s policy is to make 100% of each year’s ARC, with an additional amount to prefund benefits as determined annually by City Council in order to improve the funded status of the plan. See

APPENDIX B – “COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2020.”

For PEMHCA, the City selected the “unequal” method for the contribution. Under this method, the City offered a lesser contribution for retirees than for active employees. The City paid the PEMHCA minimum for actives (\$133 in 2018, \$136 in 2019, and \$139 in 2020). Beginning in 2008, Assembly Bill 2544 changed the computation for annual increases to annuitant health care under the unequal method. Under the new provisions, the City increases annuitant health care contributions equal to an amount not less than five percent of the active employee contributions, multiplied by the number of years in PEMHCA. The City’s contribution for retirees is \$62.55 per employee for the Huntington Beach Firefighter’s Association (HBFA) and \$111.20 for all other Safety groups in 2020. The annual increase in minimum PEMHCA contribution to CalPERS will continue until the time that the City contribution for retirees equals the City contribution paid for active employees.

The City’s actual contributions of \$1,959,000 for fiscal year ending June 30, 2020, are greater than the actuarially determined contribution of \$1,793,000.

For actuarial methods and assumptions, see Note 8 in APPENDIX B – “COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2020.” Copies of CalPERS’ annual financial report may be obtained from their executive office: 400 P Street, Sacramento, CA 95814 or on their website: www.calpers.ca.gov.

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, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the City are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress above, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the City and plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Short-Term Obligations

The City currently has no outstanding short-term obligations.

Long-Term Obligations.

General Obligation Debt. The City has no long-term general obligation bonded indebtedness outstanding and has never defaulted on any of its bonded indebtedness previously issued. The City has no authorized but unissued debt.

Lease Obligations. The City has made use of various lease arrangements with the Huntington Beach Public Financing Authority (the “Authority”) to finance capital projects through the issuance of certificates of participation and lease revenue bonds. The Authority is a joint exercise of powers entity formed on March 8, 1988, as amended including by that Second Amendment to Joint Exercise of Powers

Agreement, dated as of July 17, 2014, by and among the City, the Successor Agency to the Redevelopment Agency of the City of Huntington Beach and the Huntington Beach Housing Authority, pursuant to Articles 1 through 4, Chapter 5, Division 7, Title 1 of the California Government Code.

On June 2, 2010, the Authority issued \$14,745,000 aggregate principal amount of its Huntington Beach Public Financing Authority Lease Revenue Refunding Bonds, 2010 Series A (Capital Improvement Refinancing Project) (the “Series 2010A Bonds”) under and an indenture, dated as of June 1, 2010, by and between the Authority and U.S. Bank National Association, as trustee. The bonds were issued to (a) refinance the costs of the acquisition, construction, installation and equipping of certain public capital improvements, including the refunding of (i) the Huntington Beach Public Financing Authority Lease Revenue Bonds, 1997 Series A (Public Facilities Project) and (ii) the Huntington Beach Public Financing Authority Lease Revenue Bonds, 2000 Series A (Capital Improvement Financing Project), (b) fund a reserve fund for the Series 2010A Bonds, and (c) pay costs of issuance of the Series 2010A Bonds. The Series 2010A Bonds were refunded and defeased with net proceeds of the Series 2020A Bonds described below.

On September 28, 2011, the Authority issued \$36,275,000 aggregate principal amount of its Huntington Beach Public Financing Authority Lease Revenue Refunding Bonds, 2011 Series A (Capital Improvement Refinancing Project) (the “Series 2011A Bonds”) under an indenture, dated as of September 1, 2011, by and among the City, the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee. The Series 2011A Bonds were issued to (a) refinance the costs of the acquisition, construction, installation and equipping of certain public capital improvements, including the refunding of (i) the Huntington Beach Public Financing Authority Lease Revenue Bonds, 2001 Series A (Capital Improvement Financing Project), and (ii) the Huntington Beach Public Financing Authority Lease Revenue Bonds, 2001 Series B (Capital Improvement Refinancing Project), (b) fund a reserve fund for the Series 2011A Bonds, and (c) pay costs of issuance of the Series 2011A Bonds. The Series 2011A Bonds were refunded and defeased with net proceeds of the Series 2020B Bonds described below.

On November 13, 2014, the Authority issued \$15,295,000 aggregate principal amount of its Huntington Beach Public Financing Authority Lease Revenue Bonds, 2014 Series A (Senior Center Project) (the “Series 2014A Bonds”) under an indenture, dated as of September 1, 2011, as amended and supplemented by a first supplemental indenture, dated as of November 1, 2014, each by and among the City, the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee. The Series 2014A Bonds were issued to (a) finance the costs of the acquisition, construction, installation and equipping of certain public capital improvements, including the costs of construction of a senior center, (b) fund a reserve fund for the Series 2011A Bonds and the Series 2014A Bonds, and (c) pay costs of issuance of the Series 2014A Bonds.

On August 12, 2020, the Authority issued \$4,835,000 aggregate principal amount of Huntington Beach Public Financing Authority Lease Revenue Refunding Bonds, 2020 Series A (Tax-Exempt) (the “Series 2020A Bonds”) and \$14,440,000 aggregate principal amount of Huntington Beach Public Financing Authority Lease Revenue Refunding Bonds, 2020 Series B (Federally Taxable) (the “Series 2020B Bonds”) and, together with the Series 2020A Bonds, the “Series 2020 Lease Revenue Bonds”), under a master indenture, dated as of June 1, 2020, by and among the City, the Authority and U.S. Bank National Association, as trustee. The Series 2020A Bonds were issued to (i) refund the outstanding Series 2010A Bonds, and (ii) pay costs of issuance of the Series 2020A Bonds and the Series 2020B Bonds were issued to (i) advance refund the outstanding Series 2011A Bonds, and (ii) pay costs of issuance of the Series 2020B Bonds.

On October 1, 2014, the City entered into a lease-leaseback financing with Capital One Public Funding, LLC to upgrade aged street, area and pole lighting from high-pressure sodium lamps to energy efficient LED light sources, resulting in long-term energy cost savings to the City.

On May 1, 2016, the City entered into a \$3 million CLEEN loan agreement with the California Infrastructure and Economic Development Bank (“I-Bank”) to purchase and retrofit approximately 11,000 streetlights from high-pressure sodium to LED, resulting in long-term energy cost savings to the City. This loan was supplemented by an additional \$3 million 1 percent interest loan from the California Energy Commission executed May 27, 2016.

The City entered into a Master Lease Agreement with JP Morgan Chase Bank, N.A. (“Chase”) on February 5, 2016. Since then, the City has entered into various lease-purchase agreements with Chase to fund the City’s portion of the Countywide 800 MHz Backbone (emergency telecommunication dispatch and information) and radios, three fire engines, and two ambulances.

The following table is a summary of the City’s long-term General Fund-secured obligations as of June 30, 2020 but for the Series 2020 Lease Revenue Bonds which were issued in August 2020. Each has an equal claim to General Fund revenues.

Summary of Long-Term General Fund Obligations

	Original Issue	Outstanding Principal	Fiscal Year 2020-21 Payments⁽¹⁾
Series 2020A Bonds ⁽²⁾	\$ 4,835,000	\$ 4,835,000	\$ 0
Series 2020B Bonds ⁽³⁾	14,440,000	14,440,000	1,610,000
2014A Lease Revenue Bonds	15,295,000	12,530,000	615,000
LED Lighting Phase I	1,062,924	545,000	114,000
I-Bank CLEEN Loan	3,000,000	2,171,000	289,000
CEC Loan	3,000,000	2,588,000	261,000
Leases Payable	8,136,846	5,241,000	1,190,000
Total Long-Term Obligations	\$49,769,770	\$42,350,000	\$4,079,000

⁽¹⁾ Amount due in fiscal year 2020-21 represents principal payments only.

⁽²⁾ Refunded and defeased the Series 2010A Bonds, as described above.

⁽³⁾ Refunded and defeased the Series 2010B Bonds, as described above.

Source: City of Huntington Beach Finance Department

Because the Series 2021 Bonds are not allocated in their entirety to the General Fund, debt service on the Series 2021 Bonds is not included in this table.

The City is not a party to any other material lease obligations or direct placement loans or obligations.

See also, Note 11 in APPENDIX B – “COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2020.”

Overlapping Debt

Set forth below is a direct and overlapping debt report (the “Debt Report”) prepared by California Municipal Statistics, Inc. and effective June 30, 2020. The Debt Report is included for general

information purposes only. The City has not reviewed the Debt Report for completeness or accuracy and makes no 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.

CITY OF HUNTINGTON BEACH
Statement of Direct and Overlapping Bonded Debt
as of June 30, 2020

2019-20 Assessed Valuation: \$42,462,946,112

	Total Debt 6/30/20	Percent Applicable⁽¹⁾	City's Share of Debt 6/30/20
<u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u>			
Metropolitan Water District of Southern California	\$ 37,300,000	1.371%	\$ 511,383
Coast Community College District	908,050,757	28.561	259,348,377
Huntington Beach Union High School District	172,819,998	73.021	126,194,891
Fountain Valley School District	52,460,000	26.739	14,027,279
Huntington Beach School District	88,868,962	99.947	88,821,861
Ocean View School District	38,855,000	93.503	36,330,591
Westminster School District	100,121,110	23.804	23,832,829
Los Alamitos Unified School District Facilities District No. 1	152,430,227	1.189	1,812,395
City of Huntington Beach Community Facilities District No. 1990-1	170,000	100.000	170,000
City of Huntington Beach Community Facilities District No. 2000-1	9,675,000	100.000	9,675,000
City of Huntington Beach Community Facilities District No. 2002-1	3,945,000	100.000	3,945,000
City of Huntington Beach Community Facilities District No. 2003-1	16,415,000	100.000	16,415,000
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT			\$581,084,606
<u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u>			
Orange County General Fund Obligations	\$386,745,000	6.786%	\$ 26,244,516
Orange County Pension Obligations	466,863,754	6.786	31,681,374
Orange County Board of Education Certificates of Participation	12,930,000	6.786	877,430
North Orange County Regional Occupation Program Certificates of Participation	8,950,000	0.087	7,787
Coast Community College District General Fund Obligations	2,600,000	28.561	742,586
Huntington Beach Union High School District Certificates of Participation	62,581,090	73.021	45,697,338
Los Alamitos Unified School District Certificates of Participation	38,286,024	1.068	408,895
Huntington Beach School District Certificates of Participation	12,106,385	99.947	12,099,969
Ocean View School District Certificates of Participation	19,595,000	93.503	18,321,913
Westminster School District Certificates of Participation	35,707,297	23.804	8,499,765
City of Huntington Beach General Fund Obligations	45,038,000	100.000	45,038,000 ⁽²⁾
TOTAL DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT			\$189,619,573
<u>OVERLAPPING TAX INCREMENT DEBT (Successor Agency):</u>	\$ 6,150,000	100.000%	\$ 6,150,000
TOTAL DIRECT DEBT			\$ 45,038,000
TOTAL OVERLAPPING DEBT			731,816,179
COMBINED TOTAL DEBT			\$776,854,179

⁽¹⁾ The percentage of overlapping debt applicable to the City is estimated using taxable assessed property value. Applicable percentages were estimated by determining the portion of the overlapping taxing entity's assessed value that is within the boundaries of the City divided by the taxing entity's total taxable assessed value.

⁽²⁾ Excludes the Series 2021 Bonds and the Series 2020 Lease Revenue Bonds (which refunded the Series 2010A Bonds and the Series 2010B Bonds). The City has no tax and revenue anticipation notes, enterprise revenue or mortgage revenue obligations outstanding.

Ratios to 2019-20 Assessed Valuations:

Total Overlapping Tax and Assessment Debt	1.37%
Total Direct Debt (\$45,038,000)	0.11%
Combined Total Debt	1.83%

Ratios to Redevelopment Successor Agency Incremental Valuation (\$3,323,791,483):

Total Overlapping Tax Increment Debt	0.19%
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Source: California Municipal Statistics and City of Huntington Beach Finance Department

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES, REVENUES AND APPROPRIATIONS

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.

The City's appropriations limit was \$964,662,284 for fiscal year 2019-20 and is \$1,001,044,445 for fiscal year 2020-21 which is well below the total City budget amounts for both years. Therefore, the City did not have a need to calculate the appropriations subject to limitation.

Proposition 218

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, assessments, fees and charges. The City is unable to predict whether and to what extent Proposition 218 may be held to be constitutional or how its terms will be interpreted and applied by the courts. Proposition 218 could substantially restrict the City's ability to raise future revenues and could subject certain existing sources of revenue to reduction or repeal, and increase the City's costs to hold elections, calculate fees and assessments, notify the public and defend its fees and assessments in court. However, the City does not presently believe that the potential financial impact on the City as a result of the provisions of Proposition 218 will adversely affect the City's ability to pay its debt obligations and perform its other obligations as and when due.

Article XIII C requires that all new local taxes be submitted to the electorate before they become effective. Taxes for general governmental purposes of the City require a majority vote and taxes for specific purposes, even if deposited in the City's General Fund, require a two-thirds vote. Further, any general purpose tax that the City imposed, extended or increased without voter approval after December 31, 1994 may continue to be imposed only if approved by a majority vote in an election held within two years of November 5, 1996. The City has not enacted, imposed, extended or increased any tax without voter approval since January 1, 1995. The voter approval requirements of Article XIII C reduce the flexibility of the City to deal with fiscal problems by raising revenue through new, extended or increased taxes. No assurance can be given that the City will be able to raise taxes in the future to meet increased expenditure requirements.

Article XIII C also expressly extends to voters the power to reduce or repeal local taxes, assessments, fees and charges through the initiative process, regardless of the date such taxes, assessments, fees or charges were imposed. This extension of the initiative power is not limited by the terms of Proposition 218 to fees imposed after November 6, 1996 and absent other legal authority could result in retroactive reduction in any existing taxes, assessments or fees and charges. SB 919 provides that the initiative powers extended to voters under Article XIII C likely excludes actions construed as impairment of contracts under the contract clause of the United States Constitution. 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 November 6, 1998, assumes the risk of, or in any way consents to, any action by initiative measure that constitutes an impairment of contractual rights" protected by the United States Constitution. However, no assurance can be given that the voters of the City will not, in the future, approve an initiative which reduces or repeals local taxes, assessments, fees or charges that currently are deposited into the City's General Fund and other Governmental Funds. Further, "fees" and "charges" are not defined in Article XIII C or SB 919, and it is unclear whether these terms are intended to have the same meanings for purposes of Article XIII C as they do in Article XIII D. Accordingly, the scope of the initiative power under Article XIII C could include all

sources of General Fund and other Governmental Funds monies not received from or imposed by the federal or State government or derived from investment income.

The initiative power granted under Article XIIC of Proposition 218, by its terms, applies to all local taxes, assessments, fees and charges. The City is unable to predict whether the courts will ultimately interpret the initiative provision to be limited to property related local taxes, assessments, fees and charges. No assurance can be given that the voters of the City will not, in the future, approve an initiative which reduces or repeals local taxes, assessments, fees or charges which are deposited into the City's General Fund and other Governmental Funds. The City believes that in the event that the initiative power was exercised so that all local taxes, assessments, fees and charges which may be subject to the provisions of Proposition 218 are reduced or substantially reduced, the financial condition of the City, including its General Fund and other Governmental Funds, would be materially adversely affected.

A challenge to the Pension Tax Override was narrowly defeated in 2012 with the failure to reach the requisite 50% majority on a ballot question entitled, "A Huntington Beach Levy of Property Tax for Municipal Purposes, Measure Z" which appeared on the November 6, 2012 ballot. If Measure Z had been approved, the Pension Tax Override would have been repealed.

Article XIID of Proposition 218 adds several new requirements to make it more difficult for local agencies to levy and maintain "assessments" for municipal services and programs. "Assessment" is defined in Proposition 218 and SB 919 as any levy or charge upon real property for a special benefit conferred upon the real property. This includes maintenance assessments imposed in City service areas and in special districts. In most instances, in the event that the City is unable to collect assessment revenues relating to specific programs as a consequence of Proposition 218, the City will curtail such services rather than use amounts in the General Fund to finance such programs. However, no assurance can be given that the City may or will be able to reduce or eliminate such services in the event the assessments that presently finance them are reduced or repealed.

Article XIID also adds several provisions, including notice requirements and restrictions on use, affecting "fees" and "charges" which are defined as "any levy other than an *ad valorem* tax, a special tax, or an assessment, imposed by a local government upon a parcel or upon a person as an incident of property ownership, including a user fee or charge for a property related service." The annual amount of revenues that are received by the City and deposited into its General Fund and other Governmental Funds which may be considered to be property related fees and charges under Article XIID of Proposition 218 is not substantial. Accordingly, presently the City does not anticipate that any impact Proposition 218 may have on future fees and charges will not adversely affect the ability of the City to make payments of principal of and interest on the Series 2021 Bonds. However, no assurance can be given that the City may or will be able to reduce or eliminate such services in the event the fees and charges that presently finance them are reduced or repealed.

Additional implementing legislation respecting Proposition 218 may be introduced in the State legislature from time to time that would supplement and add provisions to California statutory law. No assurance may be given as to the terms of such legislation or its potential impact on the City.

Proposition 1A of 2004

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, sales, 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.

Proposition 22

Proposition 22 eliminates the State's ability to borrow or shift local revenues and certain State revenues that fund transportation programs. It restricts the State's authority over a broad range of tax revenues, including property taxes allocated to cities (including the City), counties, special districts and redevelopment agencies, the Vehicle License Fee, State excise taxes on gasoline and diesel fuel, the State sales tax on diesel fuel, and the former State sales tax on gasoline. It also makes a number of significant other changes, including restricting the State's ability to use motor vehicle fuel tax revenues to pay debt service on voter-approved transportation bonds.

Proposition 22 supersedes certain provisions of Proposition 1A of 2004. See "—Proposition 1A of 2004" above. 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 school and community college district's 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 State's Legislative Analyst's Office (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 anticipates that Proposition 22 will require the State to adopt alternative actions to address its fiscal and policy objectives, particularly with respect to short-term cash flow need.

Proposition 25

Proposition 25 reduces the legislative vote requirement for passage of the annual State budget and certain related trailer bills from two-thirds to a simple majority. The reduced vote requirement does not apply to measures that increase State tax revenues, which will continue to require a two-thirds vote. It also requires members of the legislature to permanently forfeit their pay and reimbursement for travel and

living expenses for each day after June 15 that a budget is not passed. It does not change the ability of the Governor to eliminate or reduce any appropriation using a line-item veto.

Proposition 26

Proposition 26 imposes a two-thirds voter approval requirement for the imposition of certain fees and charges by the State. It would also impose a majority voter approval requirement on local governments with respect to fees and charges for general purposes, and a two-thirds voter approval requirement with respect to fees and charges for special purposes. The initiative, according to its supporters, is intended to prevent the circumvention of tax limitations imposed by the voters pursuant to Proposition 13, approved in 1978, and other measures through the use of non-tax fees and charges. Proposition 26 expressly excludes from its scope “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 cost to the [State/local government] of providing the service or product to the payor.” The City believes that the initiative is not intended to and would not apply to fees for utility services charged by local governments such as the City; however, the City is unable to predict whether Proposition 26 will be interpreted by the courts to apply to the provision of utility services by local governments such as the City.

Future Initiatives

Article XIII A, Article XIII B, Proposition 218 and Proposition 1A 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. City Measure Z which appeared on the November 6, 2012 ballot, but was rejected by voters, is an example.

CERTAIN 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 Series 2021 Bonds. This section is not meant to be a comprehensive or definitive discussion of the risks associated with an investment in the Series 2021 Bonds, and the order in which this information is presented does not necessarily reflect the relative importance of various risks. Potential investors in the Series 2021 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 Series 2021 Bonds. There can be no assurance that other risk factors not discussed herein will not become material in the future.

Bonds are a Limited Obligation of the City

The Bonds do not constitute an obligation of the City for which the City is obligated to levy or pledge any form of taxation and the Trust Agreement does not create a pledge, lien or encumbrance upon the funds of the City, except as described herein. Pursuant to Retirement Law, the Bonds are payable from any available funds of the City. The City covenants in the Trust Agreement to punctually pay the principal or redemption price of and interest on every Bond issued under the Trust Agreement in strict conformity with the terms hereof and of the Bonds, and will faithfully observe and perform all the agreements and covenants to be observed or performed by the City contained in 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.

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 City has the capacity to enter into other obligations without the consent of or prior notice to the Owners of the Bonds. 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 payments of principal of and interest on the Series 2021 Bonds. The same result could occur if, because of State constitutional limits on expenditures, the City is not permitted to appropriate and spend all of its available revenues. The City's appropriations, however, have never exceeded the limitations on appropriations under Article XIII B of the California Constitution. For information on the City's current limitations on appropriations, see "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES, REVENUES AND APPROPRIATIONS – Article XIII B of the California Constitution."

Upon issuance of the Series 2021 Bonds, Bond Counsel will render its opinion (substantially in the form of APPENDIX E – "PROPOSED FORM OF BOND COUNSEL OPINION") to the effect that, subject to the limitations and qualifications described therein, the Trust Agreement constitutes a valid and binding obligation of the City. As to the City's practical realization of remedies upon default by the City, see "– Limitations on Remedies."

Natural Disasters

Earthquake. Generally, within the State, some level of seismic activity occurs on a regular basis. During the past 150 years, the Southern California area has experienced several major and numerous minor earthquakes. The most recent major earthquake in the Southern California area was the Northridge earthquake, which occurred on January 17, 1994. The Northridge earthquake, with an epicenter approximately 50 miles north of the City, measured 6.5 on the Richter scale. A recent report issued by a working group of scientists and engineers, known as the Working Group on California Earthquake Probabilities, sponsored in part by the U.S. Geological Survey, has projected that California has more than a 99% chance of having a magnitude 6.7 or larger earthquake within the next 30 years, according to scientists using a new model to determine the probability of big quakes. The likelihood of a major quake of magnitude 7.5 or greater in the next 30 years is projected at 46% and such a quake is most likely to occur in the southern half of the State.

The City has been affected by earthquakes, in most instances attributed to the Newport-Inglewood fault, which has been responsible for several sizable temblors including the 1933 Long Beach quake. An occurrence of severe seismic activity in the City could impact the City's General Fund revenues and expenditures.

Similarly, the City is susceptible to tsunami and seiche hazards. A tsunami is a sea wave generated by a submarine earthquake, landslide or volcanic eruption. A seiche is another form of earthquake- or landslide-induced wave or oscillation that can be generated in an enclosed body of water such as a lagoon or harbor. The entire City is less than 100 feet above sea level, and about 75 percent is less than 25 feet above sea level. From the coast, the first 2 miles of inland homes and terrain east of the Bolsa Chica wetlands and the Pacific Ocean range in elevation between 0 to 5 feet above sea level. Homes in the upscale Huntington Harbour sector are at 5 to 10 feet above sea level and at the inland

border with Fountain Valley, the elevation is about 15 feet. As such, the City is located in an area that is susceptible to tsunami run up and seiche hazards. Also, due to the high water table condition and subsoils of City, portions of the City can experience substantial liquefaction in earthquakes, in which vibrations or groundwater pressure within a mass of soil cause the soil particles to lose contact with one another and approach a slurry consistency.

Although the City believes that no significant active or inactive fault lines pass through the City; however, if there were to be an occurrence of severe seismic activity at the City, there could be a negative impact on property values and operations within the City which could have an adverse effect on the City's ability to make payments of principal of and interest on the Series 2021 Bonds.

Wildfire. The City is substantially developed as a highly urbanized coastal city. Like other areas of Southern California, greenbelt areas in the City can season to become dry vegetation which may combine with swift moving Santa Ana winds and result in fast moving fires. No part of the City is located in a "Very High Fire Hazard Severity Zone" - Cal Fire's designation for places highly vulnerable to devastating wildfires.

Flood. Historical flooding of Huntington Beach dates back to 1825. The most recent flooding was February 6 and 7, 1998, when a constant rainfall and heavy downpour caused street closures, intersection flooding, and up to 2-3 feet deep flooding in a mobile home park.

Portions of the City are located in flood zones. The flood zone boundaries of Huntington Harbour and Sunset Beach were revised in March 2019 and affected properties were placed into a Special Flood Hazard Area (SFHA) and designated as "AE" or "VE" zones on the flood map. In June 2019, the Federal Emergency Management Agency (FEMA) issued a Letter of Map Revision (LOMR) that changed the flood designation of properties within the vicinity of the East Garden Grove Wintersburg Channel, from the confluence of Bolsa Bay to the San Diego Freeway (Interstate 405). Properties that were designated as flood zone A were revised to flood zone AE or X.

Although improvements to the Santa Ana River have reduced potential flood impacts, flooding in the City may occur. It may be caused by the Santa Ana River, East Garden Grove Wintersburg Channel, Talbert Channel, Huntington Beach Channel, or the Pacific Ocean. Most floods occur when the floodwaters leave the river or channels; however, tsunamis from the ocean may create flooding near the coastline.

Drought and Drought Response

California has recently experienced extended drought conditions, although rainfall in recent years has somewhat abated the drought conditions throughout the State. Water service within the City is provided by the City's Public Utilities Department through its regional water supply agencies (the Orange County Water District and The Metropolitan Water District of Southern California, a regional supplier or supplemental water). While these suppliers currently anticipate being able to supply water for existing and new development within the City for the foreseeable future, there can be no assurance that any renewal of drought conditions will not adversely affect their ability to do so. The City utilizes a broad range of conservation methods, including: long-term water conservation programs and incentive programs for efficient landscaping and irrigation management programs, park and recreation partnerships, and public education and outreach.

Climate Change and Sea Level Rise

The direct risks posed by climate change currently include or are expected to include more extreme heat events, rising sea levels, changes in precipitation levels, and more intense storms. In order to address these risks, California law (the Global Warming Solutions Act) requires the State to significantly reduce its emissions of greenhouse gases (GHGs), which contribute to climate change.

Sources of GHG emissions in the City include cars and trucks, electricity and natural gas use in buildings, decomposition of solid waste, landscaping and construction equipment, oil drilling, and water and wastewater distribution, treatment, and use. On-road vehicle use represents the largest source of GHGs, followed by energy use in residential and nonresidential buildings. These three sources comprised 95 percent of Huntington Beach's GHG emissions in 2012. Going forward, Huntington Beach's GHG emissions will continue to change due to new policies, technological improvements, and population growth and new development.

Current science indicates that sea level rise is directly linked to climate change, and sea level is expected to increase over time. The City has 9.5 miles of shoreline and other coastal and inland areas that are threatened by sea level rise. The Huntington Beach community is vulnerable to coastal erosion of its protective beaches and flooding from wave run-up (particularly from large waves associated with coastal storms). Sea level rise threatens the inland areas by exacerbating flooding from very high tides, and by contributing to flooding from extreme rainfall events.

In 2017, the City adopted a Greenhouse Gas Reduction Program (GGRP), which quantified baseline (2005), existing (2012), and projected (2040) GHG emissions and identified specific measures and performance standards that would reduce GHG levels consistent with State reduction targets if implemented. In addition, the City prepared a sea level rise vulnerability assessment estimating the consequences, probability, and resulting risk from various sea level rise scenarios, including an inventory of potentially affected assets and their estimated replacement value. Based on the vulnerability assessment, the City prepared a Coastal Resiliency Program, which outlines strategies the City could implement to minimize potential impacts from sea level rise. However, there is an inherent degree of uncertainty in projecting future GHG emissions and sea level rise. As well, the City cannot provide assurances that the adoption of future policies and implementation of measures to reduce GHG emissions and sea level rise impacts will occur.

The City cannot predict the timing, extent, or severity of climate change, GHG emissions or sea level rise; the extent to which protective measures would be implemented and effective; or whether such changes or measures will have a material adverse effect on the City's operations and finances, or the State and local economies.

Cybersecurity

The City relies heavily on computers and technology to conduct its daily operations. The City and its departments face cyber threats from time to time, including but not limited to hacking, viruses, malware, phishing, and other attacks on computers and other sensitive digital networks and systems.

In 2017, the City's Information Services Department performed an in-house cybersecurity assessment to evaluate all computing resources including networking infrastructure, operating system of all computers, business applications and systems, and related components. The findings of this assessment were used to drive the creation of a list of recommendations that was used to increase the overall resiliency of the City's computing resources. The police department has a separate network with physical separation and law enforcement compliance requirement.

Currently the City has a complex layered cyber security posture to protect the City's digital assets and networks. The City also uses anti-phishing software and practices periodic security awareness training for end-users. Additionally, the City has a Cyber insurance policy with maximum aggregate limit of \$10,000,000.

Although the City has a comprehensive layered security defense mechanism, no assurances can be given that the City's security and operational control measures will guard 100% against all cyber threats and attacks. The results of any attack on the City's computer and information-technology systems could adversely affect the City's operations and damage its digital networks and systems, and potential losses from such attacks, as well as the costs of defending against future attacks, could be substantial.

Infectious Disease Outbreak – COVID-19

The outbreak of coronavirus disease 2019 ("COVID-19"), a respiratory disease caused by a new strain of coronavirus, has been characterized as a pandemic (the "Pandemic") by the World Health Organization and is currently affecting many parts of the world, including the United States and California. On January 31, 2020, the Secretary of the United States Health and Human Services Department declared a public health emergency for the United States and on March 13, 2020, the President of the United States declared the outbreak of COVID-19 in the United States a national emergency. Also on March 13, 2020, California Governor Gavin Newsom issued Executive Order N-26-20, proclaiming a State of Emergency to exist in California as a result of the threat of the COVID-19 virus. Subsequently, the President's Coronavirus Guidelines for America and the United States Centers for Disease Control and Prevention called upon Americans to take actions to slow the spread of COVID-19 in the United States.

On March 16, 2020, the Governor issued Executive Order N-28-20, lifting the State's preemption of landlord/tenant law, authorizing local governments to halt evictions for renters and homeowners, slows foreclosures, and protects against utility shutoffs for Californians affected by the COVID-19 virus, and further providing that the order does not relieve a tenant from the obligation to pay rent, or restrict the landlord's ability to recover rent that is due. The order expands a local government's authority to limit residential or commercial evictions, but only as to nonpayment evictions caused by a documented loss of income caused by the pandemic or the governmental responses. The order also requests banks and other financial institutions to halt foreclosures and related evictions during this time period. By legislation signed in August 2020, no tenant can be evicted before February 1, 2021 as a result of rent owed due to a COVID-19 related hardship that accrued between March 4 and August 31, 2020, if the tenant provides a declaration of hardship according to the legislation's timelines. For a COVID-19 related hardship that accrues between September 1, 2020 and January 31, 2021, tenants must also pay at least 25 percent of the rent due to avoid eviction. Tenants are still responsible for paying unpaid amounts to landlords, but those unpaid amounts cannot be the basis for an eviction. Landlords may begin to recover this debt on March 1, 2021, and small claims court jurisdiction is temporarily expanded to allow landlords to recover these amounts. Landlords who do not follow the court evictions process will face increased penalties under the legislation.

On March 19, 2020, the Governor issued Executive Order N-33-20, a State-wide stay at home order to protect the health and well-being of all Californians and to establish consistency across the State in order to slow the spread of the COVID-19 virus; such order to go into effect immediately and to stay in effect until further notice. The order directs all individuals living in the State to stay home or at their place of residence except as needed to maintain continuity of operations of the federal critical infrastructure sectors as outlined at <https://www.cisa.gov/identifying-critical-infrastructure-during-covid-19>. This includes 16 critical infrastructure sectors whose assets, systems, and networks, whether physical or virtual, are considered so vital to the United States that their incapacitation or destruction would have a

debilitating effect on security, national economic security, national public health or safety, or any combination thereof. The City can take no responsibility for the continued accuracy of this internet address or for the accuracy, completeness or timeliness of information posted therein, and such information is not incorporated in this Official Statement by such reference.

The City has been and continues to be proactive in reviewing its responses to the impacts of the Pandemic. Effective March 17, 2020, the City suspended all street sweeping enforcement within the City. On June 10, 2020, the City announced that street sweeping and related parking control enforcement would resume on June 22, 2020 with a two-week written warning period.

On March 31, 2020, the City approved two forms of temporary financial relief, including rent abatement to concessionaire tenants of City-owned facilities and a suspension on water shutoffs for delinquent bills, each designed to mitigate some of the significant financial burdens of the Pandemic. A July 6, 2020 City approval for the termination of the rental abatement program was not implemented, as the impacts of the Pandemic continued. Both programs are still ongoing.

By early April 10, 2020, the City closed all metered parking along both sides of Pacific Coast Highway within City boundaries in the interest of limiting beach visitations and promoting social distancing during the Pandemic. Also, all beaches within Huntington Harbor were closed starting April 17 until further notice. Beginning May 15, 2020, certain beach parking lots were reopened with 50% capacity, moving to 100% capacity beginning May 28, 2020. Then, with the warmer summer months approaching, residents and out-of-town visitors visited the beach with increased frequency, generating additional parking revenues for the City.

On April 20, 2020, the City approved payment deferral programs for Business License payment renewals, Transient Occupancy Taxes, and Business Improvement District (“BID”) assessments collected by the City to provide local businesses with temporary relief from the financial burdens of the Pandemic. A similar payment deferral program for the Tourism Business Improvement District (“TBID”) assessments collected by the City was approved by City Council on May 4, 2020.

Effective May 1, 2020, the City closed all beaches, including the City’s bike paths, parking lots, and associated amenities. On May 5, 2020, the beaches were reopened for active recreation use only after extensive discussions with other local area cities and State representatives, including those at the California Natural Resources Agency and the California Department of Parks and Recreation.

On May 23, 2020, the State authorized the County’s plan to facilitate an accelerated reopening of Stage 2 reopening. Business that fall under the category on the Stage 2 reopening include, but are not limited to, dine-in restaurants, destination retail, shopping malls, and in-store retail, with proper safety protocols in place.

On June 15, 2020, the City Council approved the creation of a COVID-19 Small Business Relief Program to utilize \$4.75 million in CARES Act funding provided by the County of Orange to award grants up to \$10,000 to qualified Huntington Beach small businesses with fewer than 30 employees, and made such grants, together with additional support grants up to \$2,000 to such qualified small business at the end of the calendar year. The program, administered by the Orange County Small Business Development Center, has assisted 709 local small businesses. The City has also established a OneHB Support Fund, bridging philanthropy and local giving in support of Huntington Beach small businesses. In June 2020, the OneHB Support Fund received its first major donation of \$100,000, funding grants to 20 qualified small businesses. This program was awarded the “Red Tape to Red Carpet” award for its public-private partnership by the Orange County Business Council on November 18, 2020. The City was

also awarded an additional \$648,000 for Small Business Grant Relief, to be used to fund a micro-grant program for small businesses negatively impacted by COVID-19.

On July 6, 2020, City Council approved the closure of the 2nd block of Main Street to vehicular traffic to temporarily allow restaurants and other establishments to expand their operations outdoors while maintaining social distancing protocols. This program, called “Surf City Stroll,” is currently extended through September 6, 2021, as approved by Council on February 16, 2021.

On November 3, 2020, the City held a ribbon-cutting ceremony for its temporary alternative shelter site, which will provide up to 174 shelter beds for homeless individuals in need. The facility began serving homeless clients in late November 2020. This project was a joint effort by the City and the County funded through CARES Act monies to help control the spread of COVID-19 and to preserve the public health of this vulnerable population.

Since that date, the State has been monitoring COVID-19 cases in each local community and has reported increases in the number cases of COVID-19 confirmed, and patients hospitalized. Starting September 9, 2020, the State began utilizing a four-tier, color-coded system for tracking COVID-19 trends. The new system will determine when counties can move forward with business reopenings. The four tiers, purple (widespread), substantial (red), moderate (orange), and minimal (yellow), have a different set of rules regarding what businesses are and aren’t allowed to reopen, whether they may open indoors or outdoors, and at what capacity they can operate. Counties must remain at each tier for a minimum of 21 days.

The County, and other California counties that are in the red, or substantial tier, allow for limited reopening of restaurants, places of worship, shopping centers, hair salons, movie theaters, and other businesses with modifications and/or capacity limits. Breweries (where no meals are provided), cardrooms, convention centers, and festivals remain closed under this tier.

Many of the federal, State and local actions and policies under the aforementioned disaster declarations and shelter-in-place orders are focused on limiting instances where the public can congregate or interact with each other, which affects the operation of businesses and directly impacts the economy. These include, for example, imposing limitations on social gatherings and temporarily closing school districts throughout the State. In addition to the actions by the State and federal officials, certain local officials, including the County, have declared a local state of disaster and have issued “shelter-in-place” orders.

The Pandemic has negatively affected travel, commerce, and financial markets globally, and is widely expected to continue negatively affecting economic growth and financial markets worldwide. These negative impacts may reduce or negatively affect property values and/or the collection of sales tax revenues and *ad valorem* tax revenues within the City. A decline in property values may impact the City’s ability to pay debt service on the Series 2021 Bonds when due, and have further impacts on the City’s finances and operations. Additionally, the City collects a sales and use tax on all taxable transactions within the City’s boundaries as well as transient occupancy taxes. A reduction in the collection of sales tax and transient occupancy tax revenues may negatively impact the City’s operating budget and overall financial condition.

On March 25, 2020, Orange County Treasurer Tax Collector Shari Freidenrich announced her plan to grant waivers on penalties to taxpayers as allowed by existing law to assist them during these challenging times, providing that for taxpayers that do not make payment of property taxes due to the COVID-19 virus by April 10, such taxpayers would be expected to submit to the Treasurer a Penalty Cancellation Request Form and documentation to support the cancellation of penalties as allowed in

limited circumstances under current State law, allowing for waiver of penalties, costs and other charges when failure to make a timely payment is due to reasonable cause and circumstances beyond the taxpayer's control, and occurred notwithstanding the exercise of ordinary care in the absence of willful neglect. The most recent report issued by the Orange County Treasurer Tax Collector's Office on January 12, 2021 notes that countywide, secured property tax collections are only slightly behind by 0.14%, with 96.95% of all first installment secured taxes collected this year versus 97.09% at the same time last year. For the second installment, 12.68% of the property taxes have been collected countywide versus 12.35% at the same time last year. Payments for the first installment of property taxes have been received from 95.8% of the first installment bills, the same percentage as in the prior year at this time. The County has also received second installment property tax payments from 166,000 taxpayers, up from 159,000 taxpayers at the same time last year.

The current spread of COVID-19 is altering the behavior of businesses and people in a manner that may have negative effects on global, national and local economies, and which has resulted in a volatile stock market response. These events and other factors resulting from such an outbreak, particularly if prolonged, could result in, or increase the likelihood of, the occurrence of certain of the other potential adverse effects described in this Official Statement, including those relating to declines in the value of property, and delays in (or insufficient funds received from) the collection of sales taxes, transient occupancy taxes, and property taxes.

On January 7, 2021, Orange County announced the launching of "Operation Independence," a county-wide collaborative effort with the Orange County Fire Authority to help administer COVID-19 vaccinations to all interested county residents by the Fourth of July. The goal of Operation Independence is to set up regional vaccine points of dispensing (PODs), with initial sites located in Huntington Beach, Irvine, and Anaheim. The County's goal is to provide five large, regional Super PODs, that are expected to dispense thousands of vaccines each day once they are fully operational. Currently, the County has two Super PODs located in Disneyland and Soka University.

Information provided by County Health Officials is available at: <http://www.ochealthinfo-com-novel-coronavirus>. The City can take no responsibility for the continued accuracy of this internet address or for the accuracy, completeness or timeliness of information posted therein, and such information is not incorporated in this Official Statement by such reference. The City provides additional information on actions with respect to the COVID-19 virus at <https://hbbready.com>. The information on such website is not incorporated herein by such reference or otherwise.

On March 27, 2020, the President signed H.R. 748, known as the Coronavirus Aid, Relief, and Economic Security (CARES) Act or "Phase 3," a \$2 trillion stimulus and supplemental spending plan to address the effects of the COVID-19 virus, which includes more than \$150 billion for the so-called "Marshall Plan" for hospitals and health care infrastructure. Also included is \$150 billion for state and local governments. On April 24, 2020, the President signed H.R. 266, known as "Phase 3.5," titled the Paycheck Protection Program and Health Care Enhancement Act, which appropriates additional funds for the Paycheck Protection Program (the "PPP") and for emergency Economic Injury Disaster Loan ("EIDL") grants; mandates a certain "set-aside" for qualifying small and midsize PPP lenders; and makes other appropriations, including for a Department of Health and Human Services COVID-19-related "emergency fund." The Act increases appropriations for PPP loans from the \$349,000,000,000 originally provided in the CARES Act to \$670,335,000,000. It also increases appropriations for emergency EIDL grants from the \$10,000,000,000 originally provided in the CARES Act to \$20,000,000,000. The Act expands the types of entities eligible to receive emergency EIDL grants to include agricultural enterprises with not more than 500 employees.

The City continues to monitor the spread of COVID-19 and is working with local, State, and national agencies to address the potential impact of the Pandemic upon the City. The City projects that two of three primary sources of operating revenue (sales and transient occupancy tax) will be dramatically reduced and long term required expenditures significantly increased. While the potential impact of the Pandemic on the City cannot be quantified at this time, the continued outbreak of COVID-19 could delay and/or impair the collection of sales taxes, transient occupancy taxes, and property taxes and have an adverse effect on the City's operations and financial condition and impair the City's ability to pay debt service on the Series 2021 Bonds when due.

Projections included in this Official Statement represent City's forecast of future results as of the date of hereof as well as estimates, trends and assumptions that are inherently subject to economic, political, regulatory, competitive and other uncertainties, all of which are difficult to predict and many of which will be beyond the control of the City. As a result, projected results may not be realized and actual results could be significantly higher or lower than projected. The City is not obligated to update, or otherwise revise, the financial projections or the specific portions presented to reflect circumstances existing after the date when made or to reflect the occurrence of future events, even in the event that any or all of the assumptions are shown to be in error.

A continued spread of the COVID-19 virus, future outbreak of the COVID-19 virus or another infectious disease, or the fear of any such outbreak, and measures taken to prevent or reduce it, could adversely impact State, national and global economic activities and, accordingly, adversely impact the financial condition and operations of the City, and the extent of impact could be material. The City cannot predict the duration of COVID-19, the duration or expansion of travel restrictions and warnings, whether additional countries or destinations will be added to the travel restrictions or warnings, and what effect such travel restrictions and warnings may have on tourism-related revenues. Additionally, the City cannot predict what impact COVID-19 may have on the City's general financial condition or operations, or the assessed values of property within the City. The City is monitoring the impact of COVID-19 and will incorporate it into the assumptions used in the fiscal year 2020-21 budget as necessary.

Bankruptcy

In addition to the limitation on remedies contained in the Trust Agreement, the rights and remedies provided in the Trust Agreement 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 unit of State government and therefore is not subject to the involuntary procedures of the United States Bankruptcy Code (the "Bankruptcy Code"). However, pursuant to Chapter 9 of the Bankruptcy Code, the City may seek voluntary protection from its creditors for purposes of adjusting its debts. In the event the City were to become a debtor under the Bankruptcy Code, the City would be entitled to all of the protective provisions of the Bankruptcy Code as applicable in a Chapter 9 proceeding. Among the adverse effects of such a bankruptcy might be: (i) the application of the automatic stay provisions of the Bankruptcy Code, which, until relief is granted, would prevent collection of payments from the City or the commencement of any judicial or other action for the purpose of recovering or collecting a claim against the City; (ii) the avoidance of preferential transfers occurring during the relevant period prior to the filing of a bankruptcy petition; (iii) the existence of unsecured or court-approved secured debt which may have a priority of payment superior to that of Owners of Series 2021 Bonds; and (iv) the possibility of the adoption of a plan for the adjustment of the City's debt (a "Plan") without the consent of the Trustee or all of the Owners of Series 2021 Bonds, which Plan may restructure, delay, compromise or reduce the amount of any claim of the Owners if the Bankruptcy Court finds that the Plan is fair and equitable.

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 only obligated to deposit funds with the Trustee twice each year, five (5) days prior to each Interest Payment Date. The Bonds are not secured by any funds held by the City. If the City is in bankruptcy, it may not be obligated to make any further deposits with the Trustee. As a result, the Bonds may be treated as unsecured obligations of the City in the bankruptcy case. Under such circumstances, the Holders of the Bonds could suffer substantial losses.

The City may be able, without the consent and over the objection of the Trustee or the Holders of the Bonds, 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 Holders of the Bonds. 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.

Recent bankruptcies in the City of Stockton, the City of San Bernardino and the City of Detroit have brought scrutiny to pension obligation securities. Specifically, in the Stockton bankruptcy the Court found that CalPERS was an unsecured creditor of the city with a claim on parity with those of other unsecured creditors. 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 Series 2021 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 Series 2021 Bonds.

The opinion to be delivered by Bond Counsel concurrently with the execution and delivery of the Series 2021 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 Series 2021 Bonds will be similarly qualified. See Appendix C. 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 Series 2021 Bonds, there can be no assurance of the availability of remedies adequate to protect the interest of the Beneficial Owners of the Series 2021 Bonds.

Limitations on Remedies

The rights of the Owners of Series 2021 Bonds are subject to the limitations on legal remedies against cities in the State, including applicable bankruptcy, insolvency, reorganization, moratorium and similar laws affecting the enforcement of creditors' rights generally, now or hereafter in effect, and to the application of general principles of equity, including concepts of materiality, reasonableness, good faith and fair dealing and the possible unavailability of specific performance or injunctive relief, regardless of whether considered in a proceeding in equity or at law.

Under Chapter 9 of the Bankruptcy Code (Title 11, United States Code), which governs the bankruptcy proceedings for public agencies such as the City, there are no involuntary petitions in bankruptcy. If the City were to file a petition under Chapter 9 of the Bankruptcy Code, the Owners of Series 2021 Bonds, the Trustee could be prohibited from taking any steps to enforce their rights under the Trust Agreement, and from taking any steps to collect amounts due from the City under the Trust Agreement.

All legal opinions with respect to the enforcement of the Trust Agreement will be expressly subject to a qualification that such agreements may be limited by bankruptcy, reorganization, insolvency, moratorium or other similar laws affecting creditors' rights generally and by applicable principles of equity if equitable remedies are sought.

Risk of Tax Audit

In December 1999, as a part of a larger reorganization of the Internal Revenue Service (the "IRS"), the IRS commenced operation of its Tax Exempt and Government Entities Division (the "TE/GE Division"), as the successor to its Employee Plans and Exempt Organizations division. The new TE/GE Division has a subdivision that is specifically devoted to tax-exempt bond compliance. Public statements by IRS officials indicate that the number of tax-exempt bond examinations is expected to increase significantly under the TE/GE Division. The City has not been contacted by the IRS regarding the examination of any of its tax-exempt bond transactions.

State Budget

Approximately 57% (consisting of the sales tax, property tax and the motor vehicle license fee) of the City's fiscal year 2019-20 General Fund budget consisted of payments collected by the State and passed-through to local governments or collected by and allocated to local governments by State law. The financial condition of the State has an impact on the level of these revenues. In past years the State has reduced revenues to cities and counties to help solve the State's budget problems.

The following information concerning the State of California's budgets has been obtained from publicly available information which the City believes to be reliable; however, neither the City can take no responsibility as to the accuracy or completeness thereof and have not independently verified such information. Information about the State Budget is regularly available at various State-maintained websites. Text of the budget may be found at the Department of Finance website, www.dof.ca.gov, under the heading "California Budget." An impartial analysis of the budget is posted by the State Legislative Analyst's Office at www.lao.ca.gov. In addition, various State official statements, many of which contain a summary of the current and past State budgets, may be found at the website of the State Treasurer, www.treasurer.ca.gov. The information referred to is prepared by the respective State agency maintaining each website and not by the City or the Underwriters, and the neither the City nor the Underwriters can take responsibility for the continued accuracy of the internet addresses or for the accuracy or timeliness of information posted there, and such information is not incorporated herein by these references.

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 in excess of 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. 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.

Proposed 2020-21 State Budget. The Governor released his proposed State budget for fiscal year 2020-21 (the “Proposed 2020-21 State Budget”) on January 10, 2020. Since the Proposed 2020-21 State Budget preceded the COVID-19 pandemic, it did not take into account the significant adverse impacts it will have on the State’s financial condition in fiscal year 2020-21. The complete Proposed 2020-21 State Budget is available from the California Department of Finance website at www.dof.ca.gov. The City can take no responsibility for the continued accuracy of this internet address or for the accuracy, completeness or timeliness of information posted therein, and such information is not incorporated herein by such reference.

May Revision to the 2020-21 Proposed State Budget. The Governor released the May Revision to the Proposed 2020-21 State Budget (the “2020-21 May Revision”) on May 14, 2020, which reflects the initial and profound effects of the COVID-19 pandemic on the State’s economy. The 2020-21 May Revision indicates that, although the State began 2020 with a solid fiscal foundation as reflected in the Proposed 2020-21 State Budget, the COVID-19 pandemic and resulting recession have changed the fiscal landscape dramatically. Job losses and business closures are sharply reducing State revenues. Compared to the Proposed 2020-21 State Budget, the 2020-21 May Revision projects that State general fund revenues will decline over \$41 billion. Such a decrease in State general fund revenues, combined with the increased costs in health and human services programs and the added costs to address COVID-19, leads to a projected budget deficit of approximately \$54 billion before the changes proposed in the 2020-21 May Revision.

Consistent with the State’s constitutional obligation to enact a balanced budget and the prohibition against issuing long-term bonds to finance deficits, the 2020-21 May Revision proposed certain action to achieve a balanced budget for fiscal year 2020-21.

2020-21 State Budget. The Governor signed the fiscal year 2020-21 State budget (the “2020-21 State Budget”) on June 29, 2020. The 2020-21 Budget acknowledges that the rapid onset of COVID-19 has had an immediate and severe impact on the State’s economy. The ensuing recession has caused significant job losses, precipitous drops in family and business income and has exacerbated income inequality. The May Revision forecast included a peak unemployment rate of 24.5% in the second quarter of 2020 and a decline in personal income of nearly 9%. The 2020-21 Budget reports that the official unemployment rate exceeded 16% in both April and May 2020.

The 2020-21 Budget includes a number of measures intended to address a projected deficit of \$54.3 billion and occasioned principally by declines in the State’s three main tax revenues (personal income, sales and use and corporate, as discussed above). The measures included in the 2020-21 Budget, and described below, are intended to close this deficit and set aside \$2.6 billion in the State’s traditional general fund reserve, including \$716 million for the State to respond to the changing conditions of the COVID-19 pandemic:

- **Drawdown of Reserves** – The 2020-21 Budget draws down \$8.8 billion in total State reserves, including \$7.8 billion from the State’s budget stabilization account (“BSA”), \$450 million from the Safety Net Reserve and all money in the Public School System Stabilization Account.

- Triggers – The 2020-21 Budget includes \$11.1 billion in reductions and deferrals that would be restored if at least \$14 billion in federal funds are received by October 15, 2020. If the State receives less than this amount, reductions and deferrals would be partially restored. The triggers include \$6.6 billion in deferred spending on education, \$970 million in funding for the California State University and University of California systems, \$2.8 billion in State employee compensation and \$150 million for courts, as well as funding for various other State programs. The triggers would also fund an additional \$250 million for county programs to backfill revenue losses.

- Federal Funds – The 2020-21 Budget relies on \$10.1 billion in federal funds, \$8.1 billion of which has already been received. This relief includes recent Congressional approval for a temporary increase in the federal government’s share of Medicaid costs, a portion of the State’s Coronavirus Relief Fund allocation pursuant to the CARES Act and federal funds provided for childcare programs.

- Borrowing/Transfers/Deferrals – The 2020-21 Budget relies on \$9.3 billion in special fund borrowing and transfers, as well as deferrals to K-14 education spending. Approximately \$900 million of special fund borrowing is associated with reductions to State employee compensation and is subject to the triggers discussed above.

- Increased Revenues – The 2020-21 Budget temporarily suspends for three years net operating loss tax deductions for medium and large businesses and limits business tax credits, with an estimated increase in tax revenues of \$4.3 billion in State fiscal year 2020-21.

- Canceled Expansions, Updated Assumptions and Other Measures – The 2020-21 Budget includes an additional \$10.6 billion of measures, including cancelling multiple programmatic expansions, anticipated governmental efficiencies, higher ongoing revenues above the forecast included in the May Revision and lower health and human services caseload costs than assumed by the May Revision.

For State fiscal year 2019-20, the 2020-21 Budget projects total State general fund revenues and transfers of \$137.6 billion and authorizes expenditures of \$146.9 billion. The State is projected to end State fiscal year 2019-20 with total available general fund reserves of \$17 billion, including \$16.1 billion in the BSA and \$900 million in the Safety Net Reserve Fund.

For State fiscal year 2020-21, the 2020-21 Budget projects total State general fund revenues and transfers of \$137.7 billion and authorizes expenditures of \$133.9 billion. The State is projected to end State fiscal year 2020-21 with total available general fund reserves of \$11.4 billion, including \$2.6 billion in the traditional State general fund reserve (of which \$716 million is earmarked for COVID-19-related responses), \$8.3 billion in the BSA and \$450 million in the Safety Net Reserve Fund.

As a result of the projected reduction of State revenues occasioned by the COVID-19 pandemic, the 2020-21 Budget estimates that the Proposition 98 minimum funding guarantee for fiscal year 2020-21 is \$70.1 billion, approximately \$10 billion below the revised prior-year funding level. For K-12 school districts, this results in per-pupil spending in fiscal year 2020-21 of \$10,654, a reduction of \$1,339 from the prior year.

There can be no assurance that additional legislation will not be enacted in the future to implement provisions relating to the State budget, address the COVID-19 outbreak or otherwise that may affect the City or its General Fund revenues.

Because of such measures described above, the 2020-21 State Budget is a balanced budget for fiscal year 2020-21 that projects approximately \$137.7 billion in revenues. The 2020-21 State Budget sets aside \$2.6 billion in the Special Fund for Economic Uncertainties.

The complete 2020-21 State Budget is available from the California Department of Finance website at www.dof.ca.gov. The City can take no responsibility for the continued accuracy of this internet address or for the accuracy, completeness or timeliness of information posted therein, and such information is not incorporated herein by such reference.

Potential Impact of State Financial Condition on the City. Currently, the COVID-19 pandemic is materially adversely impacting the financial condition of the State and has caused a recession which will likely result in significant increases in unfunded liabilities of the two main retirement systems managed by State entities, CalPERS and the CalSTRS. The State also has a significant unfunded liability with respect to other post-employment benefits.

Current and future State budgets will be significantly affected by the COVID-19 pandemic and other factors over which the City has no control. The City cannot determine what actions will be taken in the future by the State Legislature and the Governor to deal with the COVID-19 pandemic, the current recession and resulting changing State revenues and expenditures. There can be no assurance that, as a result of the COVID-19 pandemic or otherwise, the State will not significantly reduce revenues to local governments (including the City) or shift financial responsibility for programs to local governments as part of its efforts to address State financial conditions. Although the State is not a significant source of City revenues, there can be no assurance that State actions to respond to the COVID-19 pandemic will not materially adversely affect the financial condition of the City.

Changes in State Budget. The City cannot predict what future actions will be taken by the State Legislature and the Governor to address changing State revenues and expenditures or the impact such actions will have on State revenues available in the current or future years. As indicated above, the 2020-21 May Revision and the 2020-21 State Budget differ dramatically from the Proposed 2020-21 State Budget due to the effects of the COVID-19 pandemic on the State. The 2020-21 State Budget may be affected by national and State economic conditions and other factors which the City cannot predict, including the continued and evolving effects of the COVID-19 pandemic on State revenues that may in turn impact the funding that the City receives from the State. See “CERTAIN RISK FACTORS – Infectious Disease Outbreak – COVID-19.”

In fact, the State Legislature and the Governor have widely differing proposals for the final fiscal year 2020-21 State budget largely related to whether or not to assume the receipt of potential federal aid in addressing the budget deficit. The 2020-21 May Revision put forward by the Governor reduces programs and spending to address budget shortfalls, but indicates adjustments will be made if federal aid becomes available. The State Legislature’s fiscal year 2020-21 State budget assumes the receipt of potential federal aid and rejects many of the reductions included in the 2020-21 May Revision. On June 15, 2020, the Constitutional deadline for the State Legislature to approve a fiscal year 2020-21 State budget, the State Legislature passed four main bills containing the fiscal year 2020-21 State budget, reportedly without reaching any prior agreement with the Governor on such bills. It is widely reported that the State Legislature’s fiscal year 2020-21 State budget is unlikely to become the final fiscal year 2020-21 State budget given its rejection of the reductions included the 2020-21 May Revision. Reports indicate that negotiations between the State Legislature and the Governor are ongoing. Accordingly, the City cannot provide any assurances what the final fiscal year 2020-21 State budget will include and whether it will be consistent with the 2020-21 May Revision or the State Legislature’s fiscal year 2020-21 State budget. The City cannot predict the impact that the final fiscal year 2020-21 State budget, or subsequent budgets, will have on its finances and operations.

Future State Budgets. The City cannot predict what actions will be taken in this or any future fiscal year by the State Legislature or the Governor to deal with the State's current or future budget deficits, changing State revenues and expenditures, or what the effect of national and state economic conditions on future State budgets will be. Moreover, the State Legislature or Governor could take additional actions which could affect the State's receipts, expenditures and borrowings during the current fiscal year, and thereby influence the City's financial situation. Future State budgets will be affected by national and State economic conditions and other factors, including the current economic downturn, over which the City has no control.

Further information about the State budget is available from the Public Finance Division of the State Treasurer's Office. In addition, information about the State budget is regularly available at various State-maintained websites, including www.dof.ca.gov (Department of Finance), www.lao.ca.gov (Office of the Legislative Analyst) and www.treasurer.ca.gov (State Treasurer). The above-mentioned websites are included herein for informational purposes only. The City makes no representations concerning, and do not take any responsibility for, the accuracy or timeliness of information posted on such websites or the continued maintenance of such websites by the respective entities.

Limited Secondary Market

As stated herein, investment in the Series 2021 Bonds poses certain economic risks which may not be appropriate for certain investors, and only persons with substantial financial resources who understand the risk of investment in the Series 2021 Bonds should consider such investment. There can be no guarantee that there will be a secondary market for purchase or sale of the Series 2021 Bonds or, if a secondary market exists, that the Series 2021 Bonds can or could be sold for any particular price.

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 revenues of the City and consequently, having an adverse effect on the security for the Series 2021 Bonds. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS."

TAX MATTERS

General

In the opinion of Orrick, Herrington & Sutcliffe LLP, bond counsel to the City ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2021 Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Code. Bond Counsel observes that interest on the Series 2021 Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Code. Bond Counsel is of the opinion that interest on the Series 2021 Bonds is exempt from State of California personal income taxes. Bond Counsel expresses no opinion regarding any other tax consequences relating to the ownership or disposition of, or the amount, accrual, or receipt of interest on, the Series 2021 Bonds. The proposed form of opinion of Bond Counsel is contained in Appendix E hereto.

The following discussion summarizes certain U.S. federal tax considerations generally applicable to holders of the Series 2021 Bonds that acquire their Series 2021 Bonds in the initial offering. The discussion below is based upon laws, regulations, rulings, and decisions in effect and available on the date

hereof, all of which are subject to change, possibly with retroactive effect. Prospective investors should note that no rulings have been or are expected to be sought from the U.S. Internal Revenue Service (the “IRS”) with respect to any of the U.S. federal tax consequences discussed below, and no assurance can be given that the IRS will not take contrary positions. Further, the following discussion does not deal with U.S. tax consequences applicable to any given investor, nor does it address the U.S. tax considerations applicable to all categories of investors, some of which may be subject to special taxing rules (regardless of whether or not such investors constitute U.S. Holders), such as certain U.S. expatriates, banks, REITs, RICs, insurance companies, tax-exempt organizations, dealers or traders in securities or currencies, partnerships, S corporations, estates and trusts, investors that hold their Series 2021 Bonds as part of a hedge, straddle or an integrated or conversion transaction, or investors whose “functional currency” is not the U.S. dollar. Furthermore, it does not address (i) alternative minimum tax consequences, (ii) the net investment income tax imposed under Section 1411 of the Code, or (iii) the indirect effects on persons who hold equity interests in a holder. This summary also does not consider the taxation of the Series 2021 Bonds under state, local or non-U.S. tax laws. In addition, this summary generally is limited to U.S. tax considerations applicable to investors that acquire their Series 2021 Bonds pursuant to this offering for the issue price that is applicable to such Series 2021 Bonds (*i.e.*, the price at which a substantial amount of the Series 2021 Bonds is sold to the public) and who will hold their Series 2021 Bonds as “capital assets” within the meaning of Section 1221 of the Code.

As used herein, “U.S. Holder” means a beneficial owner of a Series 2021 Bond that for U.S. federal income tax purposes is an individual citizen or resident of the United States, a corporation or other entity taxable as a corporation created or organized in or under the laws of the United States or any state thereof (including the District of Columbia), an estate the income of which is subject to U.S. federal income taxation regardless of its source or a trust where a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons (as defined in the Code) have the authority to control all substantial decisions of the trust (or a trust that has made a valid election under U.S. Treasury Regulations to be treated as a domestic trust). As used herein, “Non-U.S. Holder” generally means a beneficial owner of a Series 2021 Bond (other than a partnership) that is not a U.S. Holder. If a partnership holds Series 2021 Bonds, the tax treatment of such partnership or a partner in such partnership generally will depend upon the status of the partner and upon the activities of the partnership. Partnerships holding Series 2021 Bonds, and partners in such partnerships, should consult their own tax advisors regarding the tax consequences of an investment in the Series 2021 Bonds (including their status as U.S. Holders or Non-U.S. Holders).

Notwithstanding the rules described below, it should be noted that certain taxpayers that are required to prepare certified financial statements or file financial statements with certain regulatory or governmental agencies may be required to recognize income, gain and loss with respect to the Series 2021 Bonds at the time that such income, gain or loss is recognized on such financial statements instead of under the rules described below (in the case of original issue discount, such requirements are only effective for tax years beginning after December 31, 2018).

Prospective investors should consult their own tax advisors in determining the U.S. federal, state, local or non-U.S. tax consequences to them from the purchase, ownership and disposition of the Series 2021 Bonds in light of their particular circumstances.

U.S. Holders

Interest. Interest on the Series 2021 Bonds generally will be taxable to a U.S. Holder as ordinary interest income at the time such amounts are accrued or received, in accordance with the U.S. Holder’s method of accounting for U.S. federal income tax purposes.

[To the extent that the issue price of any maturity of the Series 2021 Bonds is less than the amount to be paid at maturity of such Series 2021 Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Series 2021 Bonds) by more than a de minimis amount, the difference may constitute original issue discount (“OID”). U.S. Holders of Series 2021 Bonds will be required to include OID in income for U.S. federal income tax purposes as it accrues, in accordance with a constant yield method based on a compounding of interest (which may be before the receipt of cash payments attributable to such income). Under this method, U.S. Holders generally will be required to include in income increasingly greater amounts of OID in successive accrual periods.]

Series 2021 Bonds purchased for an amount in excess of the principal amount payable at maturity (or, in some cases, at their earlier call date) will be treated as issued at a premium. A U.S. Holder of a Series 2021 Bond issued at a premium may make an election, applicable to all debt securities purchased at a premium by such U.S. Holder, to amortize such premium, using a constant yield method over the term of such Series 2021 Bond.

Sale or Other Taxable Disposition of the Series 2021 Bonds. Unless a nonrecognition provision of the Code applies, the sale, exchange, redemption, retirement (including pursuant to an offer by the City) or other disposition of a Series 2021 Bond will be a taxable event for U.S. federal income tax purposes. In such event, in general, a U.S. Holder of a Series 2021 Bond will recognize gain or loss equal to the difference between (i) the amount of cash plus the fair market value of property received (except to the extent attributable to accrued but unpaid interest on the Series 2021 Bond, which will be taxed in the manner described above) and (ii) the U.S. Holder’s adjusted U.S. federal income tax basis in the Series 2021 Bond (generally, the purchase price paid by the U.S. Holder for the Series 2021 Bond, decreased by any amortized premium)[, and increased by the amount of any OID previously included in income by such U.S. Holder with respect to such Series 2021 Bond]. Any such gain or loss generally will be capital gain or loss. In the case of a non-corporate U.S. Holder of the Series 2021 Bonds, the maximum marginal U.S. federal income tax rate applicable to any such gain will be lower than the maximum marginal U.S. federal income tax rate applicable to ordinary income if such U.S. holder’s holding period for the Series 2021 Bonds exceeds one year. The deductibility of capital losses is subject to limitations.

Defeasance of the Series 2021 Bonds. If the City defeases any Series 2021 Bond, the Series 2021 Bond may be deemed to be retired and “reissued” for U.S. federal income tax purposes as a result of the defeasance. In that event, in general, a holder will recognize taxable gain or loss equal to the difference between (i) the amount realized from the deemed sale, exchange or retirement (less any accrued qualified stated interest which will be taxable as such) and (ii) the holder’s adjusted tax basis in the Series 2021 Bond.

Information Reporting and Backup Withholding. Payments on the Series 2021 Bonds generally will be subject to U.S. information reporting and possibly to “backup withholding.” Under Section 3406 of the Code and applicable U.S. Treasury Regulations issued thereunder, a non-corporate U.S. Holder of the Series 2021 Bonds may be subject to backup withholding at the current rate of 24% with respect to “reportable payments,” which include interest paid on the Series 2021 Bonds and the gross proceeds of a sale, exchange, redemption, retirement or other disposition of the Series 2021 Bonds. The payor will be required to deduct and withhold the prescribed amounts if (i) the payee fails to furnish a U.S. taxpayer identification number (“TIN”) to the payor in the manner required, (ii) the IRS notifies the payor that the TIN furnished by the payee is incorrect, (iii) there has been a “notified payee underreporting” described in Section 3406(c) of the Code or (iv) the payee fails to certify under penalty of perjury that the payee is not subject to withholding under Section 3406(a)(1)(C) of the Code. Amounts withheld under the backup withholding rules may be refunded or credited against the U.S. Holder’s federal income tax liability, if any, provided that the required information is timely furnished to the IRS. Certain U.S. holders (including among others, corporations and certain tax-exempt organizations) are not subject to backup

withholding. A holder's failure to comply with the backup withholding rules may result in the imposition of penalties by the IRS.

Non-U.S. Holders

Interest. Subject to the discussions below under the headings "Information Reporting and Backup Withholding" and "Foreign Account Tax Compliance Act," payments of principal of, and interest on, any Series 2021 Bond to a Non-U.S. Holder, other than (1) a controlled foreign corporation, a such term is defined in the Code, which is related to the City through stock ownership and (2) a bank which acquires such Series 2021 Bond in consideration of an extension of credit made pursuant to a loan agreement entered into in the ordinary course of business, will not be subject to any U.S. federal withholding tax provided that the beneficial owner of the Series 2021 Bond provides a certification completed in compliance with applicable statutory and regulatory requirements, which requirements are discussed below under the heading "Information Reporting and Backup Withholding," or an exemption is otherwise established.

Disposition of the Series 2021 Bonds. Subject to the discussions below under the headings "Information Reporting and Backup Withholding" and "FATCA," any gain realized by a Non-U.S. Holder upon the sale, exchange, redemption, retirement (including pursuant to an offer by the City or a deemed retirement due to defeasance of the Series 2021 Bond) or other disposition of a Series 2021 Bond generally will not be subject to U.S. federal income tax, unless (i) such gain is effectively connected with the conduct by such Non-U.S. Holder of a trade or business within the United States; or (ii) in the case of any gain realized by an individual Non-U.S. Holder, such holder is present in the United States for 183 days or more in the taxable year of such sale, exchange, redemption, retirement (including pursuant to an offer by the City) or other disposition and certain other conditions are met.

U.S. Federal Estate Tax. A Series 2021 Bond that is held by an individual who at the time of death is not a citizen or resident of the United States will not be subject to U.S. federal estate tax as a result of such individual's death, provided that, at the time of such individual's death, payments of interest with respect to such Series 2021 Bond would not have been effectively connected with the conduct by such individual of a trade or business within the United States.

Information Reporting and Backup Withholding. Subject to the discussion below under the heading "FATCA," under current U.S. Treasury Regulations, payments of principal and interest on any Series 2021 Bonds to a holder that is not a United States person will not be subject to any backup withholding tax requirements if the beneficial owner of the Series 2021 Bond or a financial institution holding the Series 2021 Bond on behalf of the beneficial owner in the ordinary course of its trade or business provides an appropriate certification to the payor and the payor does not have actual knowledge that the certification is false. If a beneficial owner provides the certification, the certification must give the name and address of such owner, state that such owner is not a United States person, or, in the case of an individual, that such owner is neither a citizen nor a resident of the United States, and the owner must sign the certificate under penalties of perjury. The current backup withholding tax rate is 24%.

Foreign Account Tax Compliance Act ("FATCA") — U.S. Holders and Non-U.S. Holders

Sections 1471 through 1474 of the Code impose a 30% withholding tax on certain types of payments made to foreign financial institutions, unless the foreign financial institution enters into an agreement with the U.S. Treasury to, among other things, undertake to identify accounts held by certain U.S. persons or U.S.-owned entities, annually report certain information about such accounts, and withhold 30% on payments to account holders whose actions prevent it from complying with these and other reporting requirements, or unless the foreign financial institution is otherwise exempt from those

requirements. In addition, FATCA imposes a 30% withholding tax on the same types of payments to a non-financial foreign entity unless the entity certifies that it does not have any substantial U.S. owners or the entity furnishes identifying information regarding each substantial U.S. owner. Under current guidance, failure to comply with the additional certification, information reporting and other specified requirements imposed under FATCA could result in the 30% withholding tax being imposed on payments of interest on the Series 2021 Bonds. In general, withholding under FATCA currently applies to payments of U.S. source interest (including OID) and, under current guidance, will apply to certain “passthru” payments no earlier than the date that is two years after publication of final U.S. Treasury Regulations defining the term “foreign passthru payments.” Prospective investors should consult their own tax advisors regarding FATCA and its effect on them.

The foregoing summary is included herein for general information only and does not discuss all aspects of U.S. federal taxation that may be relevant to a particular holder of Series 2021 Bonds in light of the holder’s particular circumstances and income tax situation. Prospective investors are urged to consult their own tax advisors as to any tax consequences to them from the purchase, ownership and disposition of Series 2021 Bonds, including the application and effect of state, local, non-U.S., and other tax laws.

VALIDATION

In November 2019, the City, acting pursuant to the provisions of Section 860 *et. seq.* of the California Code of Civil Procedure and Section 53511 *et. seq.* of the California Government Code, filed a complaint in the Superior Court of the State of California for the County of Orange seeking judicial validation of the transactions relating to the issuance of the Series 2021 Bonds and certain other matters. On May 18, 2020, the court entered a default judgment to the effect that, among other things, the Series 2021 Bonds are valid, legal and binding obligations of the City not subject to the debt limitation provided in Article XVI, Section 18 of the State Constitution and that the Series 2021 Bonds are valid and in conformity with all applicable provisions of law. The Trust Agreement executed by the City in connection with the issuance of the Series 2021 Bonds was also the subject of the default judgment, as was the authorization that certain Pension Tax Override revenues may be applied to the repayment of the Series 2021 Bonds, each of which were validated as legal and binding obligations imposed by law. The time period for the filing of appeals with respect to the judgment expired on June 17, 2020. No appeals were filed and therefore, the judgment is final. In issuing its opinion as to the validity of the Series 2021 Bonds, Bond Counsel will rely upon the entry of the foregoing default judgment.

CERTAIN LEGAL MATTERS

Legal matters incident to the authorization, issuance, sale and delivery by the City of the Series 2021 Bonds are subject to the approval as to their validity of Orrick, Herrington & Sutcliffe LLP, as Bond Counsel to the City. Bond Counsel, as such, undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the City by the City Attorney, and by Orrick, Herrington & Sutcliffe LLP, as Disclosure Counsel. Certain legal matters will be passed on for the Underwriters by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California. Certain compensation of Bond Counsel and Disclosure Counsel is contingent upon the issuance and delivery of the Series 2021 Bonds.

FINANCIAL STATEMENTS

The City’s financial statements for the fiscal year ended June 30, 2020, included in APPENDIX B – “COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2020,” have been audited by Davis Farr LLP, Certified Public Accountants, Irvine, California, as stated in its report appearing in such appendix. Davis Farr LLP has

not undertaken to update its report or to take any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in this Official Statement, and no opinion is expressed by Davis Farr LLP with respect to any event subsequent to its report.

LITIGATION

To the best knowledge of the City, except as otherwise disclosed in this Official Statement, there is no pending or threatened litigation concerning the validity of the Series 2021 Bonds or challenging any action taken by the City in connection with the authorization of the Trust Agreement, or any other document relating to the Series 2021 Bonds to which the City is or is to become a party or the performance by the City of any of their obligations under any of the foregoing. Further, to the best knowledge of the City, except as otherwise disclosed in this Official Statement, there is no litigation, proceeding, action, suit, or investigation pending, with service of process having been accomplished, or threatened in writing against the City, which in any manner, questions the right of the City to pay debt service on the Series 2021 Bonds in accordance with the Trust Agreement.

RATINGS

Fitch Ratings, Inc. (“Fitch”) and S&P Global Ratings, a Standard & Poor’s Financial Services LLC business (“S&P”) have assigned their ratings of “____” and “____,” respectively, to the Series 2021 Bonds. Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same, at the following addresses: Fitch Ratings, Inc., 33 Whitehall Street, New York, New York 10007, and Standard & Poor’s Ratings Services, 55 Water Street, New York, New York 10041. 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 ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of the rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Series 2021 Bonds.

UNDERWRITING

The Series 2021 Bonds are being purchased by Stifel, Nicolaus & Company, Incorporated for itself and as representative of BofA Securities, Inc. and Hilltop Securities (collectively, the “Underwriters”). The Underwriters have agreed to purchase the Series 2021 Bonds at a price of \$_____, which amount represents the principal amount of the Series 2021 Bonds of \$_____, less \$_____, representing the Underwriters’ discount. The contract of purchase pursuant to which the Series 2021 Bonds are being purchased by the Underwriters provides that the Underwriters will purchase all of the Series 2021 Bonds if any are purchased. The obligation of the Underwriters to make such purchase is subject to certain terms and conditions set forth in such contract of purchase. The Underwriters may offer and sell the Series 2021 Bonds to certain dealers and others at prices different from the prices stated on the inside cover page of this Official Statement. The offering prices may be changed from time to time by the Underwriters.

BofA Securities, Inc., an underwriter of the Series 2021 Bonds, has entered into a distribution agreement with its affiliate Merrill Lynch, Pierce, Fenner & Smith Incorporated (“MLPF&S”). As part of this arrangement, BofA Securities, Inc. may distribute securities to MLPF&S, which may in turn distribute such securities to investors through the financial advisor network of MLPF&S. As part of this arrangement, BofA Securities, Inc. may compensate MLPF&S as a dealer for their selling efforts with respect to the Series 2021 Bonds.

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

In the ordinary course of their various business activities, the Underwriters and their respective 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 Underwriters and their respective 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.

MUNICIPAL ADVISOR

KNN Public Finance, Los Angeles California (the “Municipal Advisor”) has served as municipal advisor to the City in connection with the issuance of the Series 2021 Bonds. The Municipal Advisor has not independently verified any of the data contained in this Official Statement or conducted a detailed investigation of the affairs of the City to determine the accuracy or completeness of this Official Statement. The Municipal Advisor assumes no responsibility for the accuracy or completeness of any of the information contained in this Official Statement. The fees of the Municipal Advisor are contingent upon issuance of the Series 2021 Bonds.

CONTINUING DISCLOSURE

The City has covenanted to provide, or cause to be provided, to the Municipal Securities Rulemaking Board’s EMMA System, for purposes of the Rule, certain annual financial information and operating data of the type set forth herein including, but not limited to, its audited financial statements and notice of certain enumerated events. These covenants have been made in order to assist the Underwriters in complying with the Rule. The City will execute a continuing disclosure certificate (the “Continuing Disclosure Certificate”) for the benefit of the owners of the Series 2021 Bonds. See APPENDIX F – “FORM OF CONTINUING DISCLOSURE CERTIFICATE” for a description of the Continuing Disclosure Certificate. A failure by the City to provide any information required thereunder will not constitute an Event of Default under the Trust Agreement. Within the last five years, with respect to the then outstanding Series 2010A Bonds and Series 2011A Bonds, the City’s annual report for the fiscal year ending June 30, 2020 was not posted to properly reference certain CUSIP numbers and the filing of an event notice of a rating upgrade in 2016 concerning the then outstanding Series 2010A Bonds and Series 2011A Bonds was not filed on a timely basis by the City pursuant to the Rule, such filing being approximately 9 days late. The City has made the necessary filings to address the deficiencies identified above. Currently, the City believes that it is in material compliance with its continuing disclosure undertakings under the Rule for the last five years.

ADDITIONAL INFORMATION

Summaries and explanations of the Series 2021 Bonds and documents contained in this Official Statement do not purport to be complete, and reference is made to such documents for full and complete statements of their provisions.

INFORMATION RELATING TO DTC, CLEARSTREAM AND EUROCLEAR AND THE BOOK ENTRY SYSTEM DESCRIBED UNDER THE HEADING “THE BONDS — CLEARING SYSTEMS FOR THE SERIES 2021 BONDS” AND IN APPENDIX G — “PROVISIONS FOR BOOK-ENTRY ONLY SYSTEM AND GLOBAL CLEARANCE PROCEDURES” IS BASED UPON INFORMATION FURNISHED BY DTC, CLEARSTREAM AND EUROCLEAR AND IS BELIEVED TO BE RELIABLE. NEITHER THE CITY NOR THE UNDERWRITERS MAKES ANY REPRESENTATIONS OR WARRANTIES WHATSOEVER WITH RESPECT TO SUCH INFORMATION, INCLUDING WITHOUT LIMITATION, REPRESENTATIONS AND WARRANTIES AS TO THE COMPLETENESS OR THE ACCURACY OF SUCH INFORMATION OR AS TO THE ABSENCE OF MATERIAL ADVERSE CHANGES IN SUCH INFORMATION SUBSEQUENT TO THE DATE OF THIS OFFICIAL STATEMENT.

The preparation and distribution of this Official Statement have been authorized by the City.

CITY OF HUNTINGTON BEACH

By _____
Chief Financial Officer

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APPENDIX A

GENERAL, ECONOMIC AND DEMOGRAPHIC INFORMATION RELATING TO THE CITY

The information in this Appendix is obtained from publicly available sources which do not yet provide current information in many cases to reflect the adverse impact of the Pandemic, particularly with respect to employment and taxable transactions. See “CERTAIN RISK FACTORS – Infectious Disease Outbreak – COVID-19” in this Official Statement for additional information. Further, the information herein is subject to change without notice, and neither delivery of this Official Statement nor any sale thereafter of the Series 2021 Bonds shall under any circumstances imply that there has not been any change in the affairs of the City or in any other information contained herein since the date of the Official Statement. The Series 2021 Bonds are payable solely amounts deposited by the City in the Bond Fund under the Trust Agreement, as and when paid by the City. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS.” The taxing power of the City of Huntington Beach, the County of Orange, the State of California or any political subdivision thereof is not pledged to the payment of the Series 2021 Bonds.

General Information

Founded in the late 1880’s, Huntington Beach (the “City”) was incorporated as a general law city in 1909 and became a charter city in 1937. The City encompasses 31.6 square miles (26.4 square miles is land, 5.2 square miles is water) in the coastal area of Orange County, California (the “County”), adjacent to the Cities of Costa Mesa, Fountain Valley, Newport Beach, Seal Beach and Westminster. The City is approximately 40 miles southeast of Los Angeles and 90 miles northwest of San Diego. As of January 1, 2020, the State of California Finance Department estimated its population at 201,281, according to the State of California’s Department of Finance.

The City is a full service city. Its major departments include the City Manager’s office, Finance, Community Development, Library Services, Public Works, Community Services, Information Services, and Police and Fire.

Internationally known as Surf City, the City boasts 9.5 miles of scenic, accessible beachfront, the largest stretch of uninterrupted beachfront on the West Coast. Tourism remains a vital part of the economy, as over 11 million visitors flock to the City each year. The City’s parks and recreation features its iconic 1,856 foot-long pier – one of the largest recreational piers in the world, public parks, riding stables and equestrian trails, marina, a wildlife preserve, and an eight-mile biking, inline skating, jogging, and walking trail along the ocean. The crown jewel of the City’s recreation system is the wide expanse of beautiful and spacious beaches, where large crowds gather to watch events as the U.S. Open Championship of Surfing, AVP Pro Beach Volleyball and the Great Pacific Airshow – the only beachfront air show on the West Coast.

The Huntington Beach Art Center and the Huntington Beach Playhouse provide a wide variety of fine arts, and the excellent library system and numerous museums provide a strong cultural foundation. The educational system, with five city high schools and 35 elementary schools, is excellent, frequently receiving local, state, and federal awards and honors, including recognition as California Distinguished Schools and National Blue Ribbon Schools.

Government Organization

The City has a council/manager form of government. The City Council is comprised of seven members elected bi-annually at large to four-year terms and the Mayor is selected by the Council Members to a one-year term. The City Council appoints the City Manager who is responsible for the day-to-day administration of City business and the coordination of all departments of the City.

The members of the City Council, the expiration dates of their terms and key administrative personnel are set forth in the charts below.

CITY COUNCIL

Council Member	Term Expires
Kim Carr, <i>Mayor</i>	November 2022
Tito Ortiz, <i>Mayor Pro-Tem</i>	November 2024
Barbara Delgleize, <i>Member</i>	November 2022
Dan Kalmick, <i>Member</i>	November 2024
Natalie Moser, <i>Member</i>	November 2024
Erik Peterson, <i>Member</i>	November 2022
Mike Posey, <i>Member</i>	November 2022

KEY ADMINISTRATIVE PERSONNEL

Oliver Chi	City Manager
Travis Hopkins	Assistant City Manager
Robin Estanislau	City Clerk
Michael E. Gates	City Attorney
Alisa Backstrom	City Treasurer
Dahle Bulosan	Chief Financial Officer
Sunny Rief	Assistant Chief Financial Officer

Governmental Services

Public Safety and Welfare – Law enforcement, fire, and marine safety protection services are provided by the City. The Huntington Beach Police Department currently employs 209 sworn officers. The Huntington Beach Fire Department employs 108 sworn fire fighters operating out of eight fire stations and maintains a Hazardous Materials Response Unit operating as a part of a county wide response team. The City's 10 Marine Safety officers, supported by part-time ocean lifeguards, provide year-end lifeguard services on the City's beaches, including medical aid and code enforcement services.

Community Development – The department plans for the future growth and development of the City and safeguards existing building stock. Services include planning, building, code enforcement, permit and plan check services, and inspection services.

Public Works – The City's Public Works department is responsible for the planning, construction, operation and maintenance of the City-owned infrastructure. The infrastructure includes buildings, streets, parks, landscaping, flood control, beach facilities and utilities. Essential services such as water, sewer, drainage, and traffic control systems are operated and maintained 24 hours a day.

Library and Community Services – The City’s library services include the Central Library and four branches. The City’s Community Services Department provides citizens with a variety of park and recreational and marine safety (lifeguard) services on a year round basis. Facilities include the Huntington Beach Art Center, fifty-six park sites, over 10 miles of beach, a public golf course, Equestrian Center, and state-of-the-art Senior Centers.

Community Information

Public school education is available through four elementary school districts and one high school district. There are 26 elementary schools, 4 middle schools and 5 high schools. Students are also served by 10 parochial and private schools. Area colleges and universities include Orange Coast College, Golden West College, California State University - Long Beach, California State University - Fullerton and the University of California at Irvine.

Health Care services available within the immediate area are provided by Huntington Beach Hospital in Huntington Beach, Hoag Memorial Hospital in Newport Beach and Fountain Valley Regional Hospital.

Area attractions include Disneyland, Knott’s Berry Farm, and the Aquarium of the Pacific. Locally, the City’s public beaches routinely serve as the site of the U.S. Open of Surfing and AVP Beach Volleyball tour. The City is also the destination for the Great Pacific Airshow, attracting a crowd of over 1.2 million over the two-day event. Other attractions include the Bolsa Chica Ecological Reserve, a restored wetlands area known for winter bird watching, International Surf Museum.

Transportation

The City is 12 miles from John Wayne/Orange County Airport (SNA), 18 miles from Long Beach Airport (LGB), 38 miles from Los Angeles International (LAX) and 48 miles from Ontario International Airport (ONT).

Greyhound Lines serves the City with stops in Santa Ana and Irvine. In Orange County, the Orange County Transportation Authority (OCTA) provides convenient service and connections to bus and commuter rail serving the greater Los Angeles (Metropolitan Transportation Authority) and San Diego areas.

The City is accessible by train. The nearest train depots are in Santa Ana, Anaheim and Irvine.

Population

The following table provides a comparison of population growth for the City and the County between 2010 and 2020.

Population⁽¹⁾
City of Huntington Beach and Orange County
2010-2020

Year	City of Huntington Beach	Orange County
2010	190,136	3,008,855
2011	190,828	3,036,412
2012	193,588	3,072,381
2013	194,678	3,103,018
2014	196,131	3,122,962
2015	197,742	3,145,029
2016	199,796	3,162,789
2017	200,669	3,184,229
2018	200,211	3,192,092
2019	201,239	3,192,987
2020	201,281	3,194,332

⁽¹⁾ The population estimates provided for 2010-2020 incorporate 2010 Census numbers as benchmarks. The City is not otherwise aware of any diminution in its population or that of the County.

Source: State of California Department of Finance

Personal 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.”

City of Huntington Beach, State of California and United States
Per Capita Income

Year	City of Huntington Beach	Orange County	State of California	United States
2015	43,016	34,817	30,318	28,930
2016	43,863	35,939	31,458	29,829
2017	45,597	37,603	33,128	31,177
2018	47,078	39,590	35,021	32,621
2019	48,774	41,514	36,955	34,103

Source: U.S. Census Bureau, American Community Survey (5-Year Estimates).

Employment and Industry

The following table sets forth labor force, employment and unemployment for the period from 2015 to 2019, in the City, the County, the State and the United States:

CITY OF HUNTINGTON BEACH LABOR MARKET **Labor Force, Employment and Unemployment** **Annual Average** **(Dollars in Thousands)**

Year and Area	Civilian Labor Force	Civilian Employment	Unemployment	Unemployment Rate (%)
2015				
City of Huntington Beach	108	103	5	4.3%
Orange County	1,584	1,514	71	4.5
California	18,829	17,661	1,168	6.2
United States	157,130	148,834	8,296	5.3
2016				
City of Huntington Beach	108	104	4	4.0%
Orange County	1,597	1,533	65	4.0
California	19,021	17,980	1,041	5.5
United States	159,187	151,436	7,751	4.9
2017				
City of Huntington Beach	109	105	4	3.5%
Orange County	1,608	1,552	56	3.5
California	19,176	18,257	919	4.8
United States	160,320	153,337	6,982	4.4
2018				
City of Huntington Beach	109	106	3	2.9%
Orange County	1,618	1,570	48	3.0
California	19,281	18,461	820	4.3
United States	162,075	155,761	6,314	3.9
2019				
City of Huntington Beach	109	106	3	2.8%
Orange County	1,623	1,578	45	2.8
California	19,412	18,627	784	4.0
United States	163,539	157,538	6,001	3.7

Source: California Employment Development Department; United States Department of Labor Bureau of Labor Statistics

The principal private employers operating within the City and their respective number of employees as of June 30, 2020, are as follows:

CITY OF HUNTINGTON BEACH
Principal Private Employers

Name of Employer	Number of Employees	% of total
The Boeing Company	3,112	2.96%
No Ordinary Moments	646	0.61
Hyatt Regency Huntington Beach	641	0.61
Safran Cabin Galleys US Inc.	631	0.60
QS Wholesale	580	0.55
Safran Cabin Inc.	555	0.53
Cambro Manufacturing	550	0.52
Huntington Beach Hospital	527	0.50
Walmart	462	0.44
Waterfront Hilton Beach Resort	450	0.43
Total of Top 10	8,154	7.75%
All others	97,046	92.25%
Total Employment (public and private)	105,200	100.00%

Source: City of Huntington Beach

Since June 30, 2019, The Boeing Company has reduced its number of employees to approximately 3,112 as a result of its plans to scale down many of its facilities, including the one in the City, by a total of 4.5 million square feet, with jobs from the Huntington Beach facility moving to other plants, including in Seal Beach, El Segundo and Long Beach. Also, the Safran Group has laid off approximately 83 employees at two sites in Orange County and furloughed an unspecified number of local workers at its Huntington Beach location, due to the COVID-19 pandemic.

Commercial Activity

The following charts summarize the volume of retail sales and taxable transactions for the City for 2015 through 2019.

CITY OF HUNTINGTON BEACH
Total Taxable Transactions
2015-2019

Year	Retail Sales (\$000's)	Retail Sales Permits	Total Taxable Transactions (\$000's)	Issued Sales Permits
2015	2,502,440	5,769	3,207,380	8,725
2016	2,554,369	5,997	3,246,972	9,106
2017	2,642,949	6,095	3,489,560	9,295
2018	2,635,760	6,146	3,576,655	9,586
2019	2,656,632	6,237	3,475,367	9,977

Source: California Department of Tax and Fee Administration, "Taxable Sales in California"

A seven-year history of taxable transactions by type of business for the City are shown in the tables below.

CITY OF HUNTINGTON BEACH
Taxable Transactions by Type of Business
(in Thousands)
2013-2015

Retail and Food Services	2013	2014	2015
Clothing and Clothing Accessories Stores	\$ 132,820	\$ 133,527	\$ 137,002
General Merchandise Stores	300,820	303,646	307,010
Food & Beverage Stores	172,131	175,499	179,964
Food Services and Drinking Places	377,360	402,998	427,287
Home Furnishings and Appliance Stores	188,396	157,622	192,010
Bldg. Material & Garden Equip. & Supplies	147,573	153,404	158,232
Motor Vehicles and Parts Dealers	514,669	567,216	613,888
Gasoline Stations	245,807	242,706	209,073
Other Retail Group	262,886	272,133	277,975
Total Retail and Food Services	\$2,342,462	\$2,408,750	\$2,502,440
All Other Outlets	627,018	702,792	704,940
Total All Outlets	\$2,969,480	\$3,111,543	\$3,207,380

Source: California Department of Tax and Fee Administration, "Taxable Sales in California"

CITY OF HUNTINGTON BEACH
Taxable Transactions by Type of Business
(in Thousands)
2016-2019

Retail and Food Services	2016	2017	2018	2019
Motor Vehicles and Parts Dealers	\$ 630,858	\$ 673,889	\$ 648,412	\$ 664,025
Home Furnishings and Appliance Stores	193,813	174,172	143,410	136,696
Bldg. Material & Garden Equip. & Supplies	164,331	165,304	166,074	168,275
Food & Beverage Stores	183,992	187,099	194,418	197,759
Gasoline Stations	182,175	199,801	221,463	222,605
Clothing and Clothing Accessories Stores	147,388	155,905	159,043	151,587
General Merchandise Stores	299,854	307,140	312,130	312,893
Food Services and Drinking Places	469,566	501,561	511,876	520,587
Other Retail Group	282,392	278,078	278,934	282,204
Total Retail and Food Services	\$2,554,369	\$2,642,949	\$2,635,760	\$2,656,632
All Other Outlets	692,603	846,610	940,895	818,735
Total All Outlets	\$3,246,972	\$3,489,560	\$3,576,655	\$3,475,367

Source: California Department of Tax and Fee Administration, "Taxable Sales in California"

APPENDIX B

**COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

APPENDIX C
CITY INVESTMENT POLICY

CITY OF HUNTINGTON BEACH
STATEMENT OF INVESTMENT POLICY
[2021]

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1.0 Purpose:

This policy is intended to provide guidelines for the prudent investment of the City's unexpended cash balances, and to outline the policies to assist in maximizing the efficiency of the City's cash management system while meeting the daily cash flow demands of the City.

2.0 Policy:

The investment practices and policies of the City of Huntington Beach are based upon California state law and prudent money management.

3.0 Scope:

This investment policy applies to all financial assets as indicated in Section 3.1 below of the City of Huntington Beach. These funds are accounted for in the City's Comprehensive Annual Financial Report.

3.1 Funds:

The City Treasurer is responsible for investing the unexpended cash in the City Treasury for all funds, except for the employee's pension funds, which are invested separately by CALPERS, those funds which are invested separately by the City Treasurer under bond indenture agreements, and funds which are invested separately by the City Treasurer or trustees under other agreements approved by Council such as the Retiree Medical Trust, the Post-Employment Section 115 Trust and the Supplemental Pension Trust. The City Treasurer will strive to maintain the level of investment of this cash (that is not to be utilized for operating cash flow in the next six months), as close as possible to 100%. These funds are described in the City's annual financial report and include:

3.1.1 General Fund

3.1.2 Special Revenue Funds

3.1.3 Capital Project Funds

3.1.4 Enterprise Funds

3.1.5 Trust and Agency Funds

3.1.6 Debt Service Funds

3.1.7 Infrastructure Funds

3.1.8 Capital Improvement Reserve Funds

3.1.9 Any new fund created by the legislative body, unless specifically exempted

This investment policy applies to all transactions involving the financial assets and related activity of the foregoing funds. It is the City's policy to pool funds for investment purposes to provide efficiencies and economies of scale. Investing through a pooled account will provide for greater use of funds by allowing for a more efficient cash flow, a reduction in transaction costs and a greater access to the market.

4.0 Prudence:

The standard of prudence to be used by the City Treasurer shall be the “**prudent investor**” standard. This shall be applied in the context of managing an overall portfolio.

The “**Prudent Investor Rule**” provides, pursuant to California Government Code Section 53600.3, that investments shall be made with judgment and care—under circumstances then prevailing—which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived. The City Treasurer and any designee of the City Treasurer, as investment officers acting in accordance with written procedures and the investment policy and exercising due diligence, shall be relieved of personal responsibility for an individual security’s credit risk or market price changes, provided deviations from expectations are reported to the City Council in a timely fashion and appropriate action is taken to control adverse developments.

5.0 Objective:

Consistent with this aim, investments are made under the terms and conditions of California Government Code Section 53600, *et seq.* Criteria for selecting investments and the absolute order of priority are:

5.1 Safety:

Safety of principal is the foremost objective of the investment program. Investments of the City of Huntington Beach shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.

5.2 Liquidity:

The investment portfolio will remain sufficiently liquid to enable the City of Huntington Beach to meet all reasonably anticipated operating requirements and to maintain compliance with any indenture agreement, as applicable. Liquidity is essential to the safety of principal. Furthermore, since all possible cash demands cannot be anticipated, the portfolio will invest primarily in securities with active secondary and resale markets.

5.3 Return on Investments:

The investment portfolio shall be designed with the objective of attaining a market-average rate of return throughout budgetary and economic cycles (market interest rates), within the City of Huntington Beach’s investment policy’s risk parameters and the cash flow needs of the City. See also Section 17.0.

6.0 Investment Advisory Board:

By City Charter, the City Treasurer is the custodian of all public funds of the City of Huntington Beach. The City Council members may each appoint one Huntington Beach resident to serve on an Investment Advisory Board for the purpose of advising the City Treasurer and the City Council on the City’s investment program. The Investment Advisory Board will review the investment portfolio for compliance with the adopted investment policy on a quarterly basis and will prepare an Annual Report.

7.0 Delegation of Authority:

In accordance with the State of California Government Code § 53607, the City Council delegates investment authority to the City Treasurer for a period of one year and such investment authority must be renewed annually. Adoption of this policy constitutes delegation of investment authority to the City Treasurer for the following year unless revoked in writing. Within the City Treasurer's office, the responsibility for the day to day investment of City funds will be the City Treasurer and may be delegated to such deputy chosen by the City Treasurer in the absence of the City Treasurer (as allowable per State of California Government Code § 41006). The City Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

8.0 Ethics and Conflicts of Interest:

In addition to state and local statutes relating to conflicts of interest, all persons involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officers are required to file annual disclosure statements as required for "public officials who manage public investments" (as defined and required by the Political Reform Act and related regulations, being Government Code Sections 81000 and the Fair Political Practices Commission (FFPC)).

9.0 Authorized Financial Dealers and Institutions:

The City Treasurer will maintain a list of the financial institutions and broker/dealers authorized to provide investment and depository services and will perform an annual review of the financial condition and registrations of such qualified providers. The City Treasurer will also require annual audited financial statements to be on file for each company. The City shall annually send a copy of the current investment policy to all financial institutions and broker/dealers approved to do business with the City.

As far as feasibly possible, all money belonging to, or in the custody of, a local agency, including money paid to the City Treasurer or other official to pay the principal, interest, or penalties of bonds, shall be deposited for safekeeping in national or state chartered banks, savings associations, federal associations, credit unions, or federally insured industrial loan companies in this state selected by the City Treasurer or other official having legal custody of the money; or may be invested in the investments set forth in Section 10.0. To be eligible to receive local agency money, a bank, savings association, federal association, or federally insured industrial loan company shall have received an overall rating of not less than "satisfactory" in its most recent evaluation by the appropriate federal financial supervisory agency of its record of meeting the credit needs of California's communities, including low- and moderate-income neighborhoods.

In order to be approved by the City, the dealer must be a "primary" dealer or regional dealer that qualifies under Securities and Exchange Commission Rule 15c3-1 (Uniform Net Capital Rule). The institution must have an office in California. The dealer must be experienced in institutional and public fund trading practices and familiar with the California Government Code as related to investments appropriate for the City; and, other criteria as may be established in the investment procedures. All broker/dealers and financial institutions who desire to become qualified bidders for investment transactions must submit a "Broker/Dealer Application" and related documents relative to eligibility including a current audited annual financial statement, U4 form for the

broker, proof of state registration, proof of Financial Industry Regulatory Authority, Inc. (“FINRA”) certification and a certification of having read and understood the City’s investment policy and agreeing to comply with the policy. Capital requirements for registered government securities brokers and dealers shall meet or exceed the requirements as set forth by the Securities and Exchange Commission Rule 15c3-1 (Uniform Net Capital Rule). Such companies shall also have a minimum of five years of operation.

10.0 Authorized and Suitable Investments:

The City is authorized by California Government Code Section 53600, et. seq. to invest in specific types of securities. Investments not specifically listed below are deemed inappropriate and are prohibited:

A. BANKERS ACCEPTANCES, maximum 25% of portfolio (up to 40% with City Council approval). Maximum term of 180 days.

Banks must have a short term rating of at least A1/P1 and a long-term rating of “A” or higher as provided by a nationally recognized statistical rating organization (“NRSRO”). No more than 10 percent of the agency’s money may be invested in the bankers acceptances of any one commercial bank pursuant to this section.

B. NEGOTIABLE CERTIFICATES OF DEPOSIT, maximum 30% of portfolio. Maximum term of 3 years (up to 5 years with City Council approval).

May be issued by a nationally or state-chartered bank, a savings association or a federal association (as defined by Section 5102 of the Financial Code), a state or federal credit union, or by a federally-licensed or state-licensed branch of a foreign bank. Issuer must have a short term rating of A1/P1 and a long term rating of “A” or higher as provided by an NRSRO. No more than 10 percent of the agency’s money may be invested in negotiable certificates of deposit of any one issuer.

C. COMMERCIAL PAPER, maximum 25% of portfolio. Maximum term of 270 days.

Commercial paper must be of “prime” quality of the highest ranking or of the highest letter and number rating as provided by an NRSRO. The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (1) or paragraph (2):

(1) The entity meets the following criteria:

- (A) Is organized and operating in the United States as a general corporation.
- (B) Has total assets in excess of five hundred million dollars (\$500,000,000).
- (C) Has debt other than commercial paper, if any, that is rated “A” or higher by an NRSRO.

(2) The entity meets the following criteria:

- (A) Is organized within the United States as a special purpose corporation, trust, or limited liability company.

- (B) Has program-wide credit enhancements including, but not limited to, overcollateralization, letters of credit, or surety bond.
- (C) Has commercial paper that is rated “A-1” or higher, or the equivalent, by an NRSRO. Split ratings (*i.e.* A2/P1) are not allowable. No more than 10 percent of the outstanding commercial paper of any single corporate issue may be purchased.

No more than 10 percent of the agency’s money may be invested in Commercial Paper of any one issuer.

D. BONDS ISSUED BY THE STATE OF CALIFORNIA OR ANY OF THE OTHER 49 UNITED STATES. Maximum term of 5 years.

Bonds must have an “A” rating or higher by an NRSRO. No more than 10 percent of the agency’s money may be invested in state bonds of any one issuer.

E. BONDS ISSUED BY THE CITY OR ANY LOCAL AGENCY WITHIN THE STATE OF CALIFORNIA. Maximum term of 5 years.

Bonds must have an “A” rating or higher by an NRSRO. No more than 10 percent of the agency’s money may be invested in city or local agency bonds of any one issuer.

F. OBLIGATIONS OF THE UNITED STATES TREASURY. Maximum term of 5 years.

United States Treasury bills, bonds and notes or certificates of indebtedness, for which the faith and credit of the United States are pledged for the payment of principal and interest. There is no limit on the percentage of the portfolio that can be invested in this category.

G. U.S. GOVERNMENT AGENCY SECURITIES (FEDERAL AGENCIES). Maximum term of 5 years.

Obligations, participations or other instruments of or issued by a federal agency or a United States government-sponsored enterprise. There is no limit on the percentage of the portfolio that can be invested in this category.

H. REPURCHASE AGREEMENT. Maximum term of 3 months.

Investments in repurchase agreements may be made, on any investment authorized in this section, when the term of the agreement does not exceed 3 months.

A Master Repurchase Agreement must be signed with the bank or broker/dealer who is selling the securities to the City.

I. REVERSE-REPURCHASE AGREEMENTS. (Requires City Council approval for each transaction).

Reverse repurchase agreements or securities lending agreements may be utilized only when all of the following conditions are met:

- (A) The security to be sold on reverse repurchase agreement or securities lending agreement has been owned and fully paid for by the local agency for a minimum of 30 days prior to sale.
- (B) The total of all reverse repurchase agreements and securities lending agreements on investments owned by the local agency does not exceed 20 percent of the base value of the portfolio.
- (C) The agreement does not exceed a term of 92 days, unless the agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using a reverse repurchase agreement or securities lending agreement and the final maturity date of the same security.
- (D) Funds obtained, or funds within the pool of an equivalent amount to that obtained from selling a security to a counterparty (by way of a reverse repurchase agreement or securities lending agreement), shall not be used to purchase another security with a maturity longer than 92 days from the initial settlement date of the reverse repurchase agreement or securities lending agreement, unless the reverse repurchase agreement or securities lending agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using a reverse repurchase agreement or securities lending agreement and the final maturity date of the same security.

Investments in reverse repurchase agreements, securities lending agreements, or similar investments in which the local agency sells securities prior to purchase with a simultaneous agreement to repurchase the security, shall only be made with primary dealers of the Federal Reserve Bank of New York or with a nationally or state-chartered bank that has or has had a significant banking relationship with a local agency.

- (A) For purposes of this chapter, “significant banking relationship” means any of the following activities of a bank:
 - (i) Involvement in the creation, sale, purchase, or retirement of a local agency’s bonds, warrants, notes, or other evidence of indebtedness.
 - (ii) Financing of a local agency’s activities.
 - (iii) Acceptance of a local agency’s securities or funds as deposits.

J. MEDIUM-TERM CORPORATE NOTES, maximum 30% of portfolio with a maximum remaining maturity of 5 years or less.

Notes eligible for investment must be rated “A” or higher by an NRSRO. No more than 10 percent of the agency’s money may be invested in medium-term corporate notes of any one issuer.

K. TIME DEPOSITS-CERTIFICATES OF DEPOSIT (non-negotiable certificates of deposit). Maximum term of 3 years.

Deposits must be made with banks or savings & loan that have a short term rating of A1/P1 or a long-term rating of at least an “A” rating or higher by an NRSRO. No more than 10 percent of the agency’s money may be invested in time-deposits of any one issuer.

L. MONEY MARKET FUNDS, maximum 15% of portfolio.

No more than 10 percent of the agency’s surplus funds may be invested in shares of beneficial interest of any one Money Market fund. Local agencies may invest in “shares of beneficial interest” issued by diversified management companies which invest only in direct obligations in U.S. Treasury bills, notes and bonds, U. S. Government Agencies and repurchase agreements with a weighted average of 60 days or less. They must have the highest rating from at least two NRSROs, must maintain a daily principal per share value of \$1.00 per share and distribute interest monthly, and must have a minimum of \$500 million in assets under management. The purchase price of the shares may not include commission.

M. THE LOCAL AGENCY INVESTMENT FUND (LAIF).

LAIF is a special fund of the California State Treasury through which any local government may pool investments. The City may invest up to the maximum allowable by the State Treasurer’s Office (currently \$75,000,000). Investments in LAIF are highly liquid and may be converted to cash within 24 hours.

N. Shares of beneficial interest issued by a joint powers authority organized pursuant to Section 6509.7 that invests in the securities and obligations authorized in subdivisions (a) to (q), inclusive. Each share shall represent an equal proportional interest in the underlying pool of securities owned by the joint powers authority. The City may invest up to \$20,000,000 per joint powers authority. To be eligible under this section, the joint powers authority issuing the shares shall have retained an investment adviser that meets all of the following criteria:

- (1) The adviser is registered or exempt from registration with the Securities and Exchange Commission.
- (2) The adviser has not less than five years of experience investing in the securities and obligations authorized in subdivisions (a) to (q), inclusive.
- (3) The adviser has assets under management in excess of five hundred million dollars (\$500,000,000).

O. United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), or Inter-American Development Bank (IDB), with a maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States. Investments under this subdivision shall be rated “AA” or better by an NRSRO and shall not exceed 10 percent of the agency’s moneys that may be invested pursuant to this section.

Investment Type	Maximum Maturity	Maximum Specified % of Portfolio per Issuer	Minimum Quality Requirements
Bankers' Acceptances	180 days	25% (up to 40% with Council approval) / 10%	A1/P1, "A" Rating
Negotiable Certificates of Deposit	3 years (up to 5 years with Council approval)	30% / 10%	A1/P1, "A" Rating
Commercial Paper	270 days	25% / 10%	A1, "A" Rating
State Obligations – CA and Others	5 years	None / 10%	"A" Rating
City/Local Agency of CA Obligations	5 years	None / 10%	"A" Rating
U.S. Treasury Obligations	5 years	None	None
U.S. Government Agency Obligations	5 years	None	None
IBRD, IFC, IADB	5 years	10%	"AA" Rating
Repurchase Agreements	3 Months	None	None
Reverse Repurchase Agreements	92 days	20% of the base value of the portfolio. Requires City Council Approval	None
Medium-Term Corporate Notes	5 years	30% / 10%	"A" Rating
Non-negotiable Certificates of Deposit	3 years	None / 10%	A1/P1, "A" Rating
Money Market Mutual Funds	60 days	15% / 10%	"AAA" Rating
Local Agency Investment Fund (LAIF)	N/A	Up to \$75,000,000	None
Joint Powers Authority	N/A	None / \$20,000,000	See 10.0 N above

10.1 Investment Pools/Money Market Funds:

The City Treasurer or designee shall be required to investigate all local government investment pools and money market mutual funds prior to investing and performing at least a quarterly review thereafter while the City is invested in the pool or the money market fund. LAIF is authorized under provisions in Section 16429.1 of the California Government Code as an allowable investment for local agencies even though some of the individual investments of the pool are not allowed as a direct investment by a local agency.

11.0 Portfolio Adjustments:

California government code Section 53601 states that if a percentage limitation for a particular category of investment is specified, then that percentage is applicable only at the date of purchase. Should any investment listed in Section 10.0 exceed a percentage-of-portfolio limitation or a percentage-by-issuer limitation due to an incident such as fluctuation in portfolio size, the affected securities may be held to maturity to avoid losses. When no loss is indicated, the Treasurer may consider reconstructing the portfolio basing his/her decision on the expected length of time the portfolio will be unbalanced. As well, the credit criteria listed herein refers to the credit rating at the time the security is purchased. If a security held in the portfolio is downgraded by an NRSRO to a level below the quality required by this investment policy, the City Treasurer will review the credit and make a determination as to whether to sell or retain such security. The City Treasurer will review the portfolio for such compliance no less than quarterly.

12.0 Collateralization:

Under provisions of the California Government Code, California banks, and other depository institutions are required to secure the City's deposits by pledging government securities with a value of 110 % of principal and accrued interest. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of City's total deposits. Collateral will always be held by an independent third party. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the City and retained.

The market value of securities that underlay a repurchase agreement shall be valued at 102 percent or greater of the funds borrowed against those securities and the value shall be adjusted no less than quarterly. Since the market value of the underlying securities is subject to daily market fluctuations, the investments in repurchase agreements shall be in compliance if the value of the underlying securities is brought back up to 102 percent no later than the next business day. The City Treasurer, at his/her discretion, may waive the collateral requirement for deposits that are fully insured (current limit is \$250,000) by the Federal Deposit Insurance Corporation. The right of collateral substitution is granted. The City Treasurer or designee shall ensure that all demand deposits that exceed the FDIC limit (currently \$250,000) shall be fully collateralized with securities authorized under state law and this Investment Policy.

13.0 Safekeeping and Custody:

All City investments shall have the City of Huntington Beach as its registered owner, and all interest and principal payments and withdrawals shall indicate the City of Huntington Beach as the payee. All securities will be held with a qualified financial institution, contracted by the City as a third party custodian with a separate custodial agreement (does not apply to insured Certificates of Deposit, money market funds, or the Local Agency Investment Fund). All agreements and statements will be subject to review annually by external auditors in conjunction with their audit. All securities shall be acquired by the safekeeping institution on a "Delivery-Vs-Payment" (DVP) basis. For Repurchase Agreements, the purchase may be delivered by book entry, physical delivery or by third-party custodial agreement consistent with the Government Code. The transfer of securities to the counterparty bank's customer book entry account may be used for book entry delivery. The City Treasurer or designee shall require a Broker Trade confirmation for all trades.

14.0 Diversification:

The City's investment portfolio will be diversified to mitigate incurring unreasonable and avoidable risks associated with concentrating investments in specific security types, maturity segment, or in individual financial institutions.

- A. Credit risk**, defined as the risk of loss due to failure of the insurer of a security, shall be mitigated by investing in those securities with an "A" or above rating and approved in the investment policy and by diversifying the investment portfolio so that the failure of any one issuer would not unduly harm the City's cash flow.
- B. Market risk**, defined as the risk of market value fluctuations due to overall changes in the general level of interest rates, shall be mitigated by structuring the portfolio so that securities mature as much as possible in conjunction with major cash outflows, thus minimizing the need to sell securities prior to their maturity. It is explicitly recognized herein, however, that in a diversified portfolio, occasional measured losses are inevitable and must be considered within the context of overall investment return. The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated.

15.0 Maximum Maturities:

To the extent possible, the City of Huntington Beach will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City will not directly invest in securities maturing more than five (5) years from the date of purchase, unless

the legislative body has granted express authority to make that investment either specifically, or as a part of an investment program approved by the City Council. The City of Huntington Beach shall not permit more than 50% of its investment portfolio to be invested in securities with maturities over four years.

16.0 Internal Control:

The City Treasurer and the Finance Department shall establish a system of internal controls designed to prevent loss of public funds due to fraud, employee error, misrepresentation by third parties, or unanticipated market changes. No investment personnel may engage in an investment transaction except as provided for under the terms of this policy and the procedure established by the City Treasurer.

The external auditors shall annually review the investments, with respect to the investment policy. This review will provide internal control by assuring compliance with policies and procedures for the investments that are selected for testing. Additionally, account reconciliation and verification of general ledger balances relating to the purchasing or maturing of investments and allocation of interest on investments to fund balances shall be performed by the Finance Department and approved by the City Treasurer. To provide further protection of City funds, written procedures prohibit the wiring of any City funds without the authorization of at least two of the four designated City officials:

1. City Treasurer
2. Treasury Manager
3. Chief Financial Officer
4. Accounting Manager

17.0 Performance Standards:

This investment policy shall be reviewed at least annually by the Investment Advisory Board and the City Council to ensure its consistency with the overall objectives of preservation of principal, liquidity, and return, and its relevance to current law and financial and economic trends.

The moneys entrusted to the City Treasurer will be primarily a passively managed portfolio. However, the City Treasurer will make best efforts to observe, review, and react to changing conditions that affect the portfolio.

17.1 Market Yield (Benchmark):

The investment portfolio shall be managed to attain a market-average rate of return throughout budgetary and economic cycles, taking into account the City's investment risk constraints and cash flow. Investment return becomes a consideration only after the basic requirements of investment safety and liquidity have been met. Because the investment portfolio is designed to operate on primarily a 'hold-to-maturity' premise, and because of the safety, liquidity, and yield priorities, the performance benchmark that will be used by the Treasurer to determine whether market yields are being achieved shall be the 12-month moving average of the interpolated 1.5-Year Constant Maturity Treasury (CMT) rate. This interpolated rate shall be utilized in order to best match the average duration of the portfolio. However, since return on investment is the least important objective of the investment portfolio, the benchmark will be used only as a reference tool. The reporting of a benchmark does not imply that the City Treasurer will add additional risk

to the investment portfolio in order to attain or exceed the benchmark. The prohibition of highly speculative investments precludes pursuit of gain or profit through unusual risk and precludes investments primarily directed at gains or profits from conjectural fluctuations in market prices. The City Treasurer will not directly pursue any investments that are leveraged or deemed derivative in nature. However, as long as the original investments can be justified by their ordinary earning power, trading in response to changes in market value can be used as part of ongoing portfolio management.

18.0 Reporting:

The City Treasurer shall submit a quarterly report to the City Council, City Manager, Chief Financial Officer and the Investment Advisory Board within 30 days following the end of the quarter. This report will include the following elements pursuant to State law and Government Accounting Standard Board (GASB) #40:

- 18.1 Type of investment
- 18.2 Institution/Issuer
- 18.3 Purchase Date
- 18.4 Date of maturity
- 18.5 Amount of deposit or cost of the investment
- 18.6 Face value of the investment
- 18.7 Current market value of securities and source of valuation
- 18.8 Rate of interest
- 18.9 Interest earnings
- 18.10 Statement relating the report to its compliance with the Statement of Investment Policy or the manner in which the portfolio is not in compliance
- 18.11 Statement on availability of funds to meet the next six month's obligations
- 18.12 Monthly and Year to date City Treasurer Budget Amounts for Interest Income
- 18.13 Percentage of Portfolio by Investment Type
- 18.14 Days to Maturity for all Investments
- 18.15 Comparative report on Monthly Investment Balances & Interest Yields
- 18.16 Monthly transactions

This quarterly report shall be placed on the City Council Agenda for Council and public review. In addition, a commentary on capital markets and economic conditions may be included with the report. The City Treasurer shall submit to the City Council, City Manager and Chief Financial Officer a monthly report listing the above stated (18.1 – 18.16) financial transactions.

19.0 Investment Policy Adoption:

By virtue of a resolution of the City Council of the City of Huntington Beach, the Council shall acknowledge the receipt and filing of this annual statement of investment policy for the respective year.

GLOSSARY

AGENCIES: Federal agency securities.

ASKED: The price at which securities are offered. (The price at which a firm will sell a security to an investor.)

BANKERS' ACCEPTANCE (BA): A draft or bill of exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer. The drafts are drawn on a bank by an exporter or importer to obtain funds to pay for specific merchandise. An acceptance is a high grade negotiable instrument.

BASIS POINT: One one-hundredth of a percent (*i.e.* 0.01%)

BENCHMARK: A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

BID: The price offered by a buyer of securities. (When you are selling securities, you ask for a bid.)

BROKER: A broker brings buyers and sellers together for a commission. He/she does not take a position.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a certificate. Large-denomination CD's are typically negotiable.

COLLATERAL: Securities, evidence of deposit or other property, which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

COMMERCIAL PAPER: Short term unsecured promissory note issued by a corporation (including limited liability companies) to raise working capital. These negotiable instruments are purchased at a discount to par value or at par value with interest bearing. Commercial paper is issued by corporations such as General Motors Acceptance Corporation, IBM, Bank of America, etc.

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR): The official annual report for the City. It includes combined statements for each individual fund and account group prepared in conformity with Generally Accepted Accounting Principles. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material and a detailed Statistical section.

COUPON: a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. b) A certificate attached to a bond evidencing interest due on a payment date.

DEALER: A dealer, as opposed to a broker, acts as a principal in all transactions; buying and selling for his/her own account.

DEBENTURE: An unsecured bond backed only by the general credit of the issuer.

DELIVERY VERSUS PAYMENT: There are two methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with an exchange

of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

DERIVATIVES: (1) Financial instruments whose return profile is linked to, or derived from, the movement of one or more underlying index or security, and may include a leveraging factor, or (2) financial contracts based upon notional amounts whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities or commodities).

DISCOUNT: The difference between the cost price of a security and its maturity when quoted at lower than face value. A security selling below original offering price shortly after sale is considered to be at a discount.

DISCOUNT SECURITIES: Non-interest bearing money market instruments that are issued at a discount and redeemed at maturity for full face value (e.g. US Treasury Bills).

DIVERSIFICATION: Dividing investment funds among a variety of securities offering independent returns.

FEDERAL CREDIT AGENCIES: Agencies of the Federal government set up to supply credit to various classes of institutions (*e.g.* S&L's, Small business firms, students, farmers, farm cooperatives, and exporters).

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A Federal agency that insures bank deposits, currently up to \$250,000 per deposit.

FEDERAL FUNDS RATE: The rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

FEDERAL OPEN MARKET COMMITTEE (FOMC): Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member, while the other presidents serve on a rotating basis. The committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

FEDERAL RESERVE SYSTEM: The central bank of the United States created by congress and consisting of a seven-member Board of Governors in Washington, D.C.; 12 regional banks and approximately 38 percent of the 8,039 commercial banks in the United States are members of the Federal Reserve System. National banks must be members; state-chartered banks may join if they meet certain requirements.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and a reasonable size can be done at those quotes.

LOCAL GOVERNMENT INVESTMENT POOL (LGIP): The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

MARKET VALUE: The price at which a security is trading and could presumably be purchased or sold.

MASTER REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties to repurchase-reverse agreements that establish each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

MATURITY: The date upon which the principal or stated value of an investment becomes due and payable.

MONEY MARKET: The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATION ("NRSRO"): Firms that review and assess the creditworthiness of an obligor as an entity or with respect to specific securities or money market instruments and express their opinion in the form of a letter rating. A credit rating agency may apply to the SEC for registration as a nationally recognized statistical rating organization ("NRSRO"). The primary rating agencies are Standard & Poor's Corporation, Moody's Investor Services, Inc. and Fitch, Inc.

NEGOTIABLE CERTIFICATES OF DEPOSIT: Unsecured obligations of the financial institution, bank or savings and loan, bought at par value with the promise to pay face value plus accrued interest at maturity. They are high-grade negotiable instruments, paying a higher interest rate than regular certificates of deposit.

OFFER: The price asked by a seller of securities. (When you are buying securities, you ask for an offer.) See "Asked" and "Bid".

OPEN MARKET OPERATIONS: Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit: Sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

PORTFOLIO: Collection of securities held by an investor.

PRIMARY DEALER: A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC)-registered securities broker/dealers, banks and a few unregulated firms.

PRUDENT PERSON RULE: An investment standard. In some states, the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the custody state—the so-called "legal list". In other states, the trustee may invest in a security if it is one that would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

QUALIFIED PUBLIC DEPOSITORIES: A financial institution which does not claim exemption from the payment of any sales or compensating use or *ad valorem* taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

RATE OF RETURN: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity; on a bond, the current income return.

REPURCHASE AGREEMENT (RP OR REPO): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed date. The security “buyer” in effect lends the “seller” money for the period of the agreement, and the terms of the agreement are structured to compensate him for this.

SAFEKEEPING: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank’s vaults for protection.

STRUCTURED NOTES: Notes issued by Government Sponsored Enterprises (FHLB, FNMA, FHLMC, etc.) and Corporations, which have imbedded option (*e.g.* call features, step-up coupons, floating rate coupons, derivative-based returns) into their debt structure. Their market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options and shifts in the shape of the yield curve.

SECONDARY MARKET: A market made for the purchase and sale of outstanding issues following the initial distribution.

SECURITIES & EXCHANGE COMMISSION: Agency created by Congress to protect investors in securities transactions by administering securities legislation.

SEC RULE 15c3-1: See “Uniform Net Capital Rule”.

SMALL BUSINESS ADMINISTRATION (SBA): The portion of these securities which are guaranteed by Federal government to provide financial assistance through direct loans and loan guarantees to small businesses. Cash flows from these instruments may not be in equal installments because of prepayments.

SUPRANATIONAL SECURITIES: United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), or Inter-American Development Bank (IDB), with a maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States. Investments under this subdivision shall be rated “AA” or better by an NRSRO and shall not exceed 10 percent of the agency’s moneys that may be invested pursuant to this section.

TREASURY BILLS: A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

TREASURY BOND: Long-term U.S. Treasury securities having initial maturities of more than 10 years.

TREASURY NOTES: Intermediate-term coupon bearing U.S. Treasury having initial maturities of from one year to ten years.

UNIFORM NET CAPITAL RULE: Securities and Exchange Commission requirement that member firms as well as nonmember broker/dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public

issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

YIELD: The rate of annual income return on an investment, expressed as a percentage. (a) Income Yield is obtained by dividing the current dollar income by the current market price for the security, (b) Net Yield or Yield to Maturity is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF THE TRUST AGREEMENT

APPENDIX E

PROPOSED FORM OF BOND COUNSEL OPINION

Upon delivery of the Series 2021 Bonds, Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, Bond Counsel to the City, proposes to render its final approving opinion with respect to the Series 2021 Bonds in substantially the following form:

[Date of Delivery]

City of Huntington Beach
Huntington Beach, California

City of Huntington Beach
(Orange County, California)
Taxable Pension Obligation Bonds, Series 2021
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the City of Huntington Beach (the “City”) in connection with issuance of \$ _____ aggregate principal amount of City of Huntington Beach Taxable Pension Obligation Bonds, Series 2021 (the “Series 2021 Bonds”), issued pursuant to the Trust Agreement, dated as of _____ 1, 2021 (the “Trust Agreement”), by and between the City and U.S. Bank National Association, as trustee (the “Trustee”). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Trust Agreement.

In such connection, we have reviewed the Trust Agreement, opinions of counsel to the City, the Trustee and others, certificates of the City, the Trustee and others and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions, including the default judgment rendered on May 2020, by the Superior Court of the State of California for the County of Orange in the action entitled *City of Huntington Beach v. All Persons Interested, etc.*, Case No. 30-2019-011113643-CU-MC-CJC, and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after original delivery of the Series 2021 Bonds on the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after original delivery of the Series 2021 Bonds on the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. Our engagement with respect to the Series 2021 Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the City. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions

contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Trust Agreement.

We call attention to the fact that the rights and obligations under the Series 2021 Bonds and the Trust Agreement and their enforceability may be subject to bankruptcy, insolvency, receivership, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against cities in the State of California. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute or having the effect of a penalty), right of set-off, arbitration, judicial reference, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the assets described in or as subject to the lien of the Trust Agreement or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such property. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Series 2021 Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Series 2021 Bonds constitute the valid and binding limited obligations of the City.
2. The Trust Agreement has been duly executed and delivered by, and constitutes a valid and binding agreement of, the City.
3. The Series 2021 Bonds do 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. Neither the Series 2021 Bonds nor the obligation of the City to make payment of the interest on or the principal of the Series 2021 Bonds constitutes an indebtedness of the City or the State of California, or any of its political subdivisions, in contravention of any constitutional or statutory debt limitation or restriction.
4. Interest on the Series 2021 Bonds is exempt from State of California personal income taxes. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Series 2021 Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

APPENDIX F

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the City of Huntington Beach (the “City”) in connection with the issuance of the above-named bonds (the “Bonds”). The Bonds are being issued by the City pursuant to Articles 10 and 11 (commencing with Section 53570) of Chapter 3 of Division 2 of Title 5 of the Government Code of the State of California (the “Act”), a resolution of the City authorizing the issuance of the Series 2021 Bonds and a trust agreement, dated as of _____ 1, 2021 (the “Trust Agreement”), by and between the City and U.S. Bank National Association, as trustee (the “Trustee”). The City covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters (Series 2021 Bonds) in complying with Securities and Exchange Commission (“S.E.C.”) Rule 15c2-12(b)(5).

SECTION 2. Definitions. In addition to the definitions set forth in the Trust Agreement, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

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

“Beneficial Owner” shall mean any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

“Dissemination Agent” shall mean KNN Public Finance, or any successor Dissemination Agent designated in writing by the City and which has filed with the City a written acceptance of such designation.

“Financial Obligation” shall mean, for the purposes of the Listed Events set out in Section 5(a)(10) and 5(b)(8), a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term “Financial Obligation” shall not include municipal securities (as defined in the Securities Exchange Act of 1934, as amended) as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule.

“Holder” shall mean the person in whose name any Bond shall be registered.

“Listed Events” shall mean any of the events listed in Section 5(a) or (b) of this Disclosure Certificate.

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

“Official Statement” shall mean the Official Statement, dated _____, 2021 (including all exhibits or appendices thereto), relating to the offer and sale of Bonds.

“Participating Underwriters (Series 2021 Bonds)” shall mean the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

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

SECTION 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than nine months after the end of the City’s fiscal year (which shall be April 1 of each year, so long as the City’s fiscal year ends on June 30), commencing with the report for the 2020-21 fiscal year (which is due not later than April 1, 2022), provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB, and may cross-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 date required above for the filing of the Annual Report if they are not available by that date. If the City’s fiscal year changes, it shall give notice of such change in a filing with the MSRB. The Annual Report shall be submitted on a standard form in use by industry participants or other appropriate form and shall identify the Bonds by name and CUSIP number.

(b) Not later than 15 business days prior to the date specified in subsection (a), the City shall provide the Annual Report to the Dissemination Agent (if other than the City). If the City is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the City shall, in a timely manner, send or cause to be sent to the MSRB a notice in substantially the form attached as Exhibit A.

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

SECTION 4. Content of Annual Reports. The City’s Annual Report shall contain or include by reference the following:

(a) Audited financial statements of the City for the preceding fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board (GASB) and the laws of the State of California and including all statements and information prescribed for inclusion therein by the Controller of the State of California. If the City’s audited financial statements are not available by the time the Annual Report is required to be provided to the MSRB pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be provided to the MSRB in the same manner as the Annual Report when they become available.

To the extent not included in the audited financial statement of the City, the Annual Report shall also include the following:

- (i) General Fund Tax Revenues by Source;

- (ii) Gross Assessed Value of All Taxable Property;
- (iii) General Fund Property Tax Levies and Collections (Secured Taxes); and
- (iv) Principal Secured Property Taxpayers.

Any or all of the items listed above may be set forth in one or a set of documents or may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which have been made available to the public on the MSRB's website. The City shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) The City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds in a timely manner not later than ten business days after the occurrence of the event:

- 1. Principal and interest payment delinquencies;
- 2. Unscheduled draws on debt service reserves reflecting financial difficulties;
- 3. Unscheduled draws on credit enhancements reflecting financial difficulties;
- 4. Substitution of credit or liquidity providers, or their failure to perform;
- 5. Adverse tax opinions or issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);
- 6. Tender offers;
- 7. Defeasances;
- 8. Rating changes; or
- 9. Bankruptcy, insolvency, receivership or similar event of the City.
- 10. Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the City, any of which reflect financial difficulties.

Note: for the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the City in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City.

(b) The City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material, in a timely manner not later than ten business days after the occurrence of the event:

1. Unless described in paragraph 5(a)(5), other material notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;
2. Modifications to rights of Bond holders;
3. Optional, unscheduled or contingent Bond calls;
4. Release, substitution, or sale of property securing repayment of the Bonds;
5. Non-payment related defaults;
6. The consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms;
7. Appointment of a successor or additional trustee or the change of name of a trustee; or
8. Incurrence of a Financial Obligation of the City, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the City, any of which affect Bond holders.

(c) The City shall give, or cause to be given, in a timely manner, notice of a failure to provide the annual financial information on or before the date specified in Section 3 hereof, as provided in Section 3(b) hereof.

(d) Upon the occurrence of a Listed Event described in Section 5(a), or upon the occurrence of a Listed Event described in Section 5(b) which the City determines that knowledge of a Listed Event described in Section 5(b) would be material under applicable federal securities laws, the City shall within ten business days of occurrence file a notice of such occurrence with the MSRB. Notwithstanding the foregoing, notice of the Listed Event described in subsection (b)(3) 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 pursuant to the Trust Agreement.

(e) The City intends to comply with the Listed Events described in subsection (a)(10) and subsection (b)(8), and the definition of “Financial Obligation” in Section 2, with reference to the Rule, any other applicable federal securities laws and the guidance provided by the Securities and Exchange Commission in Release No. 34-83885, dated August 20, 2018 (the “2018 Release”), and any further amendments or written guidance provided by the Securities and Exchange Commission or its staff with respect to the amendments to the Rule effected by the 2018 Release.

SECTION 6. Format for Filings with MSRB. Any report or filing with the MSRB pursuant to this Disclosure Certificate must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB.

SECTION 7. Termination of Reporting Obligation. The City's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such termination in a filing with the MSRB.

SECTION 8. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the City pursuant to this Disclosure Certificate, and any information that the Dissemination Agent may be instructed to file with the MSRB shall be prepared and provided to it by the City. The initial Dissemination Agent shall be KNN Public Finance.

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, if the City has received an opinion of counsel knowledgeable in federal securities laws to the effect that such amendment or waiver would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the City shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in a filing with the MSRB, and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

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 required to be filed pursuant to this Disclosure Certificate, 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 in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event or any other event required to be reported.

SECTION 11. Default. In the event of a failure of the City to comply with any provision of this Disclosure Certificate, 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; provided, that any such action may be instituted only in the Superior Court of the State of California in and for the County of Orange or in U.S. District Court for the Central District of California in or nearest to the County. 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 Trustee and Dissemination Agent. The Dissemination Agent (if other than the Trustee or the Trustee in its capacity as 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, the Trustee, their officers, directors, employees and agents, harmless against any loss, expense, cost, claim, suit, judgment, damages and liabilities which it may incur arising out of the disclosure of information pursuant to this Disclosure Certificate or arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees and expenses) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct.

The Dissemination Agent shall be paid compensation by the City for its services provided hereunder in accordance with its schedule of fees as agreed to between the Dissemination Agent and the City from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent may rely and shall be protected in acting or refraining from acting upon and directions from the City or an opinion of nationally recognized bond counsel. Neither the Trustee nor the Dissemination Agent shall have any liability to any party for any monetary damages or other financial liability of any kind whatsoever related to or arising from any breach of this Disclosure Certificate. No person shall have any right to commence any action against the Trustee or Dissemination Agent seeking any remedy other than to compel specific performance of this Disclosure Certificate. Any company succeeding to all or substantially all of the Dissemination Agent's corporate trust business shall be the successor to the Dissemination Agent hereunder without the execution or filing of any paper or any further act. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, the Participating Underwriters (Series 2021 Bonds) and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 14. Governing Law. This Disclosure Certificate shall be construed in accordance with and governed by the laws of the State of California applicable to contracts made and performed in the State of California.

Date: _____, 2021

CITY OF HUNTINGTON BEACH

By: _____
Chief Financial Officer

AGREED AND ACKNOWLEDGED:

**KNN PUBLIC FINANCE,
as Dissemination Agent**

By: _____
Authorized Representative

EXHIBIT A

**FORM OF NOTICE TO THE MUNICIPAL SECURITIES RULEMAKING BOARD
OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: City of Huntington Beach

Name of Bond Issue: City of Huntington Beach
(Orange County, California)
Taxable Pension Obligation Bonds, Series 2021

Date of Issuance: _____, 2021

NOTICE IS HEREBY GIVEN that the City of Huntington Beach (the "City") has not provided an Annual Report with respect to the above-named Bonds as required by Section 4 of the City's Continuing Disclosure Certificate, dated the Date of Issuance. [The City anticipates that the Annual Report will be filed by _____.]

Dated: _____

CITY OF HUNTINGTON BEACH

By: _____

APPENDIX G

PROVISIONS FOR BOOK-ENTRY ONLY SYSTEM AND GLOBAL CLEARANCE PROCEDURES

The information set forth in this Appendix G is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC, Euroclear or Clearstream (DTC, Euroclear and Clearstream together, the “Clearing Systems”) currently in effect. The information in this Appendix G concerning the Clearing Systems has been obtained from sources believed to be reliable, but the City does not take any responsibility for the accuracy, completeness or adequacy of the information in this Appendix G. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. The City will not have any responsibility or liability for any aspect of the records relating to, or payments made on account of beneficial ownership interests in the Series 2021 Bonds held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Depository Trust Company Procedures

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Series 2021 Bonds (the “Securities”). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for the Securities, in the aggregate principal amount of such issue, and will be deposited with DTC.

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

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.

To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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 Trust Agreement. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the 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 Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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 Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee or the 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 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.

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 Trustee. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered. 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.

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

Global Clearance Procedures

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of the Clearing Systems currently in effect. The information in this subsection concerning the Clearing Systems has been obtained from sources believed to be reliable. No representation is made herein by the City as to the accuracy, completeness or adequacy of such information or as to the absence of material adverse changes in such information subsequent to the date of this Official Statement. The City will not have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Series 2021 Bonds held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Beneficial interests in the Series 2021 Bonds may be held through DTC, Clearstream International S.A., a Deutsche Börse Group company, as operator of the Clearstream system (“Clearstream”), or Euroclear S.A./N.V., a bank organized under the laws of the Kingdom of Belgium, as operator of the Euroclear system (“Euroclear”), directly as a participant or indirectly through organizations that are participants in such system.

Euroclear and Clearstream. Euroclear and Clearstream each hold securities for their customers and facilitate the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream customers are worldwide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system, either directly or indirectly.

Clearing and Settlement Procedures. The Series 2021 Bonds sold in offshore transactions will be initially issued to investors through the book-entry facilities of DTC, or Clearstream and Euroclear in

Europe if the investors are participants in those systems, or indirectly through organizations that are participants in the systems. For any of such Series 2021 Bonds, the record holder will be DTC's nominee. Clearstream and Euroclear will hold omnibus positions on behalf of their participants through customers' securities accounts in Clearstream's and Euroclear's names on the books of their respective depositories.

The depositories, in turn, will hold positions in customers' securities accounts in the depositories' names on the books of DTC. Because of time zone differences, the securities account of a Clearstream or Euroclear participant as a result of a transaction with a participant, other than a depository holding on behalf of Clearstream or Euroclear, will be credited during the securities settlement processing day, which must be a business day for Clearstream or Euroclear, as the case may be, immediately following the DTC settlement date. These credits or any transactions in the securities settled during the processing will be reported to the relevant Euroclear participant or Clearstream participant on that business day. Cash received in Clearstream or Euroclear as a result of sales of securities by or through a Clearstream participant or Euroclear participant to a DTC Participant, other than the depository for Clearstream or Euroclear, will be received with value on the DTC settlement date but will be available in the relevant Clearstream or Euroclear cash account only as of the business day following settlement in DTC.

Transfer Procedures. Transfers between participants will occur in accordance with DTC rules. Transfers between Clearstream participants or Euroclear participants will occur in accordance with their respective rules and operating procedures. Cross-market transfers between persons holding directly or indirectly through DTC, on the one hand, and directly or indirectly through Clearstream participants or Euroclear participants, on the other, will be effected by DTC in accordance with DTC rules on behalf of the relevant European international clearing system by the relevant depositories; however, cross-market transactions will require delivery of instructions to the relevant European international clearing system by the counterparty in the system in accordance with its rules and procedures and within its established deadlines in European time.

The relevant European international clearing system will, if the transaction meets its settlement requirements, deliver instructions to its depository to take action to effect final settlement on its behalf by delivering or receiving securities in DTC, and making or receiving payment in accordance with normal procedures for same day funds settlement applicable to DTC. Clearstream participants or Euroclear participants may not deliver instructions directly to the depositories.

The City will not impose any fees in respect of holding the Series 2021 Bonds; however, holders of book-entry interests in the Series 2021 Bonds may incur fees normally payable in respect of the maintenance and operation of accounts in DTC, Euroclear and Clearstream.

Initial Settlement. Interests in the Series 2021 Bonds will be in uncertified book-entry form. Purchasers electing to hold book-entry interests in the Series 2021 Bonds through Euroclear and Clearstream accounts will follow the settlement procedures applicable to conventional Eurobonds. Book-entry interests in the Series 2021 Bonds will be credited to Euroclear and Clearstream participants' securities clearance accounts on the business day following the date of delivery of the Series 2021 Bonds against payment (value as on the date of delivery of the Bonds). DTC participants acting on behalf of purchasers electing to hold book-entry interests in the Series 2021 Bonds through DTC will follow the delivery practices applicable to securities eligible for DTC's Same Day Funds Settlement system. DTC participants' securities accounts will be credited with book-entry interests in the Series 2021 Bonds following confirmation of receipt of payment to the City on the date of delivery of the Series 2021 Bonds.

Secondary Market Trading. Secondary market trades in the Series 2021 Bonds will be settled by transfer of title to book-entry interests in Euroclear, Clearstream or DTC, as the case may be. Title to

such book-entry interests will pass by registration of the transfer within the records of Euroclear, Clearstream or DTC, as the case may be, in accordance with their respective procedures. Book-entry interests in the Series 2021 Bonds may be transferred within Euroclear and within Clearstream and between Euroclear and Clearstream in accordance with procedures established for these purposes by Euroclear and Clearstream. Book-entry interests in the Series 2021 Bonds may be transferred within DTC in accordance with procedures established for this purpose by DTC. Transfer of book-entry interests in the Series 2021 Bonds between Euroclear or Clearstream and DTC may be effected in accordance with procedures established for this purpose by Euroclear, Clearstream and DTC.

Special Timing Considerations. Investors should be aware that investors will only be able to make and receive deliveries, payments and other communications involving the Series 2021 Bonds through Euroclear or Clearstream on days when those systems are open for business. In addition, because of time-zone differences, there may be complications with completing transactions involving Clearstream and/or Euroclear on the same business day as in the United States. U.S. investors who wish to transfer their interests in the Series 2021 Bonds, or to receive or make a payment or delivery of the Series 2021 Bonds, on a particular day, may find that the transactions will not be performed until the next business day in Luxembourg if Clearstream is used, or Brussels if Euroclear is used.

Clearing Information. It is expected that the Series 2021 Bonds will be accepted for clearance through the facilities of Euroclear and Clearstream. The CUSIP numbers for the Bonds are set forth on the inside cover of the Official Statement.

General. Neither Euroclear nor Clearstream is under any obligation to perform or continue to perform the procedures referred to above, and such procedures may be discontinued at any time.

NONE OF THE CITY, THE TRUSTEE OR THE UNDERWRITERS WILL HAVE ANY RESPONSIBILITY FOR THE PERFORMANCE BY EUROCLEAR OR CLEARSTREAM OR THEIR RESPECTIVE DIRECT OR INDIRECT PARTICIPANTS OR ACCOUNT HOLDERS OF THEIR RESPECTIVE OBLIGATIONS UNDER THE RULES AND PROCEDURES GOVERNING THEIR OPERATIONS OR THE ARRANGEMENTS REFERRED TO ABOVE.

APPENDIX H

CITY UNFUNDED ACCRUED LIABILITY PENSION FUNDING POLICY