

PRELIMINARY OFFICIAL STATEMENT DATED _____, 2021

NEW ISSUE – BOOK ENTRY ONLY

Rating: S&P: “_____”

See “CONCLUDING MATTERS – Rating.”

In the opinion of Nixon Peabody LLP, Bond Counsel, interest on the Bonds is exempt from personal income taxes of the State of California under present law. Interest on the Bonds is not excluded from gross income for federal income tax purposes. See “CONCLUDING MATTERS – Tax Matters” regarding certain other tax consequences.

\$61,870,000*

**CITY OF MONTCLAIR
2021 TAXABLE PENSION OBLIGATION BONDS**

Dated: Date of Delivery

Due: June 1, as shown on the inside front cover

The City of Montclair (the “City”) will issue its 2021 Taxable Pension Obligation Bonds (the “Bonds”), pursuant to a Trust Agreement, dated as of [October] 1, 2021 (the “Trust Agreement”), by and between the City and U.S. Bank National Association, as trustee, and pursuant to Articles 10 and 11 (commencing with Section 53570 and 53580, respectively) of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code. The Bonds will be issued to: (i) refund the City’s currently unamortized, unfunded accrued liability (“Unfunded Liability”) to the California Public Employees’ Retirement System (“CalPERS”) for the benefit of the City’s employees, and (ii) pay costs of issuance of the Bonds.

The Bonds will be issued in fully registered form and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository of the Bonds. Individual purchases of the Bonds may be made in book-entry form only, in integral multiples of \$5,000 principal amount. Purchasers will not receive certificates representing their interest in the Bonds purchased. Principal of and interest on the Bonds will be paid directly to DTC by the Trustee.

Principal of the Bonds will be payable on the maturity dates set forth on the inside cover of this Official Statement. Interest on the Bonds will be payable on June 1 and December 1 of each year, commencing [June 1, 2022]. Upon its receipt of payment of principal and interest, DTC in turn will be obligated to remit such principal and interest to DTC participants for subsequent disbursement to the beneficial owners of the Bonds.

The Bonds will be subject to optional redemption and mandatory sinking fund redemption prior to maturity as described in this Official Statement.*

The obligations of the City to make payments of principal, premium, if any, and interest when due, will be absolute and unconditional, without any right of set-off or counter claim. The City will covenant to include necessary appropriations therefor, in its budget for each fiscal year, as provided in the Trust Agreement.

THE BONDS WILL NOT CONSTITUTE AN OBLIGATION OF THE CITY FOR WHICH THE CITY WILL BE OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY HAS OR WILL BE LEVIED OR PLEDGED ANY FORM OF TAXATION. NEITHER THE BONDS NOR THE OBLIGATION OF THE CITY TO MAKE PAYMENTS THEREFOR WILL CONSTITUTE AN INDEBTEDNESS OF THE CITY, STATE OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATIONS FOR WHICH THE ANY FORM OF TAXATION WILL BE PLEDGED.

See the section of this Official Statement entitled “BONDOWNERS’ RISKS” for a discussion of certain of the risk factors that should be considered, in addition to other matters set forth in the Official Statement, in evaluating the investment quality of the Bonds. 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 Bonds will be offered when, as and if issued and accepted by the Underwriter, subject to the approval as to their legality by Nixon Peabody LLP, Bond Counsel. Richards, Watson & Gershon, A Professional Corporation, serves as Disclosure Counsel to the City in connection with the issuance of the Bonds. Certain legal matters will also be passed upon for the City by Robbins & Holdaway, serving as City Attorney. Certain legal matters will be passed upon for the Underwriter by its counsel, Kutak Rock LLP. It is anticipated that the Bonds will be available for delivery in book-entry form through the facilities of DTC on or about [October 27], 2021.



Dated: _____, 2021.

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

* Preliminary; subject to change.

\$61,870,000*
CITY OF MONTCLAIR
2021 TAXABLE PENSION OBLIGATION BONDS

MATURITY SCHEDULE

Maturity Date (June 1)	Principal Amount*	Interest Rate	Yield[†]	Price[†]	CUSIP^{††} (Base:)
2023	\$2,920,000				
2024	2,935,000				
2025	2,955,000				
2026	2,985,000				
2027	3,025,000				
2028	3,075,000				
2029	3,135,000				
2030	3,200,000				
2031	3,270,000				
2032	3,345,000				
2033	3,430,000				
2034	3,525,000				
2035	3,620,000				
2036	3,725,000				

\$16,725,000* ___% Term Bond due June 1, 2041, Yield[†] _____%, Price[†]: _____; CUSIP^{††}: _____

* Preliminary; subject to change.

† Reoffering price/yields furnished by the Underwriter. The City takes no responsibility for the accuracy thereof.

†† CUSIP is a registered trademark of the American Bankers Association. CUSIP data in this Official Statement is provided by CUSIP Global Services, managed by S&P Capital IQ on behalf of the American Bankers Association. CUSIP alphanumeric designations (“CUSIP Numbers”) are assigned by an independent company not affiliated with the City or the Underwriter. CUSIP © 2021 CUSIP Global Services. All rights reserved. This data is not intended to create a database and does not serve in any way as a substitute for CUSIP Global Services. CUSIP Numbers are provided for convenience of reference only. Neither of the City nor the Underwriter takes any responsibility for the accuracy of such numbers. The CUSIP Number for any particular maturity is subject to change after delivery of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors applicable to all or a portion of the Bonds.

CITY OF MONTCLAIR
San Bernardino County, California

City Council

Javier J. Dutrey, *Mayor*
William Ruh, *Mayor Pro Tem*
Carolyn Johnson, *Council Member*
Benjamin Lopez, *Council Member*
Corysa Martinez, *Council Member*

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Edward C. Starr, *City Manager*
Janet Kulbeck, *Finance Manager*
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Diane E. Robbins (Robbins & Holdaway), *City Attorney*

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Tustin, California

Trustee

U.S. Bank National Association
Los Angeles, California

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

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

Estimates and Forecasts. Certain statements included or incorporated by reference in this Official Statement and in any continuing disclosure by the City, any press release and in any oral statement made with the approval of an authorized officer of the City or any other entity described or referenced in this Official Statement, constitute “forward-looking statements.” Such statements are generally identifiable by the terminology used such as “plan,” “expect,” “anticipate,” “estimate,” “budget” or other similar words and include, but are not limited to, statements under the captions “PLAN OF REFUNDING,” “CITY,” “CITY FINANCIAL INFORMATION” and “CITY PENSION AND OPEB PLANS.” The achievement of certain results or other expectations contained in such forward-looking statements involves 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. While the City has undertaken to provide certain on-going financial and other data pursuant to a continuing disclosure certificate (see “CONCLUDING MATTERS – Continuing Disclosure” and APPENDIX E), the City does not plan to issue any updates or revisions to those forward-looking statements if or when there are changes to their expectations or events, conditions or circumstances on which such statements are based.

Preparation of this Official Statement. The information contained in this Official Statement has been obtained from sources that are believed to be reliable, but is not guaranteed as to accuracy or completeness. Hilltop Securities Inc. (the “Underwriter”), has provided the following sentence for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

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

Information as of Dated Date of Official Statement. The information and expressions of opinions in this Official Statement are subject to change without notice and neither delivery of this Official Statement nor any sale made of the Bonds shall, under any circumstances, create any implication that there has been no change in the affairs of the City or any other entity described or referenced in this Official Statement since the dated date shown on the front cover. All summaries of the documents referred to in this Official Statement are made subject to the provisions of such documents, respectively, and do not purport to be complete statements of any or all of such provisions.

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

No Incorporation of Websites. References to internet websites in this Official Statement are shown for reference and convenience only, and none of their content (including, but not limited to, the content of the City’s website) is incorporated by reference. Neither the City nor the Underwriter makes no representation regarding the accuracy or completeness of information presented on such websites.

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

[insert map]

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\$61,870,000*
CITY OF MONTCLAIR
2021 TAXABLE PENSION OBLIGATION BONDS

INTRODUCTION

This Introduction does not purport to be complete, and reference is made to the body of this Official Statement, appendices and the documents referred to for more complete information with respect to matters concerning the Bonds. Potential investors are encouraged to read the entire Official Statement. Capitalized terms used but not defined in the forepart of this Official Statement have the meanings set forth in the Trust Agreement. See “APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF TRUST AGREEMENT.”

General

This Official Statement, including the cover page, the inside front cover and appendices, is provided to furnish information in connection with the sale by the City of Montclair (the “City”) of its 2021 Taxable Pension Obligation Bonds (the “Bonds”), in the aggregate principal amount of \$61,870,000*. The Bonds will be issued pursuant to: (i) Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, commencing with Sections 53570 and 53580, respectively (the “Refunding Bond Law”), (ii) Resolution No. 21-3310, adopted by the City Council of the City (the “City Council”) on May 3, 2021 (the “Authorizing Resolution”), and (iii) the Trust Agreement, dated as of [October] 1, 2021 (the “Trust Agreement”), by and between the City and U.S. Bank National Association, as trustee (the “Trustee”).

The City is a member of the California Public Employees’ Retirement System (“CalPERS” or “PERS”), 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 of California (the “State”), including the City. The City is obligated by the Public Employees’ Retirement Law, constituting Part 3 of Division 5 of Title 2 of the California Government Code (the “Retirement Law”), and the contract between the Board of Administration of CalPERS (the “CalPERS Board”) and the City Council of the City, effective November 1, 1962 (as amended and supplemented, the “CalPERS Contract”), to make contributions to CalPERS for: (a) funding pension benefits for City employees who are members of CalPERS, (b) amortizing the unfunded actuarial liability with respect to such pension benefits, and (c) appropriating funds for such purposes. Public agencies’ plans under CalPERS Contracts may either be administered as stand-alone plans or take part in one of CalPERS risk pools (and, in some cases, required to participate in the CalPERS risk pools). Currently, there are two CalPERS risk pools, one for safety groups and one for miscellaneous groups. All of the City’s pension plans – three for miscellaneous employees, three for police safety employees and three for fire safety employees – are in applicable CalPERS risk pools.

* Preliminary; subject to change.

As confirmed by the Validation Judgment (defined below under “Validation”), the City is authorized pursuant to the Refunding Bond Law to issue bonds to refund obligations evidenced by the CalPERS Contract. The proceeds from the sale of the Bonds will be used to: (i) refund the City’s obligations to CalPERS for the current unamortized, unfunded accrued liability (the “Unfunded Liability” or “UAL”) with respect to the City’s pension plans under the CalPERS Contract, and (ii) pay costs of issuance of the Bonds. See “PLAN OF REFUNDING.”

Interest on the Bonds will be payable semiannually on June 1 and December 1 of each year, commencing [June 1, 2022]. The Bonds will mature in the amounts and on the dates and bear interest at the rates shown on the inside front cover of this Official Statement.

The Bonds will be subject to optional redemption and mandatory sinking fund redemption prior to maturity as described in this Official Statement.* See “BONDS – Redemption.”

The Bonds will be initially delivered as one fully registered certificate for each maturity (unless there are different interest rates within such maturity, then one certificate for each interest rate within such maturity) and, when issued and 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 the depository for the Bonds and all payments due on the Bonds will be made to Cede & Co. Ownership interests in the Bonds may be purchased only in book-entry form. So long as the Bonds are registered in the name of Cede & Co., or any other nominee of DTC, references in this Official Statement to the registered owners, “Holders” or “Bondholders” of the Bonds shall mean Cede & Co. or such other nominee of DTC and shall not mean the beneficial owners of the Bonds. See “BONDS – Book-Entry Only System” and “APPENDIX F – DTC’S BOOK-ENTRY ONLY SYSTEM.”

Validation

On May 6, 2021, the City filed a complaint in the Superior Court of the State of California for the County of San Bernardino (the “Court”) in a matter entitled *City of Montclair v. All Persons Interested et al.* (Case No. CIVSB2112608) (the “Validation Petition”). The City filed the Validation Petition in order to seek judicial validation for the issuance of the Bonds (and additional bonds which the City may issue from time to time to refund all or a portion of the Unfunded Liability) pursuant to the authorization provided in the Authorizing Resolution. On July 27, 2021, the Court entered a default judgment (the “Validation Judgment”) in favor of the City with respect to the Validation Petition. See “CONCLUDING INFORMATION – Validation.”

Security and Payment for Bonds

The Bonds will be obligations of the City payable from any lawfully available funds. The City will covenant in the Trust Agreement to include, in its budget for each fiscal year, annual necessary appropriations therefor. The obligations of the City under the Bonds, including the obligation to make all payments of principal, premium, if any, and interest when due, will be absolute and unconditional, without any right of set-off or counter claim.

The Bonds will not constitute an obligation of the City for which the City will be obligated to levy or pledge any form of taxation or for which the City has or will be levied or pledged any form of taxation. Neither the Bonds nor the obligation of the City to make payments therefor

* Preliminary, subject to change.

will constitute an indebtedness of the City, State or any of its political subdivisions within the meaning of any constitutional or statutory debt limitations for which the any form of taxation will be pledged.

No debt service reserve fund for the Bonds will be established under the Trust Agreement.

See “SECURITY AND PAYMENT FOR BONDS” and “BONDOWNERS’ RISKS.”

City

The City is located at the western end of San Bernardino County (the “County”), California, approximately 35 miles to the east of downtown Los Angeles and 30 miles west of the San Bernardino Civic Center. The western boundary of the City is contiguous with the Los Angeles County line. The City was incorporated in April 1956 as a general law city and operates under a Council-Manager form of government. The five members of the City Council, including the Mayor, are elected at large. As of January 1, 2021, the City has a population of approximately 39,598, according to State of California Department of Finance estimates. See “CITY,” “CITY FINANCIAL INFORMATION” and “APPENDIX A – SUPPLEMENTAL INFORMATION ABOUT CITY OF MONTCLAIR.”

COVID-19 Pandemic

A coronavirus disease, known as COVID-19 (“COVID-19”), is an infectious disease caused by a novel strain of the coronavirus known as severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2). The disease was first identified in China in late 2019, and then spread around the globe. On March 11, 2020, the World Health Organization declared the COVID-19 outbreak to be a pandemic. On March 13, 2020, President Trump declared a national state of emergency. In California, Governor Newsome declared a state of emergency on March 4, 2020. The County and the City have also declared local emergencies. In the State (including in the City and County), other parts of the United States and many nations, protective measures (including mandatory and voluntary closing or partial closing of non-essential businesses and public venues, and imposition of social distancing measures, limitation of social gatherings of certain sizes) were imposed. The pandemic caused major disruptions in the economy, at the local, state, national and international levels.

In May 2020, in consideration of the projected negative economic impact, the City Council adopted Resolution No. 20-3267, declaring a state of fiscal urgency (which was expressly distinguished from a state of fiscal emergency). Resolution No. 20-3267, directed the City Manager to take strategic measures to reduce or avoid successive budgetary deficits, which measures may include, among other actions, enact reductions in personnel, identify alternatives for revenue enhancement and evaluate the issuance of pension obligation bonds. During fiscal year 2020-21, the City implemented a number of such measures. Measure L – a measure to increase the sales tax in the City from 8.0 percent to 9.0 percent to fund general community needs – was put on the ballot in the November 3, 2020 election and passed with the approval of over 68 percent of the votes cast. Based on current Transactions and Use tax earnings as of June 30, 2021, the City projects that Measure L will generate approximately \$9.5 million in additional revenue for Fiscal Year 2021-22. At the end of fiscal year 2020-21, the City was able to maintain the General Fund unassigned reserve at approximately \$5.8 million. The City’s fiscal year 2021-22 budget, as adopted by the City Council in June 2021, showed that the City projected \$8 million of General Fund unassigned reserve by the

end of fiscal year 2021-22. See further discussion under “CITY FINANCIAL INFORMATION – COVID-19 Disruption; City Proactive Measures.”

By the end of first quarter of 2021, United States Food and Drug Administration has approved the emergency use of several different COVID-19 vaccines. Vaccine administration is on-going in many places, including the State. As a result of then declining cases, on June 15, 2021, various State-mandated COVID-19 public health restrictions – such as mask requirements and capacity restrictions – were lifted, albeit certain restrictions are still in place for “mega-events” (indoor events with 5,000 or more people or outdoor events with 10,000 or more people) and, also, counties, cities and businesses may choose to impose rules that are more restrictive than the State requirements. In any event, the trends continued to vary in different countries. Several COVID-19 variants of concerns have emerged. It is unknown how long the pandemic will continue to affect the global economy and individuals’ daily lives. As economies re-open, it is unknown if there will be lingering effects from the changes that have been brought by the pandemic. The City will continue to monitor the situation closely and make adjustments.

On March 11, 2021, United States President Biden signed into law the American Rescue Plan Act of 2021 (“ARPA”), a \$1.9 trillion federal stimulus bill to support the nation’s relief and economic recovery. ARPA includes a total of \$350 billion to help state, local and tribal governments. The City currently expects to be allocated approximately \$9.5 million from ARPA, to be received in two tranches during 2021 and 2022. The use of such moneys will be limited for the purposes and within the timeline permitted by ARPA.

See “CITY FINANCIAL INFORMATION” and “BONDOWNERS’ RISKS – Effects from COVID-19 Pandemic.”

Continuing Disclosure

In connection with the sale of the Bonds, the City will execute a Continuing Disclosure Certificate, covenanting to prepare and deliver an annual report and certain other information to the Municipal Securities Rulemaking Board (“MSRB”), via its Electronic Municipal Market Access (“EMMA”) system. See “CONCLUDING MATTERS – Continuing Disclosure” and “APPENDIX E – FORM OF CONTINUING DISCLOSURE CERTIFICATE.”

Other Information

This Official Statement contains brief descriptions of the Bonds, the Trust Agreement, various other documents and legislation. The descriptions and summaries do not purport to be comprehensive or definitive, and reference is made to each such document or law for the complete details of all terms and conditions. All statements in this Official Statement are qualified in their entirety by reference to each such document and legislation and, with respect to certain rights and remedies, to laws and principles of equity relating to or affecting creditors’ rights generally. Capitalized terms that are used but not defined in this Official Statement shall have the meanings set forth in the Trust Agreement.

This Official Statement speaks only as of its date as set forth on the cover, and the information and expressions of opinion in this Official Statement are subject to change without notice, and neither the delivery of this Official Statement nor any sale made with respect to the Bonds shall under any circumstances create any implication that there has been no change in the affairs of the City since the date of this Official Statement.

Unless otherwise expressly noted, references to internet websites in this Official Statement are shown for reference and convenience only, and none of their content (including the City’s website) is incorporated by reference. The City and the Underwriter make no representation to potential investors of the Bonds regarding the accuracy or completeness of the information presented on such websites.

PLAN OF REFUNDING

Refunding of Unfunded Liability

CalPERS has notified the City that the amounts of the Unfunded Liability for the City’s pension plans under the CalPERS Contract (see “INTRODUCTION – General”), based on the actuarial valuations as of June 30, 2020 (the most recent actuarial valuations performed by CalPERS for such plans), are as follows:

<u>Plan Description</u>		<u>Unfunded Liability*</u>
Miscellaneous First Tier Plan	(for hires before 6/21/2010)	\$33,282,865
Miscellaneous Second Tier Plan	(for hires on or after 6/21/2010)	322,991
Miscellaneous PEPRA Plan	(for hires on or after 1/1/2013)	209,848
Safety Police First Tier Plan	(for hires before 6/27/2005)	25,120,121
Safety Police Second Tier Plan	(for hires on or after 6/2/2005)	1,236,556
Safety Police PEPRA Tier Plan	(for hires on or after 1/1/2013)	201,166
Safety Fire First Tier Plan	(for hires before 6/27/2005)	21,618,572
Safety Fire Second Tier Plan	(for hires on or after 6/2/2005)	590,213
Safety Fire PEPRA Tier Plan	(for hires on or after 1/1/2013)	55,175
Total:		<u>\$82,637,507</u>

* 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 actuarial assumptions, as such assumptions may be changed by CalPERS from time to time.

In July 2021, the City made an Unfunded Liability payment of \$5,761,184 to CalPERS. Therefore, the remaining Unfunded Liability based on the June 30, 2020 actuarial valuations is \$76,876,323.00 (the “Remaining UAL Balance”).

The Bonds are being issued to: (i) refund 100 percent of the Remaining UAL Balance and (ii) pay the costs of issuance of the Bonds.

Redemption

Optional Redemption.* The Bonds maturing on or after June 1, 2032, will be subject to redemption, at the option of the City from any source of funds, on any date on or after June 1, 2031, in whole or in part from such maturities as selected by the City and by lot within a maturity at a redemption price equal to the principal amount to be redeemed, together with accrued interest to the date of redemption, without premium.

Mandatory Sinking Fund Redemption.* The Bonds maturing on June 1, 2041 (the “Term Bonds”) will be subject to mandatory redemption in whole or in part by lot, from sinking fund payments, at a redemption price equal to the principal amount of such Term Bonds to be redeemed, without premium, in the aggregate respective principal amounts and on June 1 in the respective years as set forth in the following tables, plus accrued interest to the date of redemption; provided, however, that if some but not all of the Term Bonds of a maturity have been redeemed pursuant to the optional redemption provisions or the special mandatory redemption provisions described above, the total amount of all future sinking fund payments (including the principal amount of the Term Bonds coming due at the maturity thereof) will be reduced by the aggregate principal amount of the Term Bonds so redeemed, to be allocated among such sinking fund payments on a pro rata basis as determined by the City.

Term Bonds Maturing on June 1, 2041*

<u>Redemption Date*</u> <u>(June 1)</u>	<u>Principal Amount</u> <u>to be Redeemed*</u>
2037	\$3,830,000
2038	3,950,000
2039	4,070,000
2040	4,195,000
2041 [†]	680,000

[†] maturity.

Notwithstanding the foregoing, if some but not all of the Term Bonds of a maturity have been optionally redeemed, the total amount of all future sinking fund payments (including the principal amount of the Term Bonds coming due at the maturity thereof) shall be reduced by the aggregate principal amount of the Term Bonds so redeemed, to be allocated among such sinking fund payments on a pro rata basis as determined by the City.

Purchase In Lieu of Mandatory Sinking Fund Redemption. Notwithstanding the foregoing, at the option of the City, to be exercised by delivery of a written certificate to the Trustee on or before April 1 next preceding any mandatory sinking fund redemption date, the City may (a) deliver to the Trustee for cancellation Term Bonds or a portion thereof (in the amount of an Authorized Denomination) of the stated maturity subject to such redemption, or (b) specify a principal amount of such Term Bonds or a portion thereof (in the amount of an Authorized Denomination) which prior to said date have been purchased or redeemed (other than pursuant to a mandatory sinking fund redemption) and cancelled by the Trustee at the request of the City and not theretofore applied as a

* Preliminary; subject to change.

credit against any mandatory sinking fund redemption requirement. Each such Term Bonds or portion thereof so delivered or previously redeemed will be credited by the Trustee at 100 percent of the principal amount of the Term Bonds so delivered to the Trustee by the City against the obligation of the City on such mandatory sinking fund redemption date.

Notice of Redemption. Notice of redemption will be given by the Trustee, not less than 30 nor more than 60 days prior to the redemption date: (i) in the case of Bonds not registered in the name of a Securities Depository or its nominee, to the respective Holders of the Bonds designated for redemption at their addresses appearing on the registration books of the Trustee; (ii) in the case of Bonds registered in the name of a Securities Depository or its nominee, to such Securities Depository for such Bonds; and (iii) to the Information Services. Notice of redemption to the Holders pursuant to (i) above will be given by mail at their addresses appearing on the registration books of the Trustee, or any other method agreed upon by such Holder and the Trustee. Notice of redemption to the Securities Depositories pursuant to (ii) above and the Information Services pursuant to (iii) above shall be given by electronically secure means, or any other method agreed upon by such entities and the Trustee. Notwithstanding the foregoing, neither the failure to receive any notice nor any defect in the notice will in any manner affect the redemption of any Bonds. Any notice sent as provided in the Trust Agreement will be conclusively presumed to have been given whether or not actually received by the addressee.

Right to Rescind Notice of Optional Redemption. The City shall have the right to rescind any notice of optional redemption previously sent pursuant to the Trust Agreement. Any such notice of rescission will be sent in the same manner as the notice of redemption. Neither the City nor the Trustee will incur any liability, to Bond Holders, DTC, or otherwise, as a result of a rescission of a notice of redemption.

Selection of Bonds for Redemption. Whenever provision is made in the Trust Agreement for an optional redemption of less than all of the Bonds, the Trustee will select the Bonds for redemption as a whole or in part on any date as directed by the City and by lot within each maturity in integral multiples of \$5,000. Upon surrender of a Bond to be redeemed in part, the Trustee will authenticate for the registered owner a new Bond or Bonds of the same maturity and tenor equal in principal amount to the unredeemed portion of the Bond surrendered.

Effect of Redemption. Upon surrender to the Trustee or the Trustee's agent, Bonds called for redemption will be paid at the redemption price stated in the notice, plus interest accrued to the redemption date. On the date so designated for redemption (after notice having been given in the manner and under the conditions provided in the Trust Agreement relating to the Bonds to be redeemed and moneys for payment of the redemption price being held in trust to pay the redemption price), the Bonds so called for redemption will become and be due and payable on the redemption date, interest on such Bonds will cease to accrue, such Bonds will cease to be entitled to any lien, benefit or security under the Trust Agreement and the owners of such Bonds will have no rights in respect thereof except to receive payment of the redemption price and accrued interest to the redemption date. Bonds which have been duly called for redemption and for which moneys for the payment of the redemption price have been deposited in the Redemption Fund or otherwise held in trust for the Holders of such Bonds will no longer deemed to be Outstanding under the provisions of the Trust Agreement.

Book-Entry Only System

The Bonds, when issued, will be registered in the name of Cede & Co., as nominee of DTC. DTC will act as securities depository of the Bonds. Individual purchases of the Bonds may be made in book-entry form only in integral multiples of \$5,000 principal amount. Purchasers will not receive certificates representing their interest in the Bonds purchased. Principal and interest will be paid to DTC, which will in turn remit such principal and interest to its participants for subsequent disbursement to the beneficial owners of the Bonds as described in this Official Statement. So long as DTC's book-entry system is in effect with respect to the Bonds, notices to Holders by the City or the Trustee will be sent to DTC. Notices and communication by DTC to its participants, and then to the beneficial owners of the Bonds, will be governed by arrangements among them, subject to then effective statutory or regulatory requirements. So long as the Bonds are registered in the name of Cede & Co., or any other nominee of DTC, references in this Official Statement to the registered owners or use of the capitalized term "Holders" means Cede & Co. or such other nominee of DTC, and do not mean the beneficial owners of the Bonds. See "APPENDIX F – DTC'S BOOK-ENTRY ONLY SYSTEM." In the event that such book-entry system is discontinued with respect to the Bonds, the City will execute and deliver replacements in the form of registered certificates and, thereafter, the Bonds will be transferable and exchangeable on the terms and conditions provided in the Trust Agreement.

Annual Debt Service

The following table shows the annualized debt service on the Bonds, without regard to any optional redemption.

Bond Year Ending June 1	Principal*	Interest*	Annual Debt Service*
2022	--	\$ 845,719.08	\$ 845,719.08
2023	\$2,920,000	1,422,705.00	4,342,705.00
2024	2,935,000	1,409,565.00	4,344,565.00
2025	2,955,000	1,387,552.50	4,342,552.50
2026	2,985,000	1,356,525.00	4,341,525.00
2027	3,025,000	1,316,227.50	4,341,227.50
2028	3,075,000	1,266,315.00	4,341,315.00
2029	3,135,000	1,209,427.50	4,344,427.50
2030	3,200,000	1,145,160.00	4,345,160.00
2031	3,270,000	1,074,760.00	4,344,760.00
2032	3,345,000	997,915.00	4,342,915.00
2033	3,430,000	912,617.50	4,342,617.50
2034	3,525,000	820,007.50	4,345,007.50
2035	3,620,000	721,307.50	4,341,307.50
2036	3,725,000	618,137.50	4,343,137.50
2037	3,830,000	510,112.50	4,340,112.50
2038	3,950,000	393,297.50	4,343,297.50
2039	4,070,000	272,822.50	4,342,822.50
2040	4,195,000	148,687.50	4,343,687.50
2041	680,000	20,740.00	700,740.00
Total ⁽¹⁾	<u>\$61,870,000</u>	<u>\$17,849,601.58</u>	<u>\$79,719,601.58</u>

Source: Hilltop Securities Inc.

* Preliminary; subject to change.

SECURITY AND SOURCE OF PAYMENT FOR BONDS

Bond Payments; Covenant to Budget; No Set-Off or Counterclaim

Pursuant to the Trust Agreement, the Trustee will establish and maintain a “City of Montclair 2021 Taxable Pension Obligation Bonds Revenue Fund” (the “Revenue Fund”), and a “Bond Interest Account” and “Bond Principal Account” within the Revenue Fund.

So long as any Bonds will be Outstanding, no later than three Business Days preceding each Interest Payment Date, beginning June 1, 2022, the City will deliver funds to the Trustee for deposit to the Revenue Fund in an aggregate amount equal to the portion of the Annual Debt Service coming due on such Interest Payment Date (less amounts already on deposit in the Revenue Fund).

The City will provide for payment of principal or redemption price of and interest on the Bonds from any source of legally available funds of the City. The obligations of the City under the Bonds, including the obligation to make all payments of principal, premium, if any, and interest when due, will be absolute and unconditional, without any right of set-off or counter-claim.

The City will covenant, in each fiscal year, to include in its budget a provision to provide funds in an amount sufficient to pay the principal, premium, if any, and interest on the Bonds coming due in such Fiscal Year, but only to the extent that such amounts exceed the amount of available funds then on deposit in the Revenue Fund, and will make annual appropriations for all such amounts. If such principal, premium, if any, and interest on the Bonds coming due in any fiscal year exceeds the sum of amounts budgeted in respect thereof together with amounts then on deposit in the Revenue Fund, then the City will amend or supplement the budget to provide for such excess amounts.

Limited Obligation; No Pledge of Taxation

The Bonds will not constitute an obligation of the City for which the City will be obligated to levy or pledge any form of taxation or for which the City has or will be levied or pledged any form of taxation. Neither the Bonds nor the obligation of the City to make payments therefor will constitute an indebtedness of the City, State or any of its political subdivisions within the meaning of any constitutional or statutory debt limitations for which the any form of taxation will be pledged.

Revenue Fund

All amounts received by the Trustee from the City for interest payments on the Bonds will be deposited in the Bond Interest Account and will be disbursed to the applicable Bondholders to pay interest on the Bonds. All amounts held at any time in the Bond Interest Account will be held for the security and payment of interest on the Bonds pursuant to the Trust Agreement. If at any time funds on deposit in the Bond Interest Account are insufficient to provide for the payment of such interest, the City will promptly send moneys to the Trustee for deposit into the Bond Interest Account to cure such deficiency. On June 2 of each year beginning in 2023, so long as no Event of Default has occurred and is continuing, the Trustee will transfer all amounts on deposit in the Bond Interest Account to the Revenue Fund to be used for any lawful purpose.

All amounts received by the Trustee from the City for principal payments on the Bonds will be deposited in the Bond Principal Account and all amounts in the Bond Principal Account will be disbursed to pay principal on the Bonds pursuant to the Trust Agreement. If at any time funds on deposit in the Bond Principal Account are insufficient to provide for the payment of such principal, the City will promptly send moneys to the Trustee for deposit into the Bond Principal Account to cure such deficiency.

The moneys in the Revenue Fund and accounts therein will be held by the Trustee in trust and applied as provided in the Trust Agreement and, pending such application, will be subject to a lien and charge in favor of the Holders of the Bonds issued and Outstanding under the Trust Agreement and for the further security of such Holders until paid out or transferred as provided in the Trust Agreement.

No Debt Service Reserve Fund

No debt service reserve fund for the Bonds will be established under the Trust Agreement.

Additional Bonds

From time to time, the City may enter into: (a) one or more other trust agreements or indentures; and/or (b) one or more agreements supplementing and/or amending the Trust Agreement, for the purpose of providing for the issuance of additional bonds (“Additional Bonds”): (i) to refund the Bonds; or (ii) to refund any Pension Liability under the CalPERS Contract arising subsequent to the issuance of the Bonds or any other obligations due to CalPERS. Such Additional Bonds may be issued solely on a parity with the Bonds. Under the authorization pursuant to the Authorizing Resolution (see “INTRODUCTION – General”), Additional Bonds may be issued pursuant to one or more other trust agreements and/or one or more supplemental agreements supplementing or amending the Trust Agreement and providing for the issuance of Additional Bonds (each an “Additional Trust Agreement”); provided, that:

- (i) each series of Additional Bonds will be in a principal amount not to exceed the sum of: (A) the Unfunded Liability of the City to CalPERS under the CalPERS Contract and the Retirement Law remaining unpaid on the date of issuance of such Additional Bonds, (B) the obligation to CalPERS for the current fiscal year pursuant to the CalPERS Contract, and (C) the costs of issuing the Additional Bonds,
- (ii) the stated interest rate on the Additional Bonds will not exceed the discount rate assumed by CalPERS with respect to the amortization of the Unfunded Liability at the time such Additional Bonds will be issued, and
- (iii) the Additional Bonds issued pursuant to such Additional Trust Agreement will mature not later than 30 years from the date of their issuance.

CITY

General

The City encompasses approximately 5.2 square miles and is located in the western end of San Bernardino County, approximately 35 miles to the east of downtown Los Angeles. The western boundary of the City is contiguous with the Los Angeles County line. The San Bernardino Freeway (Interstate 10) runs through the northern part of the City.

Until the 1890’s, the area that is now the City consisted mostly of grazing land and a watering hole. In 1897, the “Township of Marquette” was founded. In early 1900’s, a 1,000 acres tract of land was surveyed and named “Monte Vista.” Throughout the first half of the 20th century, the settlement was largely devoted to citrus orchards. The Monte Vista tract experienced growth in residential development after the Second World War. The City of Monte Vista was incorporated on April 25, 1956, with a population of 8,008, spreading over 4.2 square miles. At an election held on April 8, 1958, the residents of the City of Monte Vista voted to change the name to the City of Montclair. The name change was because there was another community in the northern part of the State also named Monte Vista and there was some confusion with the U.S. postal services.

The City provides police and fire protection, sewer maintenance, sewer and sanitation services to its residents. Solid waste collection is provided through a franchise agreement with a local refuse

collection service. Water services within the City are provided by the Monte Vista Water District. The City operates community facilities and parks throughout the City.

Several main highways serve the City. These include U.S. Interstate 10 (the San Bernardino Freeway) and State Route 60 (the Pomona Freeway). Ontario International Airport (5 miles from City) and several other Southern California airports, including Los Angeles International Airport, provide international and transcontinental service.

City Government

The City is a general law city and currently functions under a Council/Manager form of Government. The City Council is the governing body of the City. The City Council members are elected in even-numbered years for staggered four-year terms. The membership of the City Council is comprised of the five elected officials: Mayor, Mayor Pro Tem, and three Council Members.

The current members of the City Council are as follows:

<u>Name and Office</u>	<u>Current Term Expires</u>
Javier J. Dutrey, <i>Mayor</i>	November 2022
William Ruh, <i>Mayor Pro Tem</i>	November 2022
Carolyn Johnson, <i>Council Member</i>	November 2024
Benjamin Lopez, <i>Council Member</i>	November 2024
Corysa Martinez, <i>Council Member</i>	November 2022

The City Manager is appointed by the City Council and has the chief administrative responsibilities for the City. The City Manager directs and coordinates all City services, and also serves as the City Treasurer. The City operations are organized into different departments. Currently, there are the City Manager Department, Administrative Services/Human Services Department, Human Services Department, Police Department, Fire Department, Public Works Department, Community Development Department, Information Technology Department and Economic Development Department. The City Manager Department oversees the daily operations of the organization; supervises all Department-level appointees; hires, promotes and disciplines personnel; represents all bargaining group requests to the City Council; administers, manages, and supervises a variety of administrative functions; directly oversees financial operations of the City; and provides extensive support services to each City department and the City Council. Below are brief biographies of the City Manager and the Finance Manager of the City.

Edward C. Starr, City Manager. Mr. Starr enlisted at the age of 18 and served in the United States Air Force for approximately six years. During his Air Force experience, he was awarded a Top Secret Cryptographic Security Clearance and served in various assignments including a tour at Clark Air Base, Philippines, where he worked with the National Security Agency; Kelly Air Force Base, San Antonio, Texas, working in the field of electronic warfare; and Beale Air Force Base, Marysville, California, working as an Air Traffic Controller. After military service, he graduated *Magna Cum Laude* from the California State University, Fullerton, with a Bachelor's Degree in Political Science and minor in U.S. History, and subsequently received a Master's Degree in Public Administration. Mr. Starr has served in local government since 1984, including the last 11 years as

City Manager for the City. As City Manager, he has assisted the City Council in directing the City’s present and future course and in providing the community with a stable economic environment, including major commercial and residential development opportunities.

Janet Kulbeck, Finance Manager. Mrs. Kulbeck graduated with honors from Chaffey College with an Associate’s Degree in Accounting and then continued her education at the California State Polytechnic University, Pomona where she graduated *Cum Laude* with a Bachelor’s Degree in Accounting. Mrs. Kulbeck has served in local government since 2000, including the last two years as Finance Manager. After the Montclair Redevelopment Agency was dissolved by the State of California, Mrs. Kulbeck served on the Oversight Board of the Successor Agency to the City of Montclair Redevelopment Agency from 2012 through 2018.

Employee Relations

All City full-time employees, except for executive management employees, are represented by employee associations. Separately, the City has entered into agreements with the unrepresented management employees, setting forth the understanding regarding certain terms of employment. As shown below, only one of the six City contracts with the bargaining groups has expired. The City is engaged with the Police Officers Association regarding a successor contract. No work stoppage has resulted because of the expiration of such public safety contract, and work stoppage is prohibited by State law.

<u>Agreement</u>	<u>Counterparty to City</u>	<u>Expiration Date⁽¹⁾</u>
Agreement No. 19-94	Montclair Police Officers Association	06/30/2021
Agreement No. 19-84	Montclair General Employees Association	06/30/2024
Agreement No. 21-29	Montclair Fire Fighters Association	06/30/2026
Agreement No. 19-72	Montclair City Confidential Employees’ Association	06/30/2022
Agreement No. 19-80	Mid-management employees (non-safety and safety)	06/30/2022
Agreement No. 19-81	Executive management employees (department heads)	06/30/2022

(1) Shows the expiration date of the most recent agreements.

Source: City of Montclair

Recent and Continuing Developments

The Metro Gold Line Foothill Extension (the “Extension”) is a project to extend the Metro Gold Line, a regional light rail line which runs from downtown Los Angeles to the City as the eastern terminus. The Extension will eventually consist of over 23 miles and is being constructed in two phases, with the first phase (from Pasadena to Azusa) being over 11 miles and the second phase (from Azusa to Montclair) being over 12 miles. The first phase was completed in September 2015, and passenger service began in March 2016. The second phase has been divided into two sub-phases, the first sub-phase from Azusa to Pomona and the second sub-phase from Pomona to Montclair. The first sub-phase is expected to be completed by 2024, and the second sub-phase by 2026 if the Gold

Line Foothill Extension Construction Authority can secure \$540 million from the State’s Fiscal Year 2021-22 surplus of \$74 billion by October 7, 2021.

Located in the north side of the City is the Montclair Transcenter, a 20-acre multimodal transportation facility located along Richton Street, just east of Monte Vista Avenue. The Transcenter is the largest such facility between Union Station in Los Angeles and San Bernardino Station. The Transcenter is a master planned regional transportation hub, with a regional Metrolink station (the Metrolink San Bernardino Line), bus services provided by five different public and private transit agencies, and a park-and-ride facility that accommodates approximately 1,600 commuter vehicles. The Transcenter includes a 1.6 acre service area that currently provides support services for child care.

As described in the North Montclair Downtown Specific Plan (adopted in 2006 and amended in 2017), the City is developing a pedestrian-oriented commercial and residential district surrounding the Transcenter. As of July 2021, North Montclair Downtown Specific Plan development projects include the 385-unit “The Paseos at Montclair,” the 129-unit “The District at Arrow Station,” the 212-unit “The Alexan Kendry,” and the 23-unit “Vista Court.” The 366 mixed-unit “Village at Montclair” received entitlement in December 2020 and construction is expected to begin by early 2022. A minimum of ten of the ground floor units at Village at Montclair will serve as commercial units immediately upon completion, and 20 of the project’s flex units will come on line as commercial units within approximately five years after construction is completed and certificates of occupancy are issued. The City’s Community Development Department is currently reviewing additional projects including “The Alexan Kendry Expansion” that will incorporate a mixed-use commercial component and 137 residential units, and the 302-unit “Montclair Station” townhomes project.

A major retail center in the City is Montclair Place (formerly known as Montclair Plaza), a 1.2 million square foot regional shopping mall, currently anchored by Macy’s and JCPenney and housing approximately 200 specialty retailers and restaurants. In March 2018, AMC Theatres announced the replacement of the old Broadway building at Montclair Place with a new 55,000 square-foot, 12-screen dine-in movie theatre, the City’s first indoor theatre in nearly two decades. The Canyon, a 17,500 square-foot music and entertainment venue, Kids Station, an 11,000 square-foot indoor playground, and Lazy Dog Restaurant were also added during the last two years. A Sprouts grocery store and Round 1 Bowling and Amusement venue are planned for the lower level of the AMC Theatres structure. In September 2020, the City Council approved the Montclair Place District Specific Plan. Under the Montclair Place District Specific Plan, it is contemplated that Montclair Place and surrounding areas will be further redeveloped with additional free-standing and outdoor retail, entertainment and restaurant establishments, integrated into a mix of office and neighborhood residential projects.

For south Montclair, the City has received a project proposal to convert 29 acres (the Tiki Drive-in Theatre) into a technology center/light industrial campus. If approved, the project would include state-of-the-art warehouse facilities capable of serving the needs of medical equipment/supply manufacturers.

CITY FINANCIAL INFORMATION

COVID-19 Disruption; City Proactive Measures

The COVID-19 pandemic brought unexpected and unprecedented disruption to the global economy, and challenges to governments at all levels, including the City. See “INTRODUCTION – COVID-19 Pandemic” and “BONDOWNERS’ RISKS – Effects from COVID-19 Pandemic.” Many tables under this “CITY FINANCIAL INFORMATION” of the Official Statement show data that span from one to a few years before the pandemic, during which the economy was relatively strong and also show data for fiscal years 2019-20 and 2020-21, during which adjustments had to be made during the pandemic.

On May 18, 2020, in view of the projected negative economic impact, the City Council adopted Resolution No. 20-3267, declaring a state of fiscal urgency (which was expressly distinguished from a state of fiscal emergency). Resolution No. 20-3267, directed the City Manager to take strategic measures to reduce or avoid successive budgetary deficits, which measures may include, but not limited to the following:

1. Reduce General Fund operating expenditures.
2. Enact and/or recommend reductions in personnel, as necessary, by a combination of layoffs; furloughs, and/or maintenance of vacant positions where appropriate.
3. As appropriate, consolidate service programs, and/or evaluate and recommend service contracting/reductions in service.
4. As necessary, delay project start dates.
5. Maintain program outputs commensurate with organizational/community needs and revenue inflow.
6. Develop economic growth by accomplishing the following:
 - a. Complete housing and mixed-use components pursuant to the North Montclair Downtown Specific Plan.
 - b. Complete the Montclair Place District Specific Plan.
 - c. Complete the General Plan Update.
 - d. Complete the Arrow Highway Mixed-use Development (AHMUD) Specific Plan.
 - e. Complete the Gold Line to the Montclair Transcenter.
 - f. Pursue development within other areas of the City.
7. Secure funding to meet debt service on the 2014 Lease Revenue Bonds (defined below, see “Other Long-Term Obligations Payable Out of General Fund - 2014 Lease Revenue Bonds”).
8. Identify, implement and/or present alternatives for revenue enhancement including, but not limited to, the following:

- a. A voter-approved transactions and use tax district.
 - b. Present for City Council consideration a commercial cannabis ordinance and provisions for a potential tax measure.
 - c. Restoration of the Utility Users Tax to the maximum voter-approved 4.75 percent tax rate (the current tax rate is 3.89 %).
9. Achieve and maintain Montclair’s Unrestricted General Fund Reserve Fund at 25 percent of the General Fund Operating Budget.
 10. Evaluate a pension bond measure as a means to reduce the City’s annual payment to the CalPERS

After the adoption of Resolution No. 20-3267, a number of such measures were taken. At the end of fiscal year 2020-21, the City was able to maintain the General Fund unassigned reserve at approximately \$5.8 million. The City’s fiscal year 2021-22 budget, as adopted by the City Council in June 2021, shows that the City projects \$8 million of General Fund unassigned reserve by the end of fiscal year 2021-22, which will equal approximately 24.95 percent of total General Fund operating budget for that year.

Measure L – a ballot measure to increase the sales tax in the City by one percent to fund general community needs – was approved by the voters in November 2020. The use of revenue from Measure L (“Measure L Revenue”) is not restricted for a specific purpose or project and may be used for most General Fund purposes. The City anticipates issuing 2021 Lease Revenue Bonds (defined below) around the same time as the issuance date of the Bonds to provide financing for various infrastructure projects. See discussion under “Other Long-Term Obligations Payable Out of General Fund - 2021 Lease Revenue Bonds” regarding the City’s contemplated use of Measure L Revenues for payments relating to the 2021 Lease Revenue Bonds. Based on current Transactions and Use tax earnings as of June 30, 2021, the City projects that Measure L will generate approximately \$9.5 million in additional revenue for Fiscal Year 2021-22.

By issuing the Bonds to refinance the Unfunded Accrued Liability, the City hopes to achieve short and long-term savings. See discussion under “Anticipated Savings from Issuance of Bonds; POB/UAL Amortization Reserve.”

On March 11, 2021, a federal stimulus bill known as the American Rescue Plan Act of 2021 (“ARPA”) was signed into law. The City currently expects to be allocated approximately \$9.5 million from ARPA. The use of such moneys will be limited for the purposes and within the timeline permitted by ARPA. Eligible uses include:

- (i) COVID-19 expenditures or negative economic impacts of COVID-19, including assistance to households, small businesses and non-profits, or aid to impacted industries, such as tourism, travel and hospitality;
- (ii) premium pay for essential workers or grants to eligible employers that have workers who perform essential work (in an amount up to \$13 per hour or \$25,000 per worker);

- (iii) revenue replacement for the provision of government services to the extent of the reduction in revenue due to the COVID-19 public health emergency, relative to revenues collected in the most recent fiscal year prior to the emergency; and
- (iv) necessary investments in water, sewer, and broadband infrastructure.

ARPA funding cannot be used for any deposit into a pension fund and must be used to cover costs incurred no later than December 31, 2024. The City will receive the ARPA funding in two tranches, half in June 2021 and half in June 2022. Final U.S. Treasury Department rules on use of ARPA funds are expected to be issued on or about October 2021.

During fiscal year 2020-21, staff layoffs impacted six full-time and one part-time General Fund positions. With an improved financial outlook, essential City staff positions frozen or eliminated due to the fiscal impact of COVID-19 pandemic have been restored pursuant to the adopted fiscal year 2021-22 budget.

Due to the availability of the vaccine and a decreasing number of COVID-19 cases since the beginning of 2021, the State lifted public health restrictions, including mask and social distance mandates and venue capacity limits as of mid-June 2021. The City's adopted fiscal year 2021-22 budget reflects an improved economic outlook relative to a year earlier when the fiscal year 2020-21 budget was adopted. See "City Budgets for Fiscal Years 2019-20 through 2021-22." Nonetheless, COVID-19 has not been eradicated and risk of resurgence of cases remains. As the economy re-opens, it is unknown if there will be lingering effects from the changes that have been brought by the pandemic. The City will continue to monitor the situation closely and make adjustments.

Anticipated Savings from Issuance of Bonds; POB/UAL Amortization Reserve

By issuing the Bonds to refund the Unfunded Liability, the City hopes to achieve short and long-term savings. CalPERS currently charges the City for the Unfunded Liability at the rate of seven percent per annum. The interest cost on the Bonds is significantly lower. Based on current projections (using assumptions that the City believes are reasonable), the issuance of the Bonds is estimated to provide over [\$26] million of net present value savings for the City.

As discussed under "PLAN OF REFUNDING," in July 2021, the City made an Unfunded Liability payment of \$5,761,184 (the "2021 UAL Payment") to CalPERS. As part of the City's adopted 2021-22 budget, the City Council approved the establishment of a "POB/UAL Amortization Reserve," with an initial deposit of \$558,661 transferred from the unassigned reserve of the General Fund. The City further contemplates that, starting in fiscal year 2022-23, the City will annually deposit into the POB/UAL Amortization Reserve an amount of approximately \$[1.5] million each year (being the difference between 2021 UAL Payment and the annual debt service payment on the Bonds). The City contemplates that, in the future, moneys accumulated in the POB/UAL Amortization Reserve may be used to pay new Unfunded Liability growth or redeem the Bonds before final maturity (or both).

As a matter of State law, moneys in the POB/UAL Amortization Reserve remain part of the City's General Fund and the City may use moneys therein for other purposes upon the City Council's direction. Alternatively, the City may establish a Section 115 Trust and transfer funds to the trust to ensure those funds will only be used for pension-related costs.

The POB/UAL Amortization Reserve will be in addition to a separate, already-existing reserve in the General Fund designated the “CALPERS and Employee Post Benefits Reserve.” In recent years, the City has maintained a balance of \$2.5 million in the CALPERS and Employee Post Benefits Reserve.

Other Long-Term Obligations Payable Out of General Fund

The City will make payment for Bonds from moneys available in the General Fund that are currently committed to annual payment on the CalPERS UAL. The City also pays from the General Fund certain payments related to one other bond series issued by the Montclair Public Financing Authority (the “Authority”): the Authority’s Lease Revenue Refunding Bonds (Public Facilities Projects) Issue of 2014 (the “2014 Lease Revenue Bonds”). The City is currently in the process of considering the issuance of a 2021 series of Lease Revenue Bonds to be used for various infrastructure improvements. If approved by the City Council, the City will make payment for the 2021 Lease Revenue Bonds from moneys available in the General Fund, and is anticipated to be issued in October 2021. (See “- 2021 Bond Lease Payments” discussion, below)

2021 Bond Lease Payments

The 2021 Lease Revenue Bonds are anticipated to be issued in October 2021 in the principal amount of \$[45,000,000], in order to provide financing for various infrastructure projects. The principal and interest payments on the 2021 Lease Revenue Bonds for each fiscal year until final maturity (April 1, [2051]) is expected to be approximately \$[77,283,967]. In connection with the 2021 Lease Revenue Bonds, the City and the Authority entered into a lease agreement, under which the City makes lease payments (the “2021 Bond Lease Payments”) in amounts sufficient to cover the principal and interest payments on the 2021 Lease Revenue Bonds. The City has covenanted to include in its budget for each fiscal year the amount necessary to pay the 2021 Bond Lease Payments due for such fiscal year, to be paid from moneys available in the General Fund. Currently, the City plans to use Measure L Revenues as the primary source for the 2021 Bond Lease Payments.

Measure L – a measure to increase the sales tax in the City from 8.0 percent to 9.0 percent to fund general community needs – was passed with the approval of over 68 percent of the votes cast. The use of Measure L Revenue is not restricted for a specific purpose or project. The text of Measure L ballot read as follows:

“Shall the measure to protect Montclair’s long-term financial ability to fund general community needs, including keeping Montclair safe; preparing for/recovering from public health emergencies; helping prevent contamination of local water sources; maintaining 911 emergency response; continuing afterschool and senior programs; repairing streets; addressing homelessness; increasing the sales tax by 1 cent, providing approximately \$7,000,000 annually until ended by voters; requiring Independent financial audits, all funds used locally, be adopted.”

Collection of Measure L Revenues began in April 2021. In April through June 2021, the City received approximately \$2.436 million in Measure L Revenues. As the economy continues to re-open, the City projects that Measure L will generate approximately \$9.5 million in fiscal year 2021-22.

Even though the City intends to use Measure L Revenues for the payments related to the 2021 Lease Revenue Bonds, Measure L Revenues are not pledged for the security of the 2021 Bond Lease Payments or any other payments related to the 2021 Lease Revenue Bonds. Measure L Revenues are part of the General Fund. In the future, at any time, the City may elect to use other General Fund revenue source or sources for such payments.

2014 Bond Lease Payments

As of July 1, 2021, the outstanding principal amount of the 2014 Lease Revenue Bonds was \$40.155 million. The principal and interest payments on the 2014 Lease Revenue Bonds for each fiscal year until final maturity (October 1, 2045) is approximately \$2.6 million each year.

Background

The 2014 Lease Revenue Bonds were issued to refund bonds previously issued in 2005 and provide additional funds for various public improvements and infrastructure projects. In connection with the 2014 Bonds, the City and the Authority entered into a lease, under which the City makes lease payments (the “2014 Bond Lease Payments”) in amounts sufficient to cover the principal and interest payments on the 2014 Lease Revenue Bonds.

Before the issuance of the 2014 Bonds, the City had decided to make the 2014 Bond Lease Payments from two specific sources – Measure F Revenues (defined below, see “Sales, Transaction and Use Taxes”) and RPTTF Residual Revenues (defined below, see “Property Taxes (Ad Valorem and Vehicle In-Lieu Fees”). This was a discretionary decision by the City. Similar to Measure L Revenues, both Measure F Revenues and RPTTF Residual Revenues are part of the General Fund as a matter of State law. The City has the right to make a change at any time to make the 2014 Lease Revenue Payments from other available revenues. As discussed below, the City is currently considering the use of Measure F Revenues (subsidized as required by other General Fund Revenue sources) as the primary funding source only for the 2014 Bond Lease Payments starting in this or the next fiscal year.

Coverage for the 2014 Lease Revenue Payments During Past Five Fiscal Years

The table below shows the City’s total receipt of Measure F Revenues and RPTTF Residual Revenues and their use for the 2014 Bond Lease Payments for reference.

Table 1
CITY OF MONTCLAIR
Measure F and RPTTF Residual Revenues and Uses⁽¹⁾
Fiscal Years 2016-17 through 2020-21

	<u>FY 2016-17</u>	<u>FY 2017-18</u>	<u>FY 2018-19</u>	<u>FY 2019-20</u>	<u>FY 2020-21</u>
Revenue Amounts					
Measure F Revenues	\$2,109,408	\$2,205,241	\$2,431,378	\$2,173,220	\$2,256,282 ⁽²⁾
RPTTF Residual Revenues	1,277,927	1,662,146	1,541,604	1,592,195	1,748,654
Total	<u>\$3,387,335</u>	<u>\$3,867,387</u>	<u>\$3,972,982</u>	<u>\$3,765,415</u>	<u>\$4,004,936</u>
Uses					
2014 Bond Lease Payments ⁽¹⁾	\$2,597,688	\$2,600,234	\$2,600,229	\$2,594,587	\$2,590,462
2014 Bond-related administration expenses	6,150	--	--	--	--
Remaining Measure F Revenues deposited into General Fund	255,570	355,007	581,149	328,633	415,820
Remaining RPTTF Residuals deposited into Economic Development Fund ⁽³⁾	527,927	912,146	791,604	842,195	998,654
Total	<u>\$3,387,335</u>	<u>\$3,867,387</u>	<u>\$3,972,982</u>	<u>\$3,765,415</u>	<u>\$4,004,936</u>

(1) Equal to the 2014 Bond Lease Payments for each such fiscal year, less a small amount paid from interest earnings from moneys already on deposit in the 2014 bond accounts.

(2) Based on estimates as of June 30, 2021. See discussion under “Sales, Transaction and Use Taxes” regarding California Department of Tax and Fee Administration’s administration sales, transaction and use taxes and transmittal of related revenues to the City.

(3) See discussion below under “Contemplated Change in Source of Moneys for 2014 Bond Lease Payments.”

Source: City of Montclair Finance Division.

Presentation in City Financial Statements

Because of the City's policy of using Measure F Revenues and RPTTF Residual Revenues as the specific sources for the 2014 Bond Lease Payments, the City has generally not specifically labeled the 2014 Bond Lease Payments as "debt service" in the columns showing General Fund revenue and expenditures in its financial statements. For example, see Appendix B for a copy of the City's fiscal year 2019-20 audited financial statements (the "City FY 2019-20 Audited Financial Statements"). In the Statements of Revenues, Expenditures and Charges in Fund Balances on pages 10-11, under the column labelled "General Fund," the dollar amounts used for 2014 Bond Lease Payments were included in the "Transfer Out" under "Other Financing Sources (Uses)." Moving to the column labelled "Other Government Funds" on page 11, the 2014 Bond Lease Payments were reflected in the rows labelled "Principal Retirement" and "Interest and Fiscal Changes" under "EXPENDITURES – Debt Service." More details regarding the different components that make up the "Other Government Funds" can be found on pages 58-66. On page 66 in particular, the 2014 Lease Payments were reflected under the column labelled "Debt Service Fund."

Separately, on page 11, the numbers under the column labelled "Economic Development" reflect the deposit of RPTTF Residual Revenues into the Economic Development Fund (see "*Contemplated Change in Source of Moneys for 2014 Bond Lease Payments*") after deduction of the amount used for the 2014 Lease Payments. See "APPENDIX B - CITY OF MONTCLAIR FINANCIAL AUDIT REPORT FOR YEAR ENDED JUNE 30, 2020."

Contemplated Change in Source of Moneys for 2014 Bond Lease Payments

The City's adopted fiscal year 2021-22 budget continued to include appropriations from Measure F Revenues and RPTTF Residual Revenues for the 2014 Bond Lease Payments. However, the City is currently considering the use of Measure F Revenues only for the 2014 Bond Lease Payments, possibly as soon as this fiscal year.

As discussed below under "Property Taxes (Ad Valorem and Vehicle In-Lieu Fees)," RPTTF Residual Revenues represent a portion of the moneys that the former City of Montclair Redevelopment Agency (the "Former RDA") would have received from "tax increment." After the Former RDA's dissolution by State law, the City Council directed the establishment of an "Economic Development Fund" and the deposit of RPTTF Residual Revenues therein for economic development projects and programs. Because a portion of the proceeds of the 2014 Lease Revenue Bonds was used to fund public improvements and infrastructure projects that, in the City's view, benefited economic development, the City has used RPTTF Residual Revenues received each fiscal year to, first, pay the portion of the Lease Payments not covered by Measure F Revenues, and then deposit the remaining RPTTF Residual Revenues into the Economic Development Fund.

In view of the economic development that the City anticipates will occur in the next few years and the projected sufficiency of Measure F Revenues, the City is contemplating the use of Measure F Revenues only for the 2014 Bond Lease Payments in the future. Then, all RPTTF Revenues will be deposited into the Economic Development Fund. In the absence of unforeseen changes to the City's finances, the City Manager may seek to implement this change as early as the current fiscal year, subject to the City Council's approval of an amendment to the adopted fiscal year 2021-22 budget.

As a matter of State law, moneys in the Economic Development Fund are unrestricted and available for general City operations. However, the City has maintained an internal policy to set-aside such moneys, separate from other General Fund assets. To be consistent with the presentation of the City’s audited financial statements showing the Economic Development Fund separately and not as part of the “General Fund” columns, Tables 2 and 3 under “Financial Statement (General Fund)” will include only a portion of the RPTTF Residual Revenues, *i.e.*, the portion used for the 2014 Bond Lease Payments, and excludes the portion of the RPTTF Residual Revenues deposited into the Economic Development Fund.

Financial Statements (General Fund)

Set forth in the following pages are the City’s General Fund Balance Sheets and Statements of Revenues, Expenditures and Changes in General Fund Balance, based on: (i) the City’s audited financial statements for fiscal years 2016-17 through 2019-20, and (ii) unaudited fiscal year 2020-21 estimates based on information compiled by the City’s Finance Division. Such statements are subject to various notes attached to the City’s financial statements for the respective years and the footnotes below the table. The City’s Financial Audit Report for fiscal year ended June 30, 2020, which includes the City’s fiscal year 2019-20 audited financial statements and the Independent Auditor’s Report issued by Van Lant & Fankhanel, LLP (the “Auditors”) regarding such financial statements, is set forth in Appendix B. The City has not requested the Auditors to consent to the inclusion of its report in Appendix B and it has not undertaken to update financial statements included in Appendix B. A complete copy of the City’s Financial audit report for fiscal year ended June 30, 2020, as well as the reports for prior years, can be obtained from the City’s Finance Division. See “APPENDIX B - CITY OF MONTCLAIR FINANCIAL AUDIT REPORT FOR YEAR ENDED JUNE 30, 2020.”

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Table 2
CITY OF MONTCLAIR
General Fund Balance Sheet⁽¹⁾
Fiscal Years 2016-17 through 2020-21

	<u>FY 2016-17</u>	<u>FY 2017-18</u>	<u>FY 2018-19</u>	<u>FY 2019-20</u>	<u>(Unaudited) FY 2020-21</u>
Assets					
Pooled Cash and investments	\$9,864,169	\$9,997,848	\$10,552,368	\$7,527,646	\$12,098,639
Receivables					
Accounts	2,258,091	2,467,144	2,368,061	2,314,499	1,584,270
Notes and loans	5,000	5,000	5,000	5,000	5,000
Accrued interest	52,306	61,532	54,609	57,023	14,483
Prepaid costs ⁽²⁾	411,850	202,224	249,458	121,741	6,552
Due from other governments ⁽³⁾	2,842,345	2,732,186	2,795,342	2,851,646	2,802,050
Due from other funds ⁽⁴⁾	416,090	117,382	163,146	1,307,273	7,777
Restricted assets - cash	--	--	--	98,550	219,935
Total assets	<u>\$15,849,851</u>	<u>\$15,583,316</u>	<u>\$16,187,984</u>	<u>\$14,283,378</u>	<u>\$16,738,706</u>
Liabilities					
Accounts payable	\$979,656	\$1,024,304	\$1,030,927	\$1,033,627	\$570,452
Accrued liabilities	176,558	147,874	231,883	356,342	(122,635)
Deposits payable	200,553	157,012	252,949	98,550	377,006
Due to other governments ⁽⁵⁾	7,438	7,907	83,453	7,905	10,864
Due to other funds	57,372	52,400	22,697	35,043	26,028
Total liabilities	<u>\$1,421,577</u>	<u>\$1,389,497</u>	<u>\$1,621,909</u>	<u>\$1,531,467</u>	<u>\$861,715</u>
Deferred inflow of resources					
Unavailable revenues - grants ⁽⁶⁾	\$135,427	\$130,660	\$163,800	\$175,000	--
Fund balances					
Nonspendable ⁽⁷⁾	\$411,850	\$202,224	\$249,458	\$121,741	\$6,552
Assigned ⁽⁸⁾	7,700,000	7,300,000	6,193,885	7,633,097	8,113,427
Unassigned ⁽⁸⁾	6,180,997	6,560,935	7,958,932	4,822,073	7,757,012
Total fund balance	<u>\$14,292,847</u>	<u>\$14,063,159</u>	<u>\$14,402,275</u>	<u>\$12,576,911</u>	<u>\$15,876,991</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$15,849,851</u>	<u>\$15,583,316</u>	<u>\$16,187,984</u>	<u>\$14,283,378</u>	<u>\$16,738,706</u>

- (1) Excludes amounts of RPTTF Residuals deposited into the Economic Development Fund. See discussion under "Other Long-Term Obligations Payable Out of General Fund - 2014 Bond Lease Payments – RPTTF Residual Revenues" and " – Presentation in City Financial Statements."
- (2) Consists primarily of prepaid insurance costs. While such prepaid costs are recorded as assets, they represent cash spent for future services. Therefore, a corresponding amount is shown as the "non-spendable" portion of the fund balance
- (3) Consist largely of property and sales taxes received after end of fiscal year, and grants from other governmental agencies for projects and programs.
- (4) Represents advances from General Fund for uses attributable to other City funds while awaiting reimbursements from other governmental entities or revenues not yet received by the City.
- (5) Consists primarily of moneys due to other local agencies, such as the County of San Bernardino, for services provided.
- (6) Represents a change in accounting standards which required deferred items to be presented separately. Due to this change, this category of moneys is listed under "deferred inflow of resources" instead of "liabilities," starting with fiscal year 2012-13 audited financial statements.
- (7) Represents moneys used for expenses attributable to the next fiscal year. (see (2) above.
- (8) "Assigned" and "Unassigned" are categories given based on availability for internal budgeting and accounting purposes but are all available for future City budgetary requirements.

Source: City of Montclair audited financial statements for fiscal years 2016-17 through 2019-20. Additional explanations for footnotes and unaudited/estimated figures for fiscal year 2020-21 from City of Montclair Finance Division.

Table 3
CITY OF MONTCLAIR
General Fund Statement of Revenues, Expenditures and Changes in Fund Balances⁽¹⁾
Fiscal Years 2016-17 through 2020-21

	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	(Unaudited) FY 2020-21
Revenues					
Taxes	\$25,829,491	\$26,194,554	\$27,660,116	\$26,324,290	\$26,217,017
Licenses and permits	734,674	770,085	640,316	480,046	510,291
Intergovernmental ⁽²⁾	391,019	144,430	156,169	219,115	200,897
Charges for services	3,504,020	3,882,565	4,117,618	4,146,350	3,313,989
Use for moneys and property ⁽³⁾	171,103	196,299	526,094	626,164	343,859
Fines and forfeitures	678,805	504,277	460,747	306,953	309,882
Miscellaneous	197,433	309,295	235,460	301,152	113,834
Total revenues	\$31,506,545	\$32,001,505	\$33,796,520	\$32,404,070	\$31,009,769
Expenditures⁽⁴⁾					
Current:					
General government	\$ 8,243,570	\$10,009,219	\$9,908,802	\$10,508,305	\$12,999,527
Public safety	14,453,826	14,018,674	14,995,600	15,887,677	11,709,783
Community development	2,047,503	2,180,641	2,224,199	1,955,208	1,649,478
Public works	3,406,834	3,401,941	3,297,882	2,898,883	2,252,834
Capital outlay	247,562	367,284	487,927	415,820	34,748
Total expenditures	\$28,399,295	\$29,977,759	\$30,914,410	\$31,665,893	\$28,646,369
Excess (Deficiency) of Revenues over (under) expenditures	\$3,107,250	\$2,023,746	\$2,882,110	\$738,177	\$2,363,400
Other financing sources (uses):					
Transfers in	\$300,046	\$381,983	\$159,997	\$151,494	\$(25,547)
Transfers out ⁽⁴⁾	(2,650,019)	(2,635,417)	(2,702,991)	(2,715,035)	43,384
Total other financing sources (uses)	\$(2,349,973)	\$(2,253,434)	\$(2,542,994)	\$(2,563,541)	\$17,837
Net changes in fund balances	\$757,277	\$(229,688)	\$339,116	\$(1,825,364)	\$2,381,237
Fund balances, beginning of year	13,535,570	14,292,847	14,063,159	14,402,275	12,576,911
Prior Period Adjustments					
Fund balances, end of year	\$14,292,847	\$14,063,159	\$14,402,275	\$12,576,911	\$14,958,148

(1) Excludes amounts of RPTTF Residuals deposited into the Economic Development Fund. See discussion under "Other Long-Term Obligations Payable Out of General Fund - 2014 Bond Lease Payments – RPTTF Residual Revenues" and " – Presentation in City Financial Statements."

(2) Consists primarily of State subventions and reimbursements.

(3) Consists largely of interest earnings and changes in values of investments.

(4) Amounts in "Transfers out" include 2014 Bond Lease Payments, and not listed under "Expenditures." See discussion under "Other Long-Term Obligations Payable Out of General Fund - 2014 Bond Lease Payments – Presentation in City Financial Statements."

Source: City of Montclair audited financial statements for fiscal years 2016-17 through 2019-20. Additional explanations for footnotes and unaudited/estimated figures for fiscal year 2020-21 from City of Montclair Finance Division.

City General Fund Tax Revenues

As shown in Table 3, taxes represent the largest source of the General Fund revenues. The table below shows further details regarding such tax revenues for the fiscal years shown:

Table 4
City of Montclair
General Fund Tax Revenues
Fiscal Years 2016-17 Through 2020-21

Description	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	(Unaudited) FY 2020-21
Property - secured	\$2,621,880	\$2,762,096	\$2,840,803	\$2,816,784	\$2,634,055
Property - unsecured	105,410	93,367	103,776	185,454	187,364
Property tax in lieu of VLF	3,234,858	3,461,933	3,671,069	3,823,726	4,004,537
Sales and use	13,376,998	13,133,008	14,120,932	12,816,470	12,127,571
Transaction and use (Measure F Revenues) ⁽¹⁾	255,749	355,007	581,149	328,633	415,820
Transaction and use (Measure L Revenues) ⁽²⁾	--	--	--	--	1,500,000
Property tax pass-through from redevelopment project areas ⁽³⁾	185,195	213,496	263,884	287,442	310,319
Transient occupancy tax	37,795	47,259	71,803	61,321	65,000
Document transfer	135,466	156,694	94,784	147,288	120,000
Franchise tax	729,864	753,039	769,813	767,676	750,000
Business license	786,091	790,989	802,854	814,326	700,000
Utility users tax	1,709,261	1,778,771	1,693,823	1,623,731	1,677,000
Total ⁽¹⁾	\$23,178,567	\$23,545,659	\$25,014,690	\$23,672,851	\$24,491,666

(1) Excludes the amount of Measure F Revenues used to pay 2014 Bond Lease Payments. See Other Long-Term Obligations Payable Out of General Fund - 2014 Bond Lease Payments” and Table 1 thereunder.

(2) Collection of Measure L revenues started only in April 2021, after voter approval of the measure in the November 3, 2020 election. See discussion under “Anticipated Primary Source of Fund for 2021 Base Rental Payments: Measure L Revenue.”

(3) Payments made previously required to be made the former City of Montclair Redevelopment Agency pursuant to the State’s Community Redevelopment Law, but now made from the Redevelopment Property Tax Trust Fund. See “Property Taxes (Ad Valorem and Vehicle In-Lieu Fees) – *RPTTF Residual Revenues*” about redevelopment dissolution.

Source: City of Montclair Finance Division.

Sales, Transaction and Use Taxes

The tax rate for taxable transaction of retails sales and goods in the City is 9.00 percent, consisting of the following components:

Table 5
City of Montclair
Tax Rate on Transaction of Retail Sales and Goods
As of July 1, 2021

Jurisdiction	Rate
State of California	6.00%
County of San Bernardino and County Special Districts	1.25
San Bernardino County Transportation Authority	0.50
City of Montclair - Measure F ⁽¹⁾	0.25
City of Montclair - Measure L ⁽²⁾	1.00
Total:	9.00%

(1) Ballot measure approved by voters in 2004. See discussion below.

(2) Ballot measure approved by voters in 2020. See discussion below. Also see “Anticipated Primary Source of Fund for 2021 Base Rental Payments: Measure L Revenues.”

Sources: City of Montclair Finance Division, based on information provided by California Department of Tax and Fee Administration

As shown in Table 4, sales tax revenues represent the largest source of the City’s General Fund revenues. The sales tax is governed by the Bradley-Burns Uniform Local Sales and Use Tax Law, set forth in California Revenue and Taxation Code Section 7200 *et seq.* In addition, the City’s voters approved Measure F in 2004 and Measure L in 2020.

In 2004, the City placed onto the ballot in the November 2, 2004 election, Measure F, for the provision of a transactions and use tax which raised 25 cents on each \$100 retail purchase. Measure F passed with over 63 percent of the votes cast. As discussed in “Other Long-Term Obligations Payable Out of General Fund - 2014 Bond Lease Payments,” the City has consistently used Measure F Revenues for payments related to the 2014 Lease Revenue Bonds.

Measure L – a measure to increase the sales tax in the City from 8.0 percent to 9.0 percent to fund general community needs – was passed with the approval of over 68 percent of the votes cast in the November 2020 election. The use of Measure L Revenue is not restricted for a specific purpose or project. The City projects that Measure L will generate approximately \$9.5 million in fiscal year 2021-22. As discussed in “Other Long-Term Obligations Payable Out of General Fund - 2021 Bond Lease Payments,” the City plans to use Measure L Revenues for payments related to the 2021 Lease Revenue Bonds.

The collection of the sales tax and taxes pursuant to Measure F and Measure L is administered by the California Department of Tax and Fee Administration (“CDTFA”). This function was formerly performed by the State Board of Equalization, but was transferred to the CDTFA pursuant to the Taxpayer Transparency and Fairness Act of 2017, which took effect July 1, 2017. CDTFA charges a fee for its collection and administration of the tax revenues (which

fee, as of July 1, 2021, was at 1.9 percent of the tax receipts). Under its procedures, the CDTFA projects receipts of the sales tax and the City Transaction and Use Tax on a quarterly basis and remits an advance of the receipts of the sales and use tax to the City on a monthly basis, subject to the deduction for the CDTFA fee. The amount of each monthly advance is based upon the CDTFA’s quarterly projection. During the last month of each quarter, the CDTFA adjusts the amount remitted to reflect the actual receipts of the sales and use tax for the previous quarter.

The table below shows the taxable sales within the City by business type for the calendar years shown. The total dollar amount of taxable sale transactions in the City decreased between 2019 and 2020, reflecting the effect of the disruption caused by the COVID-19 pandemic. See “COVID-19 Disruption; City Proactive Measures” and “INTRODUCTION – COVID-19 Pandemic.”

Table 6
CITY OF MONTCLAIR
Taxable Sales by Business Type
(in thousands of dollars)
Calendar Years 2017 - 2020

Business Type	2017	2018	2019	2020⁽¹⁾
Motor vehicle & parts dealers	\$ 416,937	\$ 398,788	\$ 389,406	\$421,288
Home furnishings & appliance stores	88,295	93,489	79,661	61,860
Building material, garden equipment & supplies dealers	15,629	14,281	14,363	13,995
Food & beverage stores	15,733	15,277	15,461	15,600
Gasoline stations	36,470	41,436	34,594	23,988
Clothing & clothing accessories stores	122,502	121,685	117,206	66,881
General merchandise stores	209,371	217,535	232,662	199,435
Food services & drinking places	89,910	93,149	96,953	75,506
Other retail	64,499	65,681	62,374	53,526
Retail & food services subtotal⁽²⁾	\$1,059,346	\$1,061,323	\$1,042,680	\$932,079
All other outlets	156,968	160,546	163,234	142,914
Total all outlets⁽²⁾	\$1,216,313	\$1,221,869	\$1,205,914	\$1,074,993

(1) Based on preliminary data and not final.

(2) Sum may not equal total due to rounding.

Source: California Department of Tax and Fee Administration (information published on CDTFA website as of June 16, 2021)

Property Taxes (Ad Valorem and Vehicle In-Lieu Fees)

Revenues from property tax constitute a significant source of the City’s General Fund revenues. Property tax revenues include *ad valorem* tax revenues, or tax imposed on property based on an assessed value. The City also receives property tax revenues in lieu of Vehicle License Fees (“VLF”). VLF is a state imposed and collected tax on ownership of a registered vehicle. Since the State lowered the VLF rate in the mid-1990s, the State has reimbursed counties and cities for their lost revenue. Before 2004, the reimbursements were made from State general fund revenues. Starting in 2004, the State paid for the lost VLF revenue by redirecting a portion of property taxes originally allocated to the schools to counties and cities, called the VLF swap. Previously, the amounts counties and cities received were based on their populations. Currently,

counties’ and cities’ VLF swap amounts increase annually based on growth in the secured assessed value of property within their boundaries. In addition, see discussion under “Other Long-Term Obligations Payable Out of General Fund - 2014 Bond Lease Payments – *RPTTF Residual Revenues*” regarding RPTTF Residual Revenues.

The tables below show: (i) the assessed value of taxable property in the City and the property tax levies and collections for fiscal years 2016-17 through 2020-21, and (ii) the top ten property owners in the City by fiscal year 2020-21 assessed value. In fiscal year 2020-21, approximately 57.6 percent of the assessed value was attributable to residential properties, approximately 20.8 percent was attributable to commercial properties and approximately 12.1 percent was attributable to industrial properties.

Table 7
CITY OF MONTCLAIR
Assessed Value of Property
Fiscal Years 2016-17 Through 2020-21

Fiscal Year	Secured Value	Utility	Unsecured Value	Less: Exemption	Total	Percent Change
2016-17	\$2,862,872,139	\$4,356	\$120,103,539	\$ 25,591,459	\$2,957,388,575	5.52%
2017-18	3,072,644,386	4,356	119,724,900	25,338,814	3,167,034,828	7.09
2018-19	3,269,522,488	4,356	115,699,053	25,064,502	3,360,161,395	6.10
2019-20	3,407,336,331	1,742	118,657,851	24,883,992	3,501,111,932	4.19
2020-21	3,667,263,234	1,742	115,913,214	128,373,892	3,783,178,190	8.06

Source: City of Montclair, based on information available from San Bernardino County Assessor.

Table 8
CITY OF MONTCLAIR
Property Tax Levies and Collections⁽¹⁾
Fiscal Years 2016-17 Through 2020-21

Fiscal Year	Taxes Levied for Fiscal Year	Collection Within Fiscal Year of Levy		Total Collection ⁽²⁾ (as of June 30, 2021)	
		Amount	Percentage of Levy	Amount	Percentage of Levy
2016-17	\$2,566,258	\$2,509,979	97.81%	\$2,625,212	102.30%
2017-18	2,671,731	2,624,116	98.22	2,771,651	103.74
2018-19	2,770,929	2,709,567	97.79	2,861,113	103.25
2019-20	2,847,857	2,783,272	97.73	2,907,943	102.11
2020-21	2,944,199	2,904,816	98.66	3,053,137	103.70

(1) Excludes property tax revenues that were formerly tax increment revenues and that have been deposited in the Redevelopment Property Tax Trust Fund of the Successor Agency of the Montclair Redevelopment Agency.

(2) Includes collection within fiscal year of levy and in subsequent years.

Source: City of Montclair, based on information available from San Bernardino County Auditor-Controller’s Office.

Table 9
CITY OF MONTCLAIR
Top Property Tax Owners by Assessed Value
Fiscal Year 2020-21

Property Owner	Primary Use Category	Assessed Value (Secured and Unsecured)	% of Assessed Value of All Property in City ⁽¹⁾
5060 Montclair Plaza Lane Owner LLC	Commercial	\$193,756,878	5.12%
4914 Olive Street Properties LLC	Residential	119,234,920	3.15
KW PCCP Montclair LLC	Residential	34,633,485	0.92
Costco Wholesale Corporation	Commercial	23,182,243	0.61
Target Corporation	Miscellaneous	19,861,811	0.53
Montclair Plaza Partners LLC	Commercial	19,150,930	0.51
Montclair Plaza Inc.	Commercial	19,073,469	0.50
Skolem Group LLC	Commercial	17,808,797	0.47
Heather H Jacobs	Commercial	17,592,026	0.47
Macy's California Inc.	Commercial	17,249,175	0.46
Total:		\$481,543,734	12.73%

(1) Based on total assessed value of \$3,783,178,190. See Table 7.

Source: City of Montclair, based on information available from San Bernardino County Assessor.

Proposition 13 Limitations. Article XIII A of the State of California Constitution imposes limits on annual adjustments to real property assessed values and to the amount of ad valorem tax that may be levied on real property. See "STATE CONSTITUTIONAL LIMITATIONS ON CITY REVENUES AND APPROPRIATIONS."

Tax Levies and Collection. Taxable valuation within the City is established by the County Assessor, except for utility property, which is assessed by the State Board of Equalization. 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. Effective July 1, 1983, real property that changes ownership or is newly constructed is reassessed at the time the change in ownership occurs or the new construction is completed. If the property is reassessed at a higher value, one or more supplemental tax statements will be added to the annual tax bill. If the property is reassessed at a lower value, the property owner may receive a refund.

Property taxes on the secured roll are due in two installments, on November 1 and February 1 of each fiscal year, and if unpaid become delinquent on December 10 and April 10, respectively. If the first installment is not paid by December 10, a ten percent delinquent penalty is added to any unpaid balance. If the second installment is not paid by April 10, a ten percent penalty plus a charge of \$10 is added to the unpaid balance. Since supplemental tax bills are mailed throughout the year, they may or may not be due or delinquent at the same time as annual tax bills. The same penalties and charges accrue for delinquent supplemental taxes as for delinquent annual taxes.

The County bills and collects the property taxes, and subsequently remits the amount due to the City in installments during the year.

Assessed Value Appeals and Proposition 8 Adjustments. Pursuant to State law, property owners may apply for a reduction of their property tax assessment by filing a written appeal. If resolved in the property owner's favor in whole or in part, any reduction in the assessment ultimately granted applies to the year for which the application is made and may also affect the values in subsequent years. Refunds for taxpayer overpayment of property taxes may include refunds for overpayment of taxes in years after that which was appealed. Current year values may also be adjusted as a result of a successful appeal of prior year values. Any taxpayer payment of property taxes that is based on a value that is subsequently adjusted downward will require a refund for overpayment.

Section 51 of the California Revenue and Taxation Code permits a reduction (a "Proposition 8 Adjustment") in the assessed value if the full cash value of the property has been reduced by damage, destruction, depreciation, obsolescence, removal of property or other factors causing a decline in value. Reductions made under this code section may be initiated by the County Assessor or requested by the property owner. During the Great Recession (which began around 2007), the County Assessor's Office initiated proactive reviews of single family homes, condominiums, townhomes, multifamily and commercial and industrial properties, which resulted in Proposition 8 Adjustments for many properties in the County. After a roll reduction is granted under Section 51, the property is reviewed on an annual basis to determine its full cash value and the valuation is adjusted accordingly. This may result in further reductions or in value increases. Such increases must be in accordance with the full cash value of the property and may exceed the maximum annual inflationary growth rate allowed on other properties under Article XIII A of the State Constitution. Once the property has regained its prior value, adjusted for inflation, it once again is subject to the annual inflationary factor growth rate allowed under Article XIII A.

The assessed values shown in the tables above do not take into account any pending, unresolved assessment appeals.

RPTTF Residual Revenues. As discussed under "Other Long-Term Obligations Payable Out of General Fund - 2014 Bond Lease Payments – *Contemplated Change in Source of Moneys for 2014 Bond Lease Payments,*" before 2012, the Former RDA undertook redevelopment of several project areas (the "Project Areas") within the City, pursuant to the State's Community Redevelopment Law (set forth in California Health and Safety Code commencing with Section 33000). Assembly Bill No. X1 26 (enacted in June 2011 as Chapter 5 of Statutes of 2011) statutorily dissolved the Former RDA and all other redevelopment agencies in the State as of February 1, 2012.

Pursuant to Part 1.85 of Division 24 of the California Health and Safety Code (commencing with Section 34170) (the "RDA Dissolution Act"), the Successor Agency to the City of Montclair Redevelopment Agency (the "Successor Agency") was established to wind down the Former RDA's affairs.

The Former RDA received a portion of the property tax revenues collected within each Project Area, known as "tax increment." Such portion of property tax revenues are now deposited

into a Redevelopment Property Tax Trust Fund (the “RPTTF”) held and administered by the County Auditor-Controller for the Successor Agency. On each June 1 and January 2, the County Auditor-Controller disburses moneys from the RPTTF to the Successor Agency and certain other entities pursuant to the RDA Dissolution Act (including to the Successor Agency for the payment of enforceable obligations). Residual amounts in the RPTTF after such disbursement (“RPTTF Residual Revenues”) are distributed to taxing entities, such as the City (in proportion to such taxing entity’s share of property tax revenues in the tax rate area).

During fiscal year 2012-13, the City established the “Economic Development Fund” for internal budgeting and accounting purposes. The intent is to deposit the RPTTF Residual Revenues in the Economic Development Fund. Even though, as a matter of State law, moneys in the Economic Development Fund are unrestricted and available for general City operations, the City has maintained an internal policy to set-aside such moneys, separate from other General Fund assets, for economic development projects and programs. The City has used RPTTF Residual Revenues received each fiscal year to, first, pay the portion of the Lease Payments related to the 2014 Lease Revenue Bonds not covered by Measure F Revenues, and then deposit the remaining RPTTF Residual Revenues into the Economic Development Fund. However, as discussed in “Other Long-Term Obligations Payable Out of General Fund - 2014 Bond Lease Payments – *Contemplated Change in Source of Moneys for 2014 Bond Lease Payments,*” in view of the economic development that the City anticipates will occur in the next few years and the projected sufficiency of Measure F Revenues, the City contemplates the deposit of all RPTTF Revenues into the Economic Development Fund and the use of Measure F Revenues only for payments relating to the 2014 Lease Revenue Bonds in the future.

Utility Users Tax

Pursuant to Chapter 3.36 of the City’s Municipal Code, the City imposes a utility users tax on the consumers of electric, gas, water and telephone services, with certain exceptions for low income and very low income households. The current rate for the utility users tax is 3.89 percent.

Budget Process

The fiscal year of the City begins in July 1 of each year and ends on June 30 of the following year. The City Council approves each year’s budget submitted by the City Manager before the beginning of each new fiscal year. The following describes the process that the City has followed during recent years.

In January, Finance Division staff begins reviewing current authorized personnel positions, their allocations to various programs, and their respective funding sources. In late January, the Personnel Services Budget Job Allocation worksheets, listing all current authorized personnel positions, are distributed to the various departments for their review, budgetary changes in personnel allocations, and staffing needs. Once this information is returned to the Finance Division in late February, staff prepares all departmental Personnel Services Budgets. Concurrently, the general City overhead cost information is also compared. In mid-March, the budget packets, including the budget worksheets and the parameters for the development of the budget, are distributed to all departments. During April, all departments return their budget requests to the Finance Division. In early May, the City Manager and key budgetary personnel

meet with respective departments during the management departmental budget sessions to review operating budget requests for possible adjustment. Budgetary adjustments are incorporated into the preliminary budget. In June, the City Manager presents the budget to the City Council for their review. The City Council adopts the budget for the upcoming fiscal year by resolution, usually during the second City Council meeting in June.

During the fiscal year, the City Manager is authorized to approve intradepartmental budget changes. Supplemental appropriations, if requested, must be approved by the City Council. However, the City Council has the power to amend the budget at any time during the fiscal year. Each February, a mid-year budget review is conducted and budget adjustments are submitted to the City Council for review and approval. New programs and new appropriations are not usually considered as part of the mid-year budget review. At the end of the fiscal year, all operating budget appropriations lapse. Budgets for governmental funds are adopted on a basis consistent with generally accepted accounting principles (GAAP).

City Budgets for Fiscal Years 2019-20 through 2021-22

The following shows, with respect to the City's General Fund resources and charges from: (i) the fiscal year 2019-20 budget, as adopted on June 17, 2019, (ii) actual fiscal year 2019-20 results, (iii) the fiscal year 2020-21 budget, as adopted on June 29, 2020, (iv) actual fiscal year 2020-21 results, and (v) the fiscal year 2021-22 budget, as adopted on June 30, 2021.

Table 10
CITY OF MONTCLAIR
General Fund Resources and Charges
Fiscal Years 2019-20 and 2020-21 Adopted Budgets and Actual and Fiscal Year 2021-22 Budget

	FY 2019-20 Budget - Adopted in June 2019	FY 2019-20 Actual	FY 2020-21 Budget - Adopted in June 2020	FY 2020-21 (unaudited)	FY 2021-22 Budget - Adopted in June 2021
Budgetary beginning fund balance	\$14,402,275	\$14,402,275	\$13,495,754	\$13,495,754	\$12,803,753
Resources (inflow)					
Taxes	\$24,455,000	\$26,324,290	\$21,353,906	\$26,217,017	\$29,794,216
Licenses and permits	628,536	480,046	514,325	510,291	409,325
Intergovernmental	153,200	219,115	549,155	200,897	186,600
Charges for services	4,001,000	4,146,350	3,793,800	3,313,898	3,715,000
Use of money and property	317,000	626,164	274,364	343,859	343,859
Fines and forfeitures	570,400	306,953	470,400	309,882	290,400
Miscellaneous	296,410	301,152	767,060	113,834	607,210
Transfer in	100,000	151,494	1,282,134	(25,547)	100,000
<i>Available (beginning balance + total resources)</i>	\$44,923,821	\$46,957,839	\$42,500,898	\$44,479,885	\$48,249,763
Charges to appropriation (outflow)					
General government	\$ 9,761,329	\$10,508,305	\$12,020,758	\$12,999,527	\$13,187,745
Public safety	15,900,805	15,887,677	12,670,336	11,709,783	13,567,375
Community development	2,186,986	1,955,208	1,836,195	1,649,478	2,228,511
Public works	2,937,536	2,898,883	2,203,491	2,252,834	3,080,611
Capital outlay	34,200	415,820	34,500	34,748	99,350
Transfer out		2,715,035		43,384	858,661
<i>Total charges to appropriations</i>	\$30,820,856	\$34,380,928	\$28,765,280	\$28,689,754	\$33,022,253
Budgetary ending fund balance	\$14,102,965	\$12,576,911	\$13,735,618	\$15,790,131	\$15,227,510

Source: City of Montclair Finance Division.

General Fund Reserves

Within the General Fund, the City has set aside special purpose reserves for identified purposes, in addition to maintaining a general unassigned reserve. This serves to accumulate funding for identified potential liabilities and long-term programs and projects, and thereby minimizes the direct impact on the annual General Fund budget when expenditures are required.

The following table shows, for the various General Fund special purpose reserves: (i) the balances as of June 30, 2021, and (ii) the projected balances as of June 30, 2022 per the adopted 2020-21 budget:

Table 11
CITY OF MONTCLAIR
General Fund Special Purpose Reserves
Estimated as of End of FY 2020-21 and Projected for End of FY 2021-22

Special Purpose Reserve Description	Estimated Unaudited Balance at June 30, 2021	Projected Balance for June 30, 2022
Equipment Replacement	\$1,362,066	\$1,315,000
Self-insurance retention	850,000	850,000
Technology enhancement	286,251	286,251
CalPERS and employee post benefits	2,500,000	2,500,000
Retiree medical liability	560,000	560,000
Unanticipated personal adjustment	700,000	700,000
Building maintenance	600,000	600,000
POB/UAL Amortization ⁽¹⁾	0	558,661
Contingency	125,283	125,283
Total:	\$6,983,600	\$7,495,286

(1) Establishment of POB/UAL Amortization Reserve authorized by City Council as part of the fiscal year 2021-22 budget. See discussion under “Anticipated Savings from Issuance of Bonds; POB/UAL Amortization Reserve.”

Source: City of Montclair Finance Division.

As of June 30, 2021, in addition to the special purpose reserve amounts indicated above, the City also had \$5.8 million in unassigned General Fund reserve. As part of the adopted fiscal year 2021-22 budget, the City estimated that the General Fund unassigned reserve will be \$8 million by the end of fiscal year 2021-22.

The City Council may make adjustments to the City’s practices with respect to General Fund reserves, and may also direct the re-allocation of moneys within these reserves, as it deems necessary or appropriate, at any time. Currently, the City Council has set the following goals for the General Fund unassigned reserve: (i) at least \$6 million and (ii) maintenance at or greater than 25 percent of the annual budget for the operating fund portion of the General Fund. The projected \$8 million General Fund unassigned reserve for the end of fiscal year 2021-22 is equal to approximately 24.95 percent of the total General Fund operating budget for that year.

Investment Policies and Portfolio

Investment of cash in the City’s General Fund is subject to the restrictions set forth in the California Government Code Section 53600 *et seq.* The City has adopted an investment policy (the “City Investment Policy”) that is consistent with State law. Pursuant to the City Investment Policy, the City Treasurer submits a report of investments to the City Council each month.

The City Investment Policy set forth the following strategy. At least 15 percent of the City portfolio shall be invested in investments that mature within one year. At least 50 percent shall be in investments that mature in no longer than three years. The balance shall be investments that mature no longer than five years. Permitted investments include the Local Agency Investment Fund (“LAIF”) (created pursuant to California Government Code Section 16429.1 *et seq.* and administered by the State Treasurer’s office), certificates of deposit issued by banks and savings and loans in amounts which are fully insured by the Federal Deposit Insurance Corporation, and other investment permitted under California Government Code Section 53601; provided, that no moneys may be invested in reverse repurchase agreements, and no securities may be purchased on the margin. Furthermore, pursuant to State law, no moneys may be invested in inverse floaters, range notes or interest-only strips that are derived from a pool of mortgages.

As of June 30, 2021, the City had the following investment and original maturities. Of the total amount invested as shown below, approximately [36.4] percent represent General Fund moneys.

Table 12
CITY OF MONTCLAIR
Investment Portfolio
as of June 30, 2021

<u>Investment Type</u>	<u>6 months or less</u>	<u>Total⁽¹⁾</u>
California LAIF	\$30,798,324	\$30,798,324
First American Government Obligations Fund	2,000,000	2,000,000
Total ⁽¹⁾ :	\$32,798,324	\$32,798,324

(1) Sum may not equal total due to rounding.

Source: City of Montclair Treasurer’s Report for Month Ended June 30, 2021.

City Risk Management

The City is a member of the California Insurance Pool Authority (“CIPA”), a joint powers authority formed under the laws of the State. CIPA, a consortium of 13 cities in southern California, was established to pool resources, share risks, purchase excess insurance and to share costs for professional risk management and claims administration. Member cities make payments to CIPA based on underwriting estimates. Additional coverage for general liability claims is maintained through CIPA from a commercial insurer for claims in excess of per claim and annual aggregate amounts

The City is self-insured for workers’ compensation claims up to \$500,000 per occurrence. Statutory limits are provided by Safety National above the City and CIPA’s combined limit of \$2,000,000.

The City's liability program is self-insured up to \$500,000 per occurrence. CIPA provides \$2,500,000 per occurrence in limits above the City's self-insured retention. Excess limits above \$3,000,000 per occurrence are group purchased by CIPA with limits of \$40,000,000 per member aggregate. Excess carriers include Safety National (\$5,000,000 x \$3,000,000); Allied World Assurance Co. (\$5,000,000 x \$8,000,000); Hallmark Specialty (\$5,000,000 x \$13,000,000); Allied World (\$5,000,000 x \$18,000,000); Gemini (\$5,000,000 x \$23,000,000); Allied World National Assurance (\$10,000,000 x \$28,000,000); Arch (\$5,000,000 x \$35,000,000).

From time to time, the City has been named as a defendant in litigations or become recipient of claims, generally of the nature common to other similar jurisdictions. With respect to the pending lawsuits and claims, the City management believes that, to the extent there will be any unfavorable outcome and a portion of the payment is not covered by insurance, such payment will not materially affect the City's financial position.

As a matter of the City's accounting practice, costs relating to the litigation of claims are charged to expenditures as incurred, and claims liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Thus, the estimates are based on certain assumptions and assessment of probable outcome. The following table shows estimated claims liabilities at the end of each of fiscal year shown, based on available information and assumptions that the City believes is reasonable.

Table 13
CITY OF MONTCLAIR
Estimated Claims Liability
as of June 30, 2021

Estimated liability at June 30, 2018	\$2,675,157
Claims	22,135
Claims payments	(647,586)
Estimated liability at June 30, 2019	\$2049,706
Claims	223,156
Claims payments	(362,404)
Estimated liability at June 30, 2020	\$1,910,458
Claims	126,683
Claims payments	(25,196)
Estimated liability at June 30, 2021	\$2,011,945

CITY PENSION AND OPEB PLANS

Pension Plans

General Information Regarding CalPERS Plans

All qualified permanent and probationary City employees are eligible to participate in the Public Agency Cost Sharing Multiple-Employer Plan administered by CalPERS. CalPERS is an agent multiple employer public employee retirement system and issues its own comprehensive annual financial report. CalPERS acts as a common investment and administrative agent for participating public entities within the State. A menu of benefit provisions as well as other requirements of the CalPERS program are established by the Public Employees' Retirement Law set forth in the California Government Code (commencing with Section 20000) (the "Retirement Law"). The City selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance (or other local methods). Contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

Governor Jerry Brown signed the California Public Employees' Pension Reform Act of 2013 ("PEPRA") into law on September 12, 2012. For non-safety CalPERS participants hired after January 1, 2013 (the "Implementation Date"), PEPRA changes the normal retirement age by increasing the eligibility for the 2 percent age factor from age 55 to 62 and also increases the eligibility requirement for the maximum age factor of 2.5 percent to age 67. PEPRA also implements certain other changes to CalPERS including the following: (a) all new participants enrolled in CalPERS after the Implementation Date are required to contribute at least 50 percent of the total annual normal cost of their pension benefit each year as determined by an actuary, (b) CalPERS is required to determine the final compensation amount for employees based upon the highest annual compensation earnable averaged over a consecutive 36-month period as the basis for calculating retirement benefits for new participants enrolled after the Implementation Date, and (c) "pensionable compensation" is capped for new participants enrolled after the Implementation Date at 100 percent of the federal Social Security contribution and benefit base for members participating in Social Security or 120 percent for CalPERS members not participating in social security.

The Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and be effective on the July 1 following notice of a change in the rate. Funding contributions for the City's Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the fiscal year, with an additional amount

to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

CalPERS Risk Pools

The Retirement Law allows the CalPERS Board to create risk pools which combine the assets and liabilities of the pension plans of participating public agencies. It is contemplated that such risk sharing pools would help reduce large fluctuations in an individual public agency's retirement contribution rate caused by unexpected demographic events. CalPERS created the first risk pool in 2003. Due to changes made in 2014, CalPERS currently administers two risk pools, one for all miscellaneous groups and one for all safety groups. Participation in either the miscellaneous or safety risk pool is mandatory for public agencies with fewer than 100 active members. Once a plan is in a risk pool, it may not leave and become a stand-alone plan, even if it grows to have more than 100 active members. Pooling does not affect a public agency's ability to contract for additional benefits or reclassify employees.

All of the City's pension plans (the "Plans") – three for miscellaneous employees, three for police safety employees and three for fire safety employees – participate in the applicable CalPERS risk pool.

The tables below show the total and net pension liability, expenses and certain other information of the CalPERS miscellaneous and safety risk pools, based on accounting reports published by CalPERS. The information can be obtained from the "Forms & Publications" page on CalPERS' website: <https://www.calpers.ca.gov/page/forms-publications>. The reference to the webpage and website, and the two tables below are included for informational purposes only. None of the content of the website is any way incorporated into this Official Statement. The City also makes no representation regarding the accuracy of the information contained therein and in the two tables below.

Table 14
CALPERS MISCELLANEOUS RISK POOL
PENSION AMOUNTS AND EXPENSES
At June 30 of 2018, 2019 and 2020

	<u>At 6/30/2018</u>	<u>At 6/30/2019</u>	<u>At 6/30/2020</u>
Total pension liability	\$16,891,153,209	\$17,984,188,264	\$18,920,437,526
Plan fiduciary net position	13,122,440,092	13,979,687,268	14,702,361,183
<i>Net pension liability</i>	\$3,768,713,117	\$4,004,500,996	\$4,218,076,343
 <u>Deferred Outflows of Resources</u>			
Changes of Assumptions	\$429,644,509	\$190,953,116	\$0
Diff between expected & actual experience	144,598,868	278,129,471	217,370,008
Net diff between projected & actual investment earnings on pension plan investments	18,631,550	0	125,304,636
<i>Total deferred outflows of resources excluding employer specific amounts⁽¹⁾</i>	\$592,874,927	\$469,082,587	\$342,674,644
 <u>Deferred Inflows of Resources</u>			
Changes of Assumptions	(\$105,297,568)	(\$67,691,294)	(\$30,085,020)
Diff between expected & actual experience	(49,206,108)	(21,549,404)	0
Net diff between projected & actual investment earnings on pension plan investments	0	(70,011,075)	0
<i>Total deferred inflows of resources excluding employer specific amount⁽¹⁾</i>	\$(154,503,676)	(\$159,251,773)	(\$30,085,020)
 Plan pension expense	 \$584,881,668	 \$943,590,814	 \$867,712,876

(1) No adjustments have been made for employer specific amounts such as changes in proportion, differences between employer contributions and proportionate share of contributions, and contributions to the Plan subsequent to the measurement date as defined in paragraphs 54, 55, and 57 of GASB 68. Appropriate treatment of such amounts is the responsibility of the employer.

Source: CalPERS GASB 68 Accounting Reports Prepared for Miscellaneous Risk Pool, a Cost-Sharing Multiple-Employer Defined Benefit Pension Plan, for Measurement Dates as of June 30, 2018, June 30, 2019 and June 30, 2020.

Table 15
CALPERS SAFETY RISK POOL
PENSION AMOUNTS AND EXPENSES
At June 30 of 2018, 2019 and 2020

	<u>At 6/30/2018</u>	<u>At 6/30/2019</u>	<u>At 6/30/2020</u>
Total pension liability	\$22,053,702,155	\$23,442,265,225	\$24,782,493,361
Plan fiduciary net position	16,186,149,467	17,199,726,799	18,120,140,152
<i>Net pension liability</i>	\$5,867,552,688	\$6,242,538,426	\$6,662,353,209
 <u>Deferred Outflows of Resources</u>			
Changes of Assumptions	\$575,709,251	\$255,870,778	\$0
Diff between expected & actual experience	126,073,916	407,581,459	516,631,699
Net diff between projected & actual investment earnings on pension plan investments	39,726,080	0	144,800,981
<i>Total deferred outflows of resources excluding employer specific amounts⁽¹⁾</i>	\$741,509,247	\$663,452,237	\$661,432,680
 <u>Deferred Inflows of Resources</u>			
Changes of Assumptions	(\$77,673,473)	(\$49,932,947)	(\$22,192,421)
Diff between expected & actual experience	(478,255)	0	0
Net diff between projected & actual investment earnings on pension plan investments	0	(85,876,728)	0
<i>Total deferred inflows of resources excluding employer specific amount⁽¹⁾</i>	(\$78,151,728)	(\$135,809,675)	(\$22,192,421)
 Plan pension expense	 \$979,582,204	 \$1,264,997,744	 \$1,246,131,760

(1) No adjustments have been made for employer specific amounts such as changes in proportion, differences between employer contributions and proportionate share of contributions, and contributions to the Plan subsequent to the measurement date as defined in paragraphs 54, 55, and 57 of GASB 68. Appropriate treatment of such amounts is the responsibility of the employer.

Source: CalPERS GASB 68 Accounting Reports Prepared for Safety Risk Pool, a Cost-Sharing Multiple-Employer Defined Benefit Pension Plan, for Measurement Dates as of June 30, 2018, June 30, 2019 and June 30, 2020.

Plans Offered by City

The provisions and benefits in effect at June 30, 2021 for the City's pension plans are summarized below.

Miscellaneous

	Tier 1	Tier 2	PEPRA
Hire Date	Before 6/21/2010	On or after 6/21/2010	1/1/2013 and after
Benefit formula	3.0% @ 60	2.0% @ 60	2.7% @ 57
Benefit vesting schedule	5 years of service	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50	50	50
Monthly benefits, as a % of eligible compensation	Depends on years of service	Depends on years of service	Depends on years of service
Required employee contribution rate	8.00%	7.00%	6.25%
Required employer contribution rate	See Table 17 for required employer contributions		

Safety-Police

	Tier 1	Tier 2	PEPRA
Hire Date	Before 6/27/2005	On or after 6/27/2010	1/1/2013 and after
Benefit formula	3.0% @ 50	3.0% @ 55	2.7% @ 57
Benefit vesting schedule	5 years of service	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50	50	50
Monthly benefits, as a % of eligible compensation	Depends on years of service	Depends on years of service	Depends on years of service
Required employee contribution rate	9.00%	9.00%	11.50%
Required employer contribution rate	See Table 17 for required employer contributions		

Safety-Fire

	<u>Tier 1</u>	<u>Tier 2</u>	<u>PEPRA</u>
Hire Date	Before 6/27/2005	On or after 6/27/2010	1/1/2013 and after
Benefit formula	3.0% @ 50	3.0% @ 55	2.7% @ 57
Benefit vesting schedule	5 years of service	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50	50	50
Monthly benefits, as a % of eligible compensation	Depends on years of service	Depends on years of service	Depends on years of service
Required employee contribution rate	9.00%	9.00%	12.25%
Required employer contribution rate	See Table 17 for required employer contributions		

See information set forth in Note 7 of the City’s audited financial statements shown in “APPENDIX B – CITY OF MONTCLAIR FINANCIAL AUDIT REPORT FOR YEAR ENDED JUNE 30, 2020” for details regarding the City’s pension liabilities, pension expenses and related deferred outflows and inflows as reported in the financial statements, and additional information regarding actuarial assumptions.

City Plans Funding Status and History, Required Contributions

Around July of each year, CalPERS provides the City reports (each, a “CalPERS Report”) of the actuarial valuation (as of June 30 of the calendar year preceding the year of the CalPERS Report) for each of the City’s Plans. *The following information is based on information available from CalPERS and the CalPERS Reports. The City has not independently verified the information provided by CalPERS and expresses no opinion regarding the accuracy of such information. CalPERS’ actuarial assessments are based on various assumptions (including demographic assumptions and economic assumptions) made by CalPERS, its actuaries, accountants and other consultants. One or more assumptions may not materialize or be changed in the future. The City expresses no opinion regarding the quality of such assumptions and cannot provide any guarantee as to the eventual results.*

Actuarial valuations used in the July 2021 CalPERS Reports were based on assumptions regarding future plan experience including investment return and payroll growth, eligibility for the types of benefits provided, and longevity among retirees. The CalPERS Board adopts these assumptions after considering the advice of CalPERS actuarial and investment teams and other professionals. Each actuarial valuation reflected all prior differences between actual and assumed experience and adjusts the contribution rates as needed. This valuation is based on an investment return assumption of 7.0 percent, which was adopted by the CalPERS Board in December 2016. Other assumptions used in July 2021 CalPERS Report are those recommended in the CalPERS Experience Study and Review of Actuarial Assumptions report from December 2017. On July 12, 2021,

CalPERS announced the discount rate, or assumed rate of return, will drop to 6.8%, from its current level of 7%, due to a double digit (approximately 21.3%) net return on investments for the 12-month period that ended June 30, 2021. Under the Funding Risk Mitigation Policy approved by the CalPERS Board of Administration in 2015, the double-digit return will trigger a reduction in the discount rate used to calculate employer and Public Employees' Pension Reform Act (PEPRA) member contributions. To the extent actual investment returns differ from the assumed rate of return, the actual contribution requirements for fiscal year 2023-24 will differ from the projected contributions shown on Table 17 below.

The CalPERS Board adopted a new amortization policy effective with this 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 as a level dollar amount. In addition, the new policy does not utilize a 5-year ramp-up and ramp-down on unfunded accrued liability ("UAL") bases attributable to assumption and method changes and non-investment gains/losses. The new policy also does not utilize a 5-year ramp-down on investment gains/losses. These changes will apply only to new UAL bases established on or after June 30, 2019.

For inactive employers the new amortization policy imposes a maximum amortization period of 15 years for all UAL effective June 30, 2018. The plan actuary has the ability to shorten the amortization period on any valuation date based on the life expectancy of plan members and projected cash flow needs to the plan. The impact of this has been reflected in the current valuation results.

The July 2021 CalPERS Reports show the following funding history for the City's Plans (without accounting for prepayments or benefit changes made during any fiscal year):

Table 16
CITY OF MONTCLAIR
Pension Plans Funding History⁽¹⁾
As of June 30, 2018, 2019 and 2020 Valuation Dates

Valuation Date/Plan	Accrued Liability	Share of Misc or Safety Pool's Market Value of Assets	Plan's Share of Misc or Safety Pool's Unfunded Liability	Funded Ratio	Annual Covered Payroll
6/30/2018					
Miscellaneous - 1st Tier Plan	\$89,497,412	\$59,362,697	\$30,134,715	66.3%	\$4,003,921
Miscellaneous - 2nd Tier Plan	951,734	691,671	260,063	72.7	912,614
Miscellaneous - PEPRAs Plan	605,282	458,449	146,833	75.7	1,365,704
Safety - Police - 1st Tier Plan	71,217,297	48,518,143	22,699,154	68.1	1,610,271
Safety - Police - 2nd Tier Plan	2,667,540	2,231,722	435,818	83.7	430,202
Safety - Police - PEPRAs Plan	914,351	824,606	89,745	90.2	1,332,644
Safety - Fire - 1st Tier Plan	55,621,185	35,699,490	19,921,695	64.2	695,172
Safety - Fire - 2nd Tier Plan	2,667,540	2,231,722	435,818	83.7	430,202
Safety - Fire - PEPRAs Plan	238,647	221,020	17,627	92.6	416,531
Total \$/Average %:	\$224,380,988	\$150,239,520	\$74,141,468	67.0%	\$11,197,261
6/30/2019					
Miscellaneous - 1st Tier Plan	\$92,374,617	\$61,034,079	\$31,340,538	66.1%	\$3,718,051
Miscellaneous - 2nd Tier Plan	1,197,914	916,869	281,045	76.5	968,621
Miscellaneous - PEPRAs Plan	918,277	750,793	167,484	81.8	1,642,333
Safety - Police - 1st Tier Plan	72,733,009	49,134,687	23,598,322	67.6	1,697,431
Safety - Police - 2nd Tier Plan	3,042,186	2,549,943	492,243	83.8	455,153
Safety - Police - PEPRAs Plan	1,218,199	1,080,199	138,000	88.7	1,292,099
Safety - Fire - 1st Tier Plan	55,823,578	35,244,155	20,579,423	63.1	715,537
Safety - Fire - 2nd Tier Plan	3,042,186	2,549,943	492,243	83.8	455,153
Safety - Fire - PEPRAs Plan	393,939	360,073	33,866	91.4	574,438
Total \$/Average %:	\$230,743,905	\$153,620,741	\$77,123,164	66.6%	\$11,518,816
6/30/2020					
Miscellaneous - 1st Tier Plan	\$94,472,185	\$61,189,320	\$33,282,865	64.8%	\$3,172,588
Miscellaneous - 2nd Tier Plan	1,485,132	1,162,141	322,991	78.3	794,681
Miscellaneous - PEPRAs Plan	1,279,090	1,069,242	209,848	83.6	2,223,043
Safety - Police - 1st Tier Plan	74,235,936	49,115,815	25,120,121	66.2	1,620,820
Safety - Police - 2nd Tier Plan	5,871,010	4,634,454	1,236,556	78.9	498,221
Safety - Police - PEPRAs Plan	1,676,423	1,475,257	201,166	88.0	1,551,663
Safety - Fire - 1st Tier Plan	55,610,134	33,991,562	21,618,572	61.1	755,007
Safety - Fire - 2nd Tier Plan	3,459,731	2,869,518	590,213	82.9	472,343
Safety - Fire - PEPRAs Plan	568,941	513,766	55,175	90.3	543,106
Total \$/Average %:	\$238,658,582	\$156,021,075	\$82,637,507	77.1%	\$11,631,472

(1) Does not account for prepayments or benefit changes made during any fiscal year.

Source: CalPERS Annual Valuation Reports for the respective City of Montclair pension plans, as of June 30 of 2018, 2019, and 2020 dated July 2019, 2020, and 2021 respectively.

The table below show the historic required City contributions for Fiscal Years 2019-20 through 2022-23 and the projected City contributions for fiscal year 2023-24, as reported in the CalPERS Reports. ***The projected contributions do not take into account the refunding by the Bonds.*** Contributions to fund the pension plan are comprised of two components: (1) Normal Cost, expressed as a percentage of total active payroll with employer and employee contributions payable as part of the regular payroll reporting process; and (2) Amortization of the UAL, expressed as a dollar amount. In the CalPERS reports, “Normal Cost” is defined as the annual cost of service accrual for the upcoming fiscal year for active employees and is intended to be viewed as the long-term contribution rate. The projections are based on various assumptions. Not all assumptions will be realized in any given year. According to the July 2021 CalPERS Reports, the investment earnings at CalPERS have averaged 5.5 percent over the 20 years ending June 30, 2020, yet individual fiscal year returns have ranged from -23.6 percent to +20.7 percent. CalPERS reviews its actuarial assumptions by conducting in-depth experience studies every four years, with the most recent experience study completed in 2017. CalPERS actuarial assumptions are subject to periodic review and revisions. Actual contributions will be subject to such revisions.

Table 17
CITY OF MONTCLAIR
CalPERS Plans Employer Contributions
Required Contributions for Fiscal Years 2019-20 through 2022-23
& Projected Contributions for Fiscal Year 2023-24
(Before Refunding by the Bonds)

	Required Contributions				Projected Contributions⁽¹⁾
	2019-20	2020-21	2021-22⁽²⁾	2022-23⁽²⁾	2023-24⁽²⁾
<i>Miscellaneous - 1st Tier Plan</i>					
Normal Cost %	10.917%	12.660%	13.16%	13.86%	14.6%
UAL Payment	\$1,958,250	\$2,044,019	\$2,207,462	\$2,405,733	\$2,578,000
<i>Miscellaneous - 2nd Tier Plan</i>					
Normal Cost %	10.917%	11.164%	10.54%	10.06%	9.6%
UAL Payment	\$16,553	\$17,666	\$19,675	\$22,436	\$25,000
<i>Miscellaneous - PEPRA Plan</i>					
Normal Cost %	10.917%	10.878%	9.95%	9.04%	8.3%
UAL Payment	\$9,215	\$10,142	\$11,716	\$14,024	\$16,000
<i>Safety - Police - 1st Tier Plan</i>					
Normal Cost %	21.927%	23.674%	23.71%	23.75%	23.8%
UAL Payment	\$1,484,257	\$1,663,342	\$1,911,292	\$2,145,196	\$2,293,000
<i>Safety - Police - 2nd Tier Plan</i>					
Normal Cost %	20.073%	21.746%	21.79%	21.84%	21.8%
UAL Payment	\$43,118	\$57,440	\$76,385	\$94,542	\$105,000
<i>Safety - Police - PEPRA Plan</i>					
Normal Cost %	13.034%	13.044%	13.13%	12.78%	12.8%
UAL Payment	\$5,121	\$7,872	\$11,495	\$12,853	\$16,000
<i>Safety - Fire - 1st Tier Plan</i>					
Normal Cost %	23.654%	25.540%	25.59%	25.64%	25.6%
UAL Payment	\$1,334,938	\$1,481,915	\$1,683,692	\$1,870,306	\$1,989,000
<i>Safety - Fire - 2nd Tier Plan</i>					
Normal Cost %	21.748%	23.558%	23.62%	23.68%	23.7%
UAL Payment	\$20,007	\$26,450	\$35,141	\$44,147	\$50,000
<i>Safety - Fire - PEPRA Plan</i>					
Normal Cost %	13.786%	13.884%	13.98%	13.66%	13.7%
UAL Payment	\$786	\$1,496	\$2,557	\$3,378	\$4,500

(1) Assumes 7.00 percent return, but see discussion above regarding certain assumptions used by CalPERS.

(2) Does not take into account refunding of unfunded liability by the Bonds.

Source: CalPERS Annual Valuation Reports for the respective City of Montclair pension plans, as of June 30 of 2017, 2018, 2019, 2020, and 2021

The July 2021 CalPERS Reports reflected statutory changes, regulatory changes and CalPERS Board actions through January 2021. Any subsequent changes or actions, were not reflected.

Information regarding PERS' administration of the plans, actuarial methods assumptions and asset valuation can be obtained from PERS at Lincoln Plaza North, 400 Q Street Sacramento, California 95811 or (888) 225-7377. The comprehensive annual financial reports of PERS are available on PERS' website at www.calpers.ca.gov. The website reference is for informational purposes only. None of the content of the website is any way incorporated into this Official Statement. The City makes no representation concerning, and does not take any responsibility for, the accuracy or timeliness of information posted on such website or the continued maintenance of such website.

POB/UAL Amortization Reserve

See discussion under "CITY FINANCIAL INFORMATION – Anticipated Savings from Issuance of Bonds; POB/UAL Amortization Reserve" regarding the City's establishment of the POB/UAL Amortization Reserve.

Other Post-Employment Benefits

In addition to the benefits under the respective pension plans, the City provides post-employment benefits ("OPEB") to all eligible miscellaneous and public safety employees through a defined OPEB plan (the "OPEB Plan"). It is a single-employer defined benefit OPEB plan administered by the City. The benefit terms are defined in the agreements or memoranda of understanding between the City and each employee bargaining unit and may be amended by City Council. Currently, substantially all of the City's employees may become eligible for those benefits if the employee retires after 25 years of continuous service to the City under a normal service retirement.

The City is currently funding the OPEB liability on a pay-as-you-go basis. The contribution requirements of OPEB Plan members and the City are established and may be amended by the City Council, and/or the employee bargaining unit. At this time, plan members are not required to make any contributions.

The City's total OPEB liability was measured as of June 30, 2019 and was most recently determined by an actuarial valuation dated June 30, 2018 (the "2018 Actuarial Valuation"). As of the 2018 Actuarial Valuation, a total of 234 persons (consisting of 77 retirees and their spouse, and 157 active employees) were covered by the OPEB Plan. The table below shows the one-year change in total OPEB liability and percentage covered-employee payroll for each of fiscal years shown, measured based on the 2018 Actuarial Valuation.

Table 18
CITY OF MONTCLAIR
Changes in OPEB Liability and Related Ratios
Fiscal Years 2018-19, 2019-20, 2020-21 and [2021-22]

	FY 2018-19	FY 2019-20	FY 2020-21 ⁽¹⁾
Total OPEB liability			
Service cost	\$279,017	\$269,472	\$301,328
Interest on total OPEB liability	423,080	449,101	428,974
Changes in assumptions	(363,175)	463,716	1,730,819
Benefit payments, including refunds of employee contributions	(531,634)	(553,563)	(571,193)
Net change in total OPEB liability	\$(192,712)	\$628,726	\$1,889,928
Total OPEB liability at beginning of fiscal year	\$11,804,670 ⁽²⁾	\$11,611,958 ⁽³⁾	\$12,240,684 ⁽⁴⁾
Total OPEB liability at end of fiscal year	\$11,611,958⁽³⁾	\$12,240,684⁽⁴⁾	\$14,130,612
Covered - employee payroll	\$11,361,672	\$12,201,903	\$11,953,134
Total OPEB liability as percentage of covered employee payroll	102.20%	100.32%	118.21%

(1) Unaudited, estimated.

(2) July 1, 2017 measurement date.

(3) June 30, 2018 measurement date.

(4) June 30, 2019 measurement date.

Source: City of Montclair Financial audit report for fiscal year ended June 30, 2020 – Note 8 and required supplemental information section.

See Note 8 of the City’s audited financial statements shown in “APPENDIX B – CITY OF MONTCLAIR FINANCIAL AUDIT REPORT FOR YEAR ENDED JUNE 30, 2020” regarding assumptions used in the actuarial valuation to determine the City’s OPEB liability, certain testing of the sensitivity of the assumptions and other details about the City’s OPEB obligations.

BONDOWNERS’ RISKS

Investment in the Bonds involves elements of risk. The following section describes certain specific risk factors affecting the payment and security of the Bonds. The following discussion of risks is not meant to be an exhaustive list of the risks associated with the purchase of the Bonds and the order of discussion of such risks does not necessarily reflect the relative importance of the various risks. Potential investors are advised to consider the following factors along with all other information in this Official Statement in evaluating the Bonds. There can be no assurance that other risk factors not discussed under this section will not become material in the future.

No Pledge of Any Form of Taxation; Payment From City General Fund

The Bonds will not constitute an obligation of the City for which the City will be obligated to levy or pledge any form of taxation or for which the City has or will be levied or pledged any form of taxation. The City will covenant to, in each fiscal year, include in its budget a provision to provide funds in an amount sufficient to pay the principal, premium, if any, and interest on the Bonds coming due in such Fiscal Year, to the extent that such amounts exceed the amount of available funds then on deposit in the Revenue Fund, and will make annual appropriations for all such amounts.

The Trust Agreement will provide that the obligations of the City under the Bonds, including the obligation to make all payments of principal, premium, if any, and interest when due, will be absolute and unconditional, without any right of set-off or counter-claim. Nonetheless, a variety of national, state or regional factors, which are beyond the control of the City could reduce the City's General Fund revenues or increase the City's General Fund expenditures. The City is permitted to enter into other obligations which constitute additional charges against its revenues without the consent of Holders of the Bonds. If the amounts which the City is obligated to pay in a fiscal year exceed the City's revenues for such year, the City may choose to make some payments rather than making other payments, based on the perceived needs of the City. The same result could occur if, because of California Constitutional limits on expenditures, the City is not permitted to appropriate and spend all of its available revenues or is required to expend available revenues to preserve the public health, safety and welfare. See "STATE CONSTITUTION LIMITATIONS ON CITY REVENUES AND APPROPRIATIONS." Upon issuance of the Series Bonds, Bond Counsel will render its opinion (substantially in the form set forth in Appendix D) to the effect that, subject to the limitations and qualifications described therein, the Trust Agreement will constitute a valid and binding obligation of the City. See additional discussion under "– Limitations on Remedies and Bankruptcy."

Effects from COVID-19 Pandemic

As mentioned under "INTRODUCTION – COVID-19 Pandemic," the COVID-19 pandemic has had a deep effect around the globe. The first cases of COVID-19 in California were confirmed in the end of January 2020. On March 11, 2020, the World Health Organization declared the COVID-19 outbreak to be a pandemic. In the State (including in the City and County), other parts of the United States and many nations, protective measures (including mandatory and voluntary closing or partial closing of non-essential businesses and public venues, and imposition of social distancing measures, limitation of social gatherings of certain sizes) have been imposed. There have been major disruptions in the economy, at the local level as well as globally.

As discussed under "CITY FINANCIAL INFORMATION – COVID-19 Disruption; Proactive Measures," the City expects to be allocated approximately \$9.5 million from ARPA (American Rescue Plan Act of 2021), albeit the use of such moneys will be subject to restrictions set forth in ARPA. In addition, at the direction of City Council, the City has taken various measures during fiscal year 2020-21 and continues to do so, to address the negative impact to the City's General Fund finances. At the end of fiscal year 2020-21, the City had in its General Fund approximately \$5.8 million in unassigned reserves and a total of approximately \$6.9 million in various special purpose reserves. Per the adopted fiscal year 2021-22 budget, the City contemplates achieving approximately \$8 million in unassigned reserves and a total of \$7.5 million in various special purpose reserves in the General Fund at the end of fiscal year 2021-22, if the budget expectations are met.

Throughout 2020, multiple groups in different countries aimed to develop effective vaccines for COVID-19. Between December 2020 and the date of this Official Statement, the United States Food and Drug Administration (FDA) approved the emergency use of several different COVID-19 vaccines, and as of August 23, 2021, the FDA gave full approval to the vaccine known as the Pfizer-BioNTech COVID-19 vaccine, now marketed as Comirnaty for the prevention of COVID-19 disease in individuals 16 years of age and older. The vaccine also continues to be available under emergency use authorization, including for individuals 12 through 15 years of age and for the administration of a third dose in certain immunocompromised individuals. Other governments have also approved the

use of vaccines within their territories. Vaccine administration has begun in many places, including the State. While, in the United States, the overall new COVID-19 infection rate are lower compared to the peak in December 2020 and January 2021, the trends vary in different countries. Vaccine supplies, vaccination rates, and new COVID-19 variants are among the numerous factors in the continuing reach of the disease in different locations. It is unknown how long the pandemic will continue to affect the global economy and individual's daily lives.

The pandemic has changed behaviors for many – from working from home, social distancing in public spaces, to people's comfort level to participate in activities involving gatherings. Even as the economy re-opens, it is unknown if there will be lingering effects from this experience and what they will be.

Natural Calamities and Other Disasters; Climate Change

From time to time, the City is subject to natural calamities or other disasters that may adversely affect economic activity in the City and City finances. In addition, many scientists have predicted that on-going global climate change will bring about more severe extreme weather events, such as heat waves and prolonged drought periods.

The City, like most communities in California, is in an area of unpredictable seismic activity, and therefore, is subject to potentially destructive earthquakes. Within the past 150 years, San Bernardino County has been an area of high seismic activity. Four major active or potentially active earthquake fault zones are found within the general City area: (1) the San Andreas Fault system (active) is oriented in a northwest-southeast direction and passes along the base of the San Bernardino Mountains and through the Cajon Pass; (2) the Cucamonga Fault (potentially active) passes north of the basin in an east-west direction at the foot of the San Gabriel Mountains; (3) the Chino Fault (potentially active) is oriented in a northwest-southeast direction and lies at the eastern base of the Chino Hills; and (4) the San Jacinto Fault (active) runs parallel to the San Andreas Fault, to the south and slightly west of the San Andreas Fault. There are also a number of smaller faults in the area.

According to the United States Federal Emergency Management Agency's flood zone maps (Map No. 06071C), most of the land within the City boundary is classified as Zone X, an area determined to be outside any 500-year floodplain. A very small area (approximately less than one acre in size) along the southwest boundary of the City is classified as Zone A, with no base flood elevation determined. This area is immediately adjacent to the San Antonio Channel, a concrete lined channel constructed by the US Army Corps of Engineers in 1957.

California is, from time to time, subject to spells of dry weather, even severe droughts. The State previously suffered a drought period from 2011 to 2016, during which the State instituted mandatory water restrictions in 2015. With the wet 2016-17 season, then Governor Brown finally declared the drought over in April 2017. However, after California and much of the western portion of the United States experienced a second consecutive dry year, Governor Newsom signed three State of Emergency Proclamations in April, May and July 2021, directing State agencies to take immediate action to bolster drought resilience and prepare for impacts on communities, businesses and ecosystems if dry conditions extend to a third year, and declaring a drought state of emergency for 50 counties in northern and central California. The July 2021 proclamation stated: "[C]limate change is intensifying the impacts of droughts on [the] communities, environment, and economy, and California is in a second consecutive year of dry conditions, resulting in drought in all of the State

and extreme or exceptional drought in most of the State.” The Governor also signed Executive Order No. N-10-21 on July 8, 2021, calling on all Californians to voluntarily reduce their water use by 15 percent compared to 2020 levels through actions such as reducing landscape irrigation, running dishwashers and washing machines only when full, finding and fixing leaks, installing water-efficient showerheads and taking shorter showers. The Executive Order also require the State Department of Water Resources to monitor hydrologic conditions (such as cumulative precipitation, reservoir storage levels, soil moisture and other metrics), and the State Water Board to monitor progress on voluntary conservation as ongoing indicators of water supply risk that may inform future drought response actions.

The occurrence of natural or other disasters could result in substantial damage to the City and affect the City’s economy and finances

Cybersecurity

Like many other public and private entities, the City relies on a complex tiered approach of security products and processes to protect its network environment, from the backend network infrastructure to the end-users desktop computers. These measures provide a strong presence in combating cybersecurity threats including, but not limited to, hacking, viruses, malware and other attacks. Cybersecurity incidents could result from unintentional events, or from deliberate attacks by unauthorized entities or individuals attempting to gain access to the City’s network or systems for the purposes of malicious activity, such as misappropriation of information or causing operational disruption and damage. The City’s Information Technology Department (“IT Department”) evaluates the City’s security infrastructure annually to assess the current hardware and software tools that are in place, and provide recommendations regarding any further enhancements. The IT Department also conducts periodical testing of the City’s information security systems. This testing includes cybersecurity training for City staff, including performing regular intensive intrusion testing to isolate areas of vulnerability. Additionally, ransomware attacks are a favorite tool for hackers to extort significant companies, including local agencies. These threats are ongoing, and ever-evolving and the IT Department takes a proactive approach to prevent any Cybersecurity threats.

Limitations on Remedies and Bankruptcy

Remedies available to the Holders may be limited by a variety of factors and may be inadequate to assure the timely payment of principal of and interest and premium, if any, on the Bonds. Bond Counsel has limited its opinion as to the enforceability of the Bonds and the Trust Agreement to the extent that enforceability may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance or transfer, moratorium, or other similar laws affecting generally the enforcement of creditor’s rights, by equitable principles and by the exercise of judicial discretion. See “APPENDIX D – FORM OF OPINION OF BOND COUNSEL” The lack of availability of certain remedies or the limitation of remedies may entail risks of delay in the exercise of, or limitations on or modifications to, the rights of the Holders.

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 Holders of the Bonds; and (iv) the possibility of the adoption of a plan for the adjustment of the City's debt (an "Adjustment Plan") without the consent of the Trustee or all of the Holders of the Bonds, which Adjustment Plan may restructure, delay, compromise or reduce the amount of any claim of the Holders if the Bankruptcy Court finds that the Adjustment Plan is fair and equitable.

The Bonds will not be secured by a pledge of any property or funds of the City other than the funds that the City will have actually deposited with the Trustee. The City is only obligated to deposit funds with the Trustee twice each year, five days prior to each Interest Payment Date. 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 municipal bankruptcies, could prevent or materially adversely affect the rights of Holders and beneficial owners of the Bonds to receive payments on the Bonds in the event the City files for bankruptcy.

State Budgets

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

State budgets are affected by regional, national or even international economic conditions and a multitude of other factors over which the City has no control. The City cannot give any assurances regarding the financial conditions of the State during any period of time. Some of the State's budget solutions have caused in the past, and may cause in the future, increased financial stress to cities, counties and other local governments by: (i) decreasing local revenues (for example, the property tax, road improvement funding, public safety or other categorical funded initiatives), or (ii) increasing directly or indirectly demand for local programs (such as public safety or indigent health programs). AB X1 26 enacted in 2011, pursuant to which all redevelopment agencies in the State were dissolved, was enacted during the Fiscal Year 2011-12 budget process and was just one example where cities and counties throughout the State were significantly impacted. Even though California has experienced significantly improved fiscal condition during the past few fiscal years, the State is still facing continuing financial challenges and unfunded long-term liabilities.

According to the State Constitution, the Governor is required to propose a budget to the State Legislature by no later than January 10 of each year, and a final budget must be adopted by the vote of each house of the Legislature no later than June 15, although this deadline has been frequently breached in the past. The State budget becomes law upon the signature of the Governor, who may veto specific items of expenditure. In July 2021, the Governor signed the Fiscal Year 2021-22 State budget. The City does not anticipate any material negative adverse effect on the City's finances based on the proposed fiscal year 2021-22 State budget. However, the City can make no predictions regarding the changes, if any, that will be made to the proposed budget before it is finally adopted. The City also cannot predict what measures the State will adopt to respond to any future financial difficulties. The City can provide no guarantees regarding the outcome of future State budget negotiations, the actions that will be taken in the future by the State Legislature and Governor to deal with changing State revenues and expenditures, or the impact that such budgets or actions will have on the City's finances and operations.

Information about the State budget and State spending is available at various State-maintained websites. Text of proposed and adopted budgets may be found at the website of the State Department of Finance (www.dof.ca.gov). An analysis of the budget is posted by the Legislative Analyst's Office (www.lao.ca.gov). In addition, various official statements for State-issued bonds, many of which contain a summary of the current and past State budgets may be found at the website of the State Treasurer's Office (www.treasurer.ca.gov/). None of the websites referenced above is in any way incorporated into this Official Statement. They are cited for informational purposes only. The City makes no representation concerning, and does 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.

Future Initiative and Legislation

As discussed herein under "STATE CONSTITUTION LIMITATIONS ON CITY REVENUES AND APPROPRIATIONS," the California's Constitutional initiative process has resulted in the adoption of measures which pose certain limits on the ability of cities and local agencies to generate revenues, through property taxes or otherwise. From time to time, other initiative measures could be adopted, affecting the City's ability to generate revenues and to increase appropriations. No assurances can be given as to the potential impact of any future initiative or legislation on the finances and operations of the City.

Secondary Market

There can be no assurance that there will be a secondary market for the Bonds, or if a secondary market exists, that the Bonds can be sold for any particular price. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, pricing of issues for which a market is being made will depend upon then prevailing circumstances. Such prices could substantially differ from the original purchase price.

STATE CONSTITUTIONAL LIMITATIONS ON CITY REVENUES AND APPROPRIATIONS

State Initiative Measures Generally

Under the California Constitution, the power of initiative is reserved to the voters for the purpose of enacting statutes and constitutional amendments. Voters have exercised this power through the adoption of Proposition 13 (“Article XIII A”) and similar measures, some of which are discussed below. Any such initiative may affect the collection of fees, taxes and other types of revenue by local agencies such as the City. Subject to overriding federal constitutional principles, such collection may be materially and adversely affected by voter-approved initiatives, possibly to the extent of creating cash-flow problems in the payment of outstanding obligations such as the Sublease.

Property Tax Limitations – Article XIII A

California voters, on June 6, 1978, approved an amendment (commonly referred to as “Proposition 13” or 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 value of property to mean “the county assessor’s valuation of real property as shown on the 1975-76 tax bill under full cash value, or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment.” The full cash value may be adjusted annually to reflect inflation at a rate not to exceed two percent per year, or any reduction in the consumer price index or comparable local data, or any reduction in the event of declining property value caused by damage, destruction or other factors.

Article XIII A 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. In addition, an amendment to Article XIII was adopted in August 1986 by initiative that exempts from the one percent limitation any bonded indebtedness approved by two-thirds of the votes cast by voters for the acquisition or improvement of real property. On December 22, 1978, the California Supreme Court upheld the amendment over challenges on several state and federal constitutional grounds (*Amador Valley Joint Union School District v. State Board of Equalization*).

In the general election held on November 4, 1986, voters of the State of California approved two measures, Propositions 58 and 60, which further amended Article XIII A. Proposition 58

amended Article XIII A to provide that the terms “purchased” and “change of ownership,” for purposes of determining full cash value of property under Article XIII A, do not include the purchase or transfer of (1) real property between spouses and (2) the principal residence and the first \$1,000,000 of other property between parents and children. Proposition 60 amended Article XIII A to permit the Legislature to allow persons over age 55 who sell their residence to 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. Pursuant to Proposition 60, the Legislature has enacted legislation permitting counties to implement the provisions of Proposition 60.

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

In the November 2020 election, Proposition 19 was approved by the voters to further amend Article XIII A, such that it would permit eligible homeowners to transfer tax assessments anywhere in the State, narrow existing special rules for inherited properties, and broaden the scope of triggers for reassessment of properties. Proposition 19 provides that any additional revenues and net savings resulting from the ballot measure would be allocated to fire protection services and reimbursing local governments for taxation-related changes.

Article XIII A Implementing Legislation

Legislation has been enacted and amended a number of times since 1978 to implement Article XIII A. Under current law, local agencies are no longer permitted to levy directly any property tax (except to pay voter-approved indebtedness). The one percent property tax is automatically levied by the county and distributed according to a formula among taxing agencies. The formula apportions the tax roughly in proportion to the relative shares of taxes levied prior to 1978.

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

Beginning in the 1981-82 fiscal year, assessors in California no longer record property values on tax rolls at the assessed value of 25 percent of market value, which was expressed as \$4 per \$100 of assessed value. All taxable property is now shown at full market value on the tax rolls. Consequently, the tax rate is expressed as \$1 per \$100 of taxable value. Unless otherwise noted, all taxable property value included in this Official Statement (unless noted differently) is shown at 100 percent of market value and all tax rates reflect the \$1 per \$100 of taxable value.

Challenges to Article XIII A

California trial and appellate courts have upheld the constitutionality of Article XIII A’s assessment rules in three significant cases. The United States Supreme Court, in an appeal to one of these cases, upheld the constitutionality of Article XIII A’s tax assessment system. The City cannot predict whether there will be any future challenges to California’s present system of property tax

assessment and cannot evaluate the ultimate effect on the City's receipt of property tax revenues should a future decision hold unconstitutional the method of assessing property.

Appropriations Limitations - Article XIII B

On November 6, 1979, California voters approved Proposition 4, the so-called Gann Initiative, which added Article XIII B to the California Constitution. Article XIII B 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 government entity. The "base year" for establishing such appropriations limit is the 1978-79 fiscal year, and the limit is to be adjusted annually to reflect changes in population, consumer prices and certain increases in the cost of services provided by these public agencies. Revenues received in excess of the appropriations limit must be returned by a revision of tax rates or fee schedules within the next two subsequent fiscal years.

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 (i) regulatory licenses, user charges, and user fees to the extent such proceeds exceed the cost of providing the service or regulation, (ii) the investment of tax revenues and (iii) certain State subventions received by local governments.

Section 7910 of the California Government Code requires the City to adopt a formal appropriations limit for each fiscal year. At or around the time of the City's adoption of its annual budget for an upcoming fiscal year, the City Council establishes the appropriations limit for such fiscal year, which does not exceed the appropriation limit.

Propositions 218 and 26 - Article XIII C and Article XIII D

On November 5, 1996, California voters approved Proposition 218, "the Right to Vote on Taxes Act." Proposition 218 added Articles XIII C and XIII D to the California Constitution, providing certain vote requirements and other limitations on the imposition of new or increased taxes, assessments, and property-related fees and charges.

Provisions of Article XIII C (i) require taxes for general governmental purposes to be submitted to the electorate and approved by a majority vote, and taxes for specific purposes, even if deposited into the General Fund, to be submitted to the electorate and approved by two-thirds vote, (ii) require any general purpose tax which the City imposed, extended or increased, without voter approval, after December 31, 1994, to be submitted to the electorate and approved by majority vote on November 5, 1998 and (iii) provide that all taxes, assessments, fees and charges to reduction or repeal at any time through the initiative process, subject to overriding constitutional principles

relating to the impairment of contracts. Provisions of Article XIID that affect the ability of the City to fund certain services or programs that it may be required or choose to fund include (i) adding notice, hearing, protest and, in some cases, voter approval requirements to impose, increase or extend certain assessments, fees and charges and (ii) adding stricter requirements for finding individualized benefits associated with such levies.

On November 2, 2010, California voters approved Proposition 26, the “Supermajority Vote to Pass New Taxes and Fees Act.” Relevant to local governments, Proposition 26 amended Article XIIC of the California Constitution by adding an expansive definition for the term “tax,” which previously was not defined under the California Constitution. As a result, Proposition 26 requires a local government to obtain two-thirds voter approval for many fees, charges and levies that a local government was previously authorized to adopt by a majority vote of its legislative body. Specifically, Proposition 26 defines a “tax” as any levy, charge, or exaction of any kind imposed by a local government except those enumerated in seven specified exceptions, as follows:

- (1) A charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege.
- (2) A charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product.
- (3) A charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections, and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof.
- (4) A charge imposed for entrance to or use of local government property, or the purchase, rental, or lease of local government property.
- (5) A fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government, as a result of a violation of law.
- (6) A charge imposed as a condition of property development.
- (7) Assessments and property-related fees imposed in accordance with the provisions of Article XIII D.

In the event that charges included in the definition of a “tax” in Article XIIC cannot be appropriately increased, the City may have to choose whether to reduce or eliminate the service financed by such taxes or finance such service from its General Fund. Further, no assurance can be given that the City mayor will be able to reduce or eliminate such services in the event the fees and charges that presently finance them are reduced or repealed.

The foregoing discussion of Propositions 218 and 26 should not be considered an exhaustive or authoritative treatment of the provisions of Propositions 218 and 26 or the possible effects of

Propositions 218 and 26. Interim rulings, final decisions, legislative proposals and legislative enactments affecting Propositions 218 and 26 may impact the City's ability to make Rental Payments. The City does not expect to be in a position to control the consideration or disposition of these issues and cannot predict the timing or outcome of any judicial or legislative activity related to these issues. The City does not believe any of the fees or charges constituting City General Fund revenues are imposed in violation of Propositions 218 or 26.

Proposition 62

On November 4, 1986, California voters adopted Proposition 62, which requires that (i) any local tax for general governmental purposes (a "general tax") must be submitted to the electorate and approved by a majority vote; (ii) any local tax for specific purposes (a "special tax") must be submitted to the electorate and approved by a two-thirds vote; (iii) any general tax must be proposed for a vote by two-thirds of the legislative body; and (iv) proceeds of any tax imposed in violation of the vote requirements must be deducted from the local agency's property tax allocation.

Most of the provisions of Proposition 62 were affirmed by the 1995 California Supreme Court decision in *Santa Clara County Local Transportation Authority v. Guardino*, which invalidated a special sales tax for transportation purposes because fewer than two-thirds of the voters voting on the measure had approved the tax. The City does not believe any of the taxes constituting City revenues are levied in violation of Proposition 62.

Proposition 1A

Proposition 1A ("Proposition 1A"), proposed by the State Legislature in connection with the State Budget Act for fiscal year 2004-05 and approved by the voters in November 2004, restricts State authority to reduce major local tax revenues such as the tax shifts permitted to take place in fiscal years 2004-05 and 2005-06. Proposition 1A provided that beginning in fiscal year 2008-09, the State was permitted to shift to schools and community colleges up to eight percent of local government property tax revenues, if: (i) the amount was to be repaid, with interest, within three years, (ii) the Governor proclaimed that the shift is needed due to a severe state financial hardship, (iii) the shift was approved by two-thirds of both houses and certain other conditions are met, and (iv) such a shift may not occur more than twice in any 10-year period. Proposition 1A also contained other restrictions on the State's ability to redirect property tax revenues for local governments or reduce any local sales tax rate, limit existing local government authority to levy a sales tax rate or change the allocation of local sales tax revenues, subject to certain exceptions. The State may approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county.

Proposition 1A also provides that if the State reduces the vehicle license fee rate below 0.65 percent of vehicle value, the State must provide local governments with equal replacement revenues. Further, Proposition 1A requires the State to suspend State mandates affecting cities, counties and special districts, excepting mandates relating to employee rights, schools or community colleges, in any year that the State does not fully reimburse local governments for their costs to comply with such mandates.

Proposition 22

On November 2, 2010, the voters of the State approved Proposition 22, known as “The Local Taxpayer, Public Safety, and Transportation Protection Act” (“Proposition 22”). Proposition 22, among other things, broadens the restrictions established by Proposition 1A with respect to the State government’s ability to redirect moneys on which local governments depend as their revenue sources. While Proposition 1A permits the State to appropriate or borrow local property tax revenues on a temporary basis during times of severe financial hardship, Proposition 22 amends Article XIII of the State Constitution to prohibit the State from appropriating or borrowing local property tax revenues, even during times of severe financial hardship. Proposition 22 also prohibits the State from appropriating or borrowing proceeds derived from any tax levied by a local government solely for the local government’s purposes.

Future Initiatives

From time to time other initiative measures could be adopted, affecting the ability of the City to increase revenues and appropriations.

CONCLUDING MATTERS

Validation

On May 6, 2021, the City, acting pursuant to the provisions of Section 860 *et seq.* of the California Code of Civil Procedure, filed a complaint in the Superior Court of the State of California in and for the County of San Bernardino seeking judicial validation of the transactions relating to the CalPERS Contract and the Bonds and certain other matters entitled *City of Montclair v. All Persons Interested et al.* (Case No. CIVSB2112608). On July 27, 2021, the court entered the Validation Judgment to the effect, among other things:

- (i) All proceedings by and for the City in connection with the City Resolution authorizing the Bonds (the “Resolution”), and the execution and delivery of the Trust Agreement, the Purchase Contract, any supplemental trust agreements, and any related contracts or agreements approved by the Resolution or contemplated by the City Council of the City in connection with the issuance of the Bonds, all as authorized by the City in the Resolution and as defined in the Compliant, were and will be valid, legal and binding, and were, are and will be in conformity with the applicable provisions of all laws and enactments at any time in force or controlling upon such proceedings, whether imposed by law, constitution, or statute, and whether federal, state, or municipal, including but not limited to, the provisions of Article XVI, Section 18, of the California Constitution.
- (ii) The City has the authority under California law to provide for the refunding of its obligations, by issuing the Bonds and applying the proceeds of the Bonds to the retirement of its obligations, as evidenced by the PERS Contract, to PERS for the Unfunded Liability and the normal annual contributions for the respective current fiscal year.

- (iii) The City will be obligated to satisfy its obligations under the Bonds from any legally available funds of the City, and the City Council of the City will be obligated to make all annual appropriations of such funds as may be required to satisfy its annual obligations under the Bonds.
- (iv) The Bonds and any and all contracts and agreements executed and delivered in connection therewith are exempt from and not subject to the debt limitations set forth in Article XVI, Section 18, of the California Constitution.

Pursuant to Section 870 of the California Code of Civil Procedure, the last day to timely file a notice of appeal to this judgment was August 26, 2021. The City is unaware of any threatened or pending challenge to this judgment. In issuing its approving opinion (the form of which is set forth in Appendix D), Bond Counsel will rely, among other things, upon the above-described judgment.

No Litigation Affecting 2021 Bonds

To the City's knowledge, there is no litigation pending or threatened to restrain or enjoin the issuance, execution or delivery of the Bonds, to contest the validity of the Bonds, the Trust Agreement or any proceedings of the City with respect thereto. In the opinion of the City, there is no lawsuit or claim pending against the City which will materially impair the City's ability to enter into the Trust Agreement or restrain or enjoin the payments of the Bonds.

Continuing Disclosure

The City has undertaken in a continuing disclosure certificate (the "Continuing Disclosure Certificate") for the benefit of Holders and beneficial owners of the Bonds to provide certain financial information relating to the City and other data by not later than nine months after the close of each fiscal year (which currently would be March 31, with the fiscal year ending on each June 30), commencing with the report for the 2020-21 fiscal year (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events. The Annual Report and notices will be filed by the City or its Dissemination Agent on behalf of the City, with the Municipal Securities Rulemaking Board (the "MSRB"), via its Electronic Municipal Market Access ("EMMA") system. The specific nature of the information to be contained in the Annual Report or the notices of enumerated events is set forth in "APPENDIX E – FORM OF CONTINUING DISCLOSURE CERTIFICATE." This undertaking has been made in order to assist the Underwriter in complying with Rule 15c2-12(b)(5) (the "Rule") promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended.

A failure by the City to comply with the provisions of the Continuing Disclosure Certificate is not an event of default under the Trust Agreement (although the Holders and beneficial owners of the Bonds do have remedies at law and in equity). However, a failure to comply with the provisions of the Continuing Disclosure Certificate must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Bonds. Therefore, a failure by the City to comply with the provisions of the Continuing Disclosure Certificate may adversely affect the marketability of the Bonds on the secondary market.

Before the printing of this Official Statement, the Underwriter conducted an independent review (the "Review") of the City's continuing disclosure filings during the past five years. The

Review concluded that the City complied with its continuing disclosure obligations in all material respects during the period examined.

In 2014, the City Council adopted Resolution No. 14-3054 which among other things, approved a set of continuing disclosure procedures. On [September 20], 2021, the City Council adopted a Resolution adopting updated continuing disclosure procedures, which reflect changes to the Rule since 2014.

Legal Matters

All of the legal proceedings in connection with the authorization and issuance of the Bonds are subject to the approval of Nixon Peabody LLP, Bond Counsel. Bond Counsel's final approving opinion with respect to the Bonds will be substantially in the form set forth in Appendix D of this Official Statement. Certain matters with respect to this Official Statement will be considered on behalf of the City by Richards, Watson & Gershon, A Professional Corporation, in its capacity as Disclosure Counsel. Certain legal matters will also be passed upon for the City by Robbins & Holdaway, in its capacity as City Attorney. Certain legal matters will also be passed upon for the Underwriter, by Kutak Rock LLP, as Underwriter's Counsel.

Tax Matters

The following is a summary of certain anticipated United States federal income tax consequences of the purchase, ownership and disposition of the Bonds. The summary is based upon the provisions of the Internal Revenue Code of 1986, as amended (the "Code"), the Treasury Regulations promulgated thereunder and the judicial and administrative rulings and decisions now in effect, all of which are subject to change. Such authorities may be repealed, revoked, or modified, possibly with retroactive effect, so as to result in United States federal income tax consequences different from those described below. The summary generally addresses Bonds held as capital assets within the meaning of Section 1221 of the Code and does not purport to address all aspects of federal income taxation that may affect particular investors in light of their individual circumstances or certain types of investors subject to special treatment under the federal income tax laws, including but not limited to financial institutions, insurance companies, dealers in securities or currencies, persons holding such Bonds as a hedge against currency risks or as a position in a "straddle," "hedge," "constructive sale transaction" or "conversion transaction" for tax purposes, or persons whose functional currency is not the United States dollar. It also does not deal with holders other than original purchasers that acquire Bonds at their initial issue price except where otherwise specifically noted. Potential purchasers of the Bonds should consult their own tax advisors in determining the federal, state, local, foreign and other tax consequences to them of the purchase, holding and disposition of the Bonds.

The City has not sought and will not seek any rulings from the Internal Revenue Service with respect to any matter discussed herein. No assurance can be given that the Internal Revenue Service would not assert, or that a court would not sustain, a position contrary to any of the tax characterizations and tax consequences set forth below.

U.S. Holders. As used herein, the term "U.S. Holder" means a beneficial owner of Bonds that is (a) an individual citizen or resident of the United States for federal income tax purposes, (b) a corporation, including an entity treated as a corporation for federal income tax purposes, created or

organized in or under the laws of the United States or any State thereof (including the District of Columbia), (c) an estate whose income is subject to federal income taxation regardless of its source, or (d) a trust if a court within the United States can exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust. Notwithstanding clause (d) of the preceding sentence, to the extent provided in Treasury regulations, certain trusts in existence on August 20, 1996, and treated as United States persons prior to that date that elect to continue to be treated as United States persons, also will be U.S. Holders. In addition, if a partnership (or other entity or arrangement treated as a partnership for federal income tax purposes) holds Bonds, the tax treatment of a partner in the partnership generally will depend upon the status of the partner and the activities of the partnership. If a U.S. Holder is a partner in a partnership (or other entity or arrangement treated as a partnership for federal income tax purposes) that holds Bonds, the U.S. Holder is urged to consult its own tax advisor regarding the specific tax consequences of the purchase, ownership and dispositions of the Bonds

Taxation of Interest Generally. Interest on the Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Code and so will be fully subject to federal income taxation. Purchasers will be subject to federal income tax accounting rules affecting the timing and/or characterization of payments received with respect to such Bonds. In general, interest paid on the Bonds and recovery of any accrued original issue discount and market discount will be treated as ordinary income to a bondholder, and after adjustment for the foregoing, principal payments will be treated as a return of capital to the extent of the U.S. Holder's adjusted tax basis in the Bonds and capital gain to the extent of any excess received over such basis.

Recognition of Income Generally. Section 451(b) of the Code provides that purchasers using an accrual method of accounting for U.S. federal income tax purposes may be required to include certain amounts in income no later than the time such amounts are reflected on certain financial statements of such purchaser. In this regard, Treasury Regulations provide that, with the exception of certain fees, the rule in section 451(b) will generally not apply to the timing rules for original issue discount and market discount, or to the timing rules for *de minimis* original issue discount and market discount. Prospective purchasers of the Bonds should consult their own tax advisors regarding any potential applicability of these rules and their impact on the timing of the recognition of income related to the Bonds under the Code.

Original Issue Discount. The following summary is a general discussion of certain federal income tax consequences of the purchase, ownership and disposition of Bonds issued with original issue discount ("Discount Bonds"). A Bond will be treated as having been issued with an original issue discount if the excess of its "stated redemption price at maturity" (defined below) over its issue price (defined as the initial offering price to the public at which a substantial amount of the Bonds of the same maturity have first been sold to the public, excluding bond houses and brokers) equals or exceeds one quarter of one percent of such Bond's stated redemption price at maturity multiplied by the number of complete years to its maturity (or, in the case of an installment obligation, its weighted average maturity).

A Bond's "stated redemption price at maturity" is the total of all payments provided by the Bond that are not payments of "qualified stated interest." Generally, the term "qualified stated interest" includes stated interest that is unconditionally payable in cash or property (other than debt instruments of the issuer) at least annually at a single fixed rate or certain floating rates.

In general, the amount of original issue discount includible in income by the initial holder of a Discount Bond is the sum of the “daily portions” of original issue discount with respect to such Discount Bond for each day during the taxable year in which such holder held such Bond. The daily portion of original issue discount on any Discount Bond is determined by allocating to each day in any “accrual period” a ratable portion of the original issue discount allocable to that accrual period.

An accrual period may be of any length, and may vary in length over the term of a Discount Bond, provided that each accrual period is no longer than one year and each scheduled payment of principal or interest occurs at the end of an accrual period. The amount of original issue discount allocable to each accrual period is equal to the difference between (i) the product of the Discount Bond’s adjusted issue price at the beginning of such accrual period and its yield to maturity (determined on the basis of compounding at the close of each accrual period and appropriately adjusted to take into account the length of the particular accrual period) and (ii) the amount of any qualified stated interest payments allocable to such accrual period. The “adjusted issue price” of a Discount Bond at the beginning of any accrual period is the sum of the issue price of the Discount Bond plus the amount of original issue discount allocable to all prior accrual periods minus the amount of any prior payments on the Discount Bond that were not qualified stated interest payments. Under these rules, holders generally will have to include in income increasingly greater amounts of original issue discount in successive accrual periods.

Holders utilizing the accrual method of accounting may generally, upon election, include in gross income all interest (including stated interest, acquisition discount, original issue discount, *de minimis* original issue discount, market discount, *de minimis* market discount, and unstated interest, as adjusted by any amortizable bond premium or acquisition premium) on a Bond by using the constant yield method applicable to original issue discount, subject to certain limitations and exceptions.

Market Discount. A holder who purchases a Bond at a price which includes market discount (i.e., at a purchase price that is less than its adjusted issue price in the hands of an original owner) in excess of a prescribed *de minimis* amount will be required to recharacterize all or a portion of the gain as ordinary income upon receipt of each scheduled or unscheduled principal payment or upon other disposition. In particular, such holder will generally be required either (a) to allocate each such principal payment to accrued market discount not previously included in income and to recognize ordinary income to that extent and to treat any gain upon sale or other disposition of such a Bond as ordinary income to the extent of any remaining accrued market discount or (b) to elect to include such market discount in income currently as it accrues on all market discount instruments acquired by such holder on or after the first day of the taxable year to which such election applies.

The Code authorizes the Treasury Department to issue regulations providing for the method for accruing market discount on debt instruments the principal of which is payable in more than one installment. Until such time as regulations are issued by the Treasury Department, certain rules described in the legislative history of the Tax Reform Act of 1986 will apply. Under those rules, market discount will be included in income either (a) on a constant interest basis or (b) in proportion to the accrual of stated interest.

A holder of a Bond who acquires such Bond at a market discount also may be required to defer, until the maturity date of such Bond or the earlier disposition in a taxable transaction, the deduction of a portion of the amount of interest that the holder paid or accrued during the taxable year

on indebtedness incurred or maintained to purchase or carry a Bond in excess of the aggregate amount of interest (including original issue discount) includable in such holder's gross income for the taxable year with respect to such Bond. The amount of such net interest expense deferred in a taxable year may not exceed the amount of market discount accrued on the Bond for the days during the taxable year on which the holder held the Bond and, in general, would be deductible when such market discount is includable in income. The amount of any remaining deferred deduction is to be taken into account in the taxable year in which the Bond matures or is disposed of in a taxable transaction. In the case of a disposition in which gain or loss is not recognized in whole or in part, any remaining deferred deduction will be allowed to the extent gain is recognized on the disposition. This deferral rule does not apply if the bondholder elects to include such market discount in income currently as described above.

Bond Premium. A holder of a Bond who purchases such Bond at a cost greater than its remaining redemption amount will have amortizable bond premium. If the holder elects to amortize this premium under Section 171 of the Code (which election will apply to all Bonds held by the holder on the first day of the taxable year to which the election applies and to all Bonds thereafter acquired by the holder), such a holder must amortize the premium using constant yield principles based on the holder's yield to maturity. Amortizable bond premium is generally treated as an offset to interest income, and a reduction in basis is required for amortizable bond premium that is applied to reduce interest payments. Purchasers of Bonds who acquire such Bonds at a premium should consult with their own tax advisors with respect to federal, state and local tax consequences of owning such Bonds.

Surtax on Unearned Income. Section 1411 of the Code generally imposes a tax of 3.8% on the "net investment income" of certain individuals, trusts and estates. Among other items, net investment income generally includes gross income from interest and net gain attributable to the disposition of certain property, less certain deductions. U.S. Holders should consult their own tax advisors regarding the possible implications of this provision in their particular circumstances.

Sale or Redemption of Bonds. A bondholder's adjusted tax basis for a Bond is the price such holder pays for the Bond plus the amount of original issue discount and market discount previously included in income and reduced on account of any payments received on such Bond other than "qualified stated interest" and any amortized bond premium. Gain or loss recognized on a sale, exchange or redemption of a Bond, measured by the difference between the amount realized and the bondholder's tax basis as so adjusted, will generally give rise to capital gain or loss if the Bond is held as a capital asset (except in the case of Bonds acquired at a market discount, in which case a portion of the gain will be characterized as interest and therefore ordinary income).

If the terms of a Bond are materially modified, in certain circumstances, a new debt obligation would be deemed "reissued", or created and exchanged for the prior obligation in a taxable transaction. Among the modifications which may be treated as material are those related to the redemption provisions and, in the case of a nonrecourse obligation, those which involve the substitution of collateral. In addition, the defeasance of a Bond under the defeasance provisions of the Indenture could result in a deemed sale or exchange of such Bond.

EACH POTENTIAL HOLDER OF BONDS SHOULD CONSULT ITS OWN TAX ADVISOR CONCERNING (1) THE TREATMENT OF GAIN OR LOSS ON SALE, REDEMPTION OR DEFEASANCE OF THE BONDS, AND (2) THE CIRCUMSTANCES IN

WHICH BONDS WOULD BE DEEMED REISSUED AND THE LIKELY EFFECTS, IF ANY, OF SUCH REISSUANCE.

Non-U.S. Holders. The following is a general discussion of certain United States federal income tax consequences resulting from the beneficial ownership of Bonds by a person other than a U.S. Holder, a former United States citizen or resident, or a partnership or entity treated as a partnership for United States federal income tax purposes (a “Non-U.S. Holder”).

Subject to the discussion of backup withholding and the Foreign Account Tax Compliance Act (“FATCA”), payments of principal by the City or any of its agents (acting in its capacity as agent) to any Non-U.S. Holder will not be subject to federal withholding tax. In the case of payments of interest to any Non-U.S. Holder, however, federal withholding tax will apply unless the Non-U.S. Holder (1) does not own (actually or constructively) 10 percent or more of the voting equity interests of the City, (2) is not a controlled foreign corporation for United States tax purposes that is related to the City (directly or indirectly) through stock ownership, and (3) is not a bank receiving interest in the manner described in Section 881(c)(3)(A) of the Code. In addition, either (1) the Non-U.S. Holder must certify on the applicable IRS Form W-8 (series) (or successor form) to the City, its agents or paying agents or a broker under penalties of perjury that it is not a U.S. person and must provide its name and address, or (2) a securities clearing organization, bank or other financial institution, that holds customers’ securities in the ordinary course of its trade or business and that also holds the Bonds must certify to the City or its agent under penalties of perjury that such statement on the applicable IRS Form W-8 (series) (or successor form) has been received from the Non-U.S. Holder by it or by another financial institution and must furnish the interest payor with a copy.

Interest payments may also be exempt from federal withholding tax depending on the terms of an existing federal income tax treaty, if any, in force between the U.S. and the resident country of the Non-U.S. Holder. The U.S. has entered into an income tax treaty with a limited number of countries. In addition, the terms of each treaty differ in their treatment of interest and original issue discount payments. Non-U.S. Holders are urged to consult their own tax advisor regarding the specific tax consequences of the receipt of interest payments, including original issue discount. A Non-U.S. Holder that does not qualify for exemption from withholding as described above must provide the City or its agent with documentation as to his, her, or its identity to avoid the U.S. backup withholding tax on the amount allocable to a Non-U.S. Holder. The documentation may require that the Non-U.S. Holder provide a U.S. tax identification number.

If a Non-U.S. Holder is engaged in a trade or business in the United States and interest on a Bond held by such holder is effectively connected with the conduct of such trade or business, the Non-U.S. Holder, although exempt from the withholding tax discussed above (provided that such holder timely furnishes the required certification to claim such exemption), may be subject to United States federal income tax on such interest in the same manner as if it were a U.S. Holder. In addition, if the Non-U.S. Holder is a foreign corporation, it may be subject to a branch profits tax equal to 30% (subject to a reduced rate under an applicable treaty) of its effectively connected earnings and profits for the taxable year, subject to certain adjustments. For purposes of the branch profits tax, interest on a Bond will be included in the earnings and profits of the holder if the interest is effectively connected with the conduct by the holder of a trade or business in the United States. Such a holder must provide the payor with a properly executed IRS Form W-8ECI (or successor form) to claim an exemption from United States federal withholding tax.

Generally, any capital gain realized on the sale, exchange, retirement or other disposition of a Bond by a Non-U.S. Holder will not be subject to United States federal income or withholding taxes if (1) the gain is not effectively connected with a United States trade or business of the Non-U.S. Holder, and (2) in the case of an individual, the Non-U.S. Holder is not present in the United States for 183 days or more in the taxable year of the sale, exchange, retirement or other disposition, and certain other conditions are met.

For newly issued or reissued obligations, such as the Bonds, FATCA imposes U.S. withholding tax on interest payments and, for dispositions after December 31, 2018, gross proceeds of the sale of the Bonds paid to certain foreign financial institutions (which is broadly defined for this purpose to generally include non-U.S. investment funds) and certain other non-U.S. entities if certain disclosure and due diligence requirements related to U.S. accounts or ownership are not satisfied, unless an exemption applies. An intergovernmental agreement between the United States and an applicable non-U.S. country may modify these requirements. In any event, bondholders or beneficial owners of the Bonds shall have no recourse against the City, nor will the City be obligated to pay any additional amounts to “gross up” payments to such persons, as a result of any withholding or deduction for, or on account of, any present or future taxes, duties, assessments or government charges with respect to payments in respect of the Bonds. However, it should be noted that on December 13, 2018, the IRS issued Proposed Treasury Regulation Section 1.1473-1(a)(1) which proposes to remove gross proceeds from the definition of “withholdable payment” for this purpose.

Non-U.S. Holders should consult their own tax advisors with respect to the possible applicability of federal withholding and other taxes upon income realized in respect of the Bonds.

Information Reporting and Backup Withholding. For each calendar year in which the Bonds are outstanding, the City, its agents or paying agents or a broker is required to provide the IRS with certain information, including a holder’s name, address and taxpayer identification number (either the holder’s Social Security number or its employer identification number, as the case may be), the aggregate amount of principal and interest paid to that holder during the calendar year and the amount of tax withheld, if any. This obligation, however, does not apply with respect to certain U.S. Holders, including corporations, tax-exempt organizations, qualified pension and profit-sharing trusts, and individual retirement accounts and annuities.

If a U.S. Holder subject to the reporting requirements described above fails to supply its correct taxpayer identification number in the manner required by applicable law or under-reports its tax liability, the City, its agents or paying agents or a broker may be required to make “backup” withholding of tax on each payment of interest or principal on the Bonds. This backup withholding is not an additional tax and may be credited against the U.S. Holder’s federal income tax liability, provided that the U.S. Holder furnishes the required information to the IRS.

Under current Treasury Regulations, backup withholding and information reporting will not apply to payments of interest made by the City, its agents (in their capacity as such) or paying agents or a broker to a Non-U.S. Holder if such holder has provided the required certification that it is not a U.S. person (as set forth in the second paragraph under “Non-U.S. Holders” above), or has otherwise established an exemption (provided that neither the City nor its agent has actual knowledge that the holder is a U.S. person or that the conditions of an exemption are not in fact satisfied).

Payments of the proceeds from the sale of a Bond to or through a foreign office of a broker generally will not be subject to information reporting or backup withholding. However, information reporting (but not backup withholding) may apply to those payments if the broker is one of the following: (i) a U.S. person; (ii) a controlled foreign corporation for U.S. tax purposes; (iii) a foreign person 50-percent or more of whose gross income from all sources for the three-year period ending with the close of its taxable year preceding the payment was effectively connected with a United States trade or business; or (iv) a foreign partnership with certain connections to the United States.

Payment of the proceeds from a sale of a Bond to or through the United States office of a broker is subject to information reporting and backup withholding unless the holder or beneficial owner certifies as to its taxpayer identification number or otherwise establishes an exemption from information reporting and backup withholding.

The preceding federal income tax discussion is included for general information only and may not be applicable depending upon a holder's particular situation. Holders should consult their tax advisors with respect to the tax consequences to them of the purchase, ownership and disposition of the Bonds, including the tax consequences under federal, state, local, foreign and other tax laws and the possible effects of changes in those tax laws.

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

Changes in Law and Post Issuance Events. Legislative or administrative actions and court decisions, at either the federal or state level, could have an impact on the inclusion in gross income of interest on the Bonds for federal or state income tax purposes, and thus on the value or marketability of the Bonds. This could result from changes to federal or state income tax rates, changes in the structure of federal or state income taxes (including replacement with another type of tax), or otherwise. It is not possible to predict whether any such legislative or administrative actions or court decisions will occur or have an adverse impact on the federal or state income tax treatment of holders of the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding the impact of any change in law or proposed change in law on the Bonds.

IN ALL EVENTS, ALL INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS IN DETERMINING THE FEDERAL, STATE, LOCAL, FOREIGN AND OTHER TAX CONSEQUENCES TO THEM OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE BONDS.

Considerations For ERISA and Other U.S. Benefit Plan Investors

The Employee Retirement Income Security Act of 1974, as amended ("ERISA"), imposes certain fiduciary obligations and prohibited transaction restrictions on employee pension and welfare benefit plans subject to Title I of ERISA ("ERISA Plans"). Section 4975 of the Code imposes essentially the same prohibited transaction restrictions on tax-qualified retirement plans described in Section 401(a) and 403(a) of the Code, which are exempt from tax under Section 501(a) of the Code, other than governmental and church plans as defined herein ("Qualified Retirement Plans"), and on

Individual Retirement Accounts (“IRAs”) described in Section 408(b) of the Code (collectively, “Tax-Favored Plans”). Certain employee benefit plans such as governmental plans (as defined in Section 3(32) of ERISA) (“Governmental Plans”), and, if no election has been made under Section 410(d) of the Code, church plans (as defined in Section 3(33) of ERISA) (“Church Plans”), are not subject to ERISA requirements. Additionally, such Governmental and Church Plans are not subject to the requirements of Section 4975 of the Code but may be subject to applicable federal, state or local law (“Similar Laws”) which is, to a material extent, similar to the foregoing provisions of ERISA or the Code. Accordingly, assets of such plans may be invested in the Bonds without regard to the ERISA and Code considerations described below, subject to the provisions of Similar Laws.

In addition to the imposition of general fiduciary obligations, including those of investment prudence and diversification and the requirement that a plan’s investment be made in accordance with the documents governing the plan, Section 406 of ERISA and Section 4975 of the Code prohibit a broad range of transactions involving assets of ERISA Plans and Tax-Favored Plans and entities whose underlying assets include plan assets by reason of ERISA Plans or Tax-Favored Plans investing in such entities (collectively, “Benefit Plans”) and persons who have certain specified relationships to the Benefit Plans (“Parties In Interest” or “Disqualified Persons”), unless a statutory or administrative exemption is available. The definitions of “Party in Interest” and “Disqualified Person” are expansive. While other entities may be encompassed by these definitions, they include, most notably: (1) fiduciary with respect to a plan; (2) a person providing services to a plan; (3) an employer or employee organization any of whose employees or members are covered by the plan; and (4) the owner of an IRA. Certain Parties in Interest (or Disqualified Persons) that participate in a prohibited transaction may be subject to a penalty (or an excise tax) imposed pursuant to Section 502(i) of ERISA (or Section 4975 of the Code) unless a statutory or administrative exemption is available. Without an exemption an IRA owner may disqualify his or her IRA.

Certain transactions involving the purchase, holding or transfer of the Bonds might be deemed to constitute prohibited transactions under ERISA and Section 4975 of the Code if assets of the City were deemed to be assets of a Benefit Plan. Under final regulations issued by the United States Department of Labor (the “Plan Assets Regulation”), the assets of the City would be treated as plan assets of a Benefit Plan for the purposes of ERISA and Section 4975 only of the Code if the Benefit Plan acquires an “equity interest” in the City and none of the exceptions contained in the Plan Assets Regulation is applicable. An equity interest is defined under the Plan Assets Regulation as an interest in an entity other than an instrument which is treated as indebtedness under applicable local law and which has no substantial equity features. Although there is little guidance on this matter, it appears that the Bonds should be treated as debt without substantial equity features for purposes of the Plan Assets Regulation. This determination is based upon the traditional debt features of the Bonds, including the reasonable expectation of purchasers of Bonds that the Bonds will be repaid when due, traditional default remedies, as well as the absence of conversion rights, warrants and other typical equity features.

However, without regard to whether the Bonds are treated as an equity interest for such purposes, though, the acquisition or holding of Bonds by or on behalf of a Benefit Plan could be considered to give rise to a prohibited transaction if the City or the Trustee, or any of their respective affiliates, is or becomes a Party in Interest or a Disqualified Person with respect to such Benefit Plan.

Most notably, ERISA and the Code generally prohibit the lending of money or other extension of credit between an ERISA Plan or Tax-Favored Plan and a Party in Interest or a Disqualified Person,

and the acquisition of any of the Bonds by a Benefit Plan would involve the lending of money or extension of credit by the Benefit Plan. In such a case, however, certain exemptions from the prohibited transaction rules could be applicable depending on the type and circumstances of the plan fiduciary making the decision to acquire a Bond. Included among these exemptions are: Prohibited Transaction Class Exemption (“PTCE”) 96-23, regarding transactions effected by certain “in-house asset managers”; PTCE 90-1, regarding investments by insurance company pooled separate accounts; PTCE 95-60, regarding transactions effected by “insurance company general accounts”; PTCE 91-38, regarding investments by bank collective investment funds; and PTCE 84-14, regarding transactions effected by “qualified professional asset managers.” Further, the statutory exemption in Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code provides for an exemption for transactions involving “adequate consideration” with persons who are Parties in Interest or Disqualified Persons solely by reason of their (or their affiliate’s) status as a service provider to the Benefit Plan involved and none of whom is a fiduciary with respect to the Benefit Plan assets involved (or an affiliate of such a fiduciary). There can be no assurance that any class or other exemption will be available with respect to any particular transaction involving the Bonds, or that, if available, the exemption would cover all possible prohibited transactions.

By acquiring a Bond (or interest therein), each purchaser and transferee (and if the purchaser or transferee is a plan, its fiduciary) is deemed to represent and warrant that either (i) it is not acquiring the Bond (or interest therein) with the assets of a Benefit Plan, Governmental plan or Church plan; or (ii) the acquisition and holding of the Bond (or interest therein) will not give rise to a nonexempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or Similar Laws. A purchaser or transferee who acquires Bonds with assets of a Benefit Plan represents that such purchaser or transferee has considered the fiduciary requirements of ERISA, the Code or Similar Laws and has consulted with counsel with regard to the purchase or transfer.

Because the City, Trustee, Underwriter or any of their respective affiliates may receive certain benefits in connection with the sale of the Bonds, the purchase of the Bonds using plan assets of a Benefit Plan over which any of such parties has investment authority or provides investment advice for a direct or indirect fee may be deemed to be a violation of the prohibited transaction rules of ERISA or Section 4975 of the Code or Similar Laws for which no exemption may be available. Accordingly, any investor considering a purchase of Bonds using plan assets of a Benefit Plan should consult with its counsel if the City, the Trustees or the Underwriters or any of their respective affiliates has investment authority or provides investment advice for a direct or indirect fee with respect to such assets or is an employer maintaining or contributing to the Benefit Plan.

Any ERISA Plan fiduciary considering whether to purchase the Bonds on behalf of an ERISA Plan should consult with its counsel regarding the applicability of the fiduciary responsibility and prohibited transaction provisions of ERISA and Section 4975 of the Code to such an investment and the availability of any of the exemptions referred to above. Persons responsible for investing the assets of Tax-Favored Plans that are not ERISA Plans should seek similar counsel with respect to the prohibited transaction provisions of the Code and the applicability of any similar state or federal law.

Municipal Advisor

The City has retained Urban Futures, Inc., Tustin, California, as municipal advisor (the “Municipal Advisor”) in connection with the issuance of the Bonds. The Municipal Advisor is an

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

Underwriting

Pursuant to a Bond Purchase Agreement (the “Purchase Agreement”), Hilltop Securities Inc., the Underwriter, has agreed, subject to certain conditions, to purchase the Bonds at a purchase price of \$_____ (which is equal to the principal amount of the Bonds, [plus/less] a [net] original issue [premium/discount] of \$_____, and less an Underwriter’s discount of \$_____). The Purchase Agreement provides that the Underwriter will purchase all of the Bonds if any are purchased. The obligation of the Underwriter to make such purchase is subject to certain terms and conditions set forth in the Purchase Agreement. The Underwriter intends to offer the Bonds to the public initially at the prices set forth on the inside cover of this Official Statement, which prices may subsequently change without any requirement of prior notice.

Rating

S&P Global Ratings (“S&P”) has assigned a rating of “___” to the Bonds. S&P’s rating reflects only the views of S&P and any explanation of the significance of such ratings may be obtained from S&P. There is no assurance that such rating will continue for any given period of time or that such rating will not be revised downward, suspended or withdrawn entirely, if in S&P’s judgment, circumstances so warrant. Other than as described in the Continuing Disclosure Certificate, the City takes no responsibility regarding either to bring to the attention of the Holders of the Bonds any revision, suspension or withdrawal of such rating or to oppose any such revision or withdrawal. Any such downward, suspension, revision or withdrawal of the ratings may have an adverse effect on the market price of the Bonds.

Miscellaneous

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

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

The City has duly authorized the execution and delivery of this Official Statement by its officer.

CITY OF MONTCLAIR

By: _____
City Manager

APPENDIX A

SUPPLEMENTAL INFORMATION ABOUT CITY OF MONTCLAIR

The following information concerning the City of Montclair (“City”) and the surrounding area is included only for the purpose of supplying general information regarding the community.

Population

The following table shows the estimated population growth for the City, the County and the State of California for the years shown.

City of Montclair City, County and State Population Growth⁽¹⁾ Calendar Years 2000, 2010 and 2017 through 2021

Calendar Year	City of Montclair	% Change from Prior Period	County of San Bernardino	% Change from Prior Period	State of California	% Change from Prior Period
2000	32,797	--	1,701,374	--	33,721,583	—
2010	36,628	11.68%	2,033,141	19.50%	37,223,900	10.39%

2017	39,047	6.60	2,139,520	5.23	39,352,398	5.72
2018	39,223	0.45	2,150,017	0.49	39,519,535	0.42
2019	39,498	0.70	2,165,876	0.74	39,605,361	0.22
2020	39,501	0.01	2,175,424	0.44	39,648,938	0.11
2021	39,598	0.25	2,175,909	0.02	39,466,855	-0.46

(1) As of January 1 of each year, with 2010 census benchmark.

Source: State of California Department of Finance.

Construction Activity

The table below shows the number of construction permits issued in the City and the related values for the years shown.

City of Montclair Construction Permits and Valuation Fiscal Years 2014-15 through 2018-19

Fiscal Year	Permits Issued	Valuation
2016-17	778	50,133,766
2017-18	689	68,317,503
2018-19	744	57,558,937
2019-20	720	27,585,328
2020-21	756	20,533,249

Source: City of Montclair.

Employment

According to the State of California Employment Development Department, the [May] 2021 preliminary, estimated unemployment rates for the City, the County and the State were [6.1 percent, 7.3 percent and 7.9 percent], respectively. As discussed in the forepart of this Official Statement (see “INTRODUCTION – COVID-19 Pandemic,” “CITY FINANCIAL INFORMATION” and “BONDOWNERS’ RISKS – Effects from COVID-19 Pandemic”), the COVID-19 pandemic and the various measures taken to protect public health have caused major disruptions to the local, national and global economy. As the economy re-opens, the City anticipates that the employment statistics will improve relative to the 2020 calendar year.

City of Montclair City, County and State Employment Statistics Calendar Years 2016 through 2020⁽¹⁾

Year	City		Unemployment Rate	County	State
	Labor Force	Employed		Unemployment Rate	Unemployment Rate
2016	18,600	17,600	5.1%	5.8%	5.5%
2017	18,800	18,000	4.2	4.9	4.8
2018	19,100	18,400	3.6	4.1	4.2
2019	19,300	18,700	3.1	3.8	4.0
2020 ⁽²⁾	19,500	17,800	9.1	9.4	10.1

(1) Not seasonally adjusted. March 2019 benchmark for years 2016-2019 data. March 2000 benchmark for year 2020 data.

(2) See “INTRODUCTION – COVID-19 Pandemic” and “BONDOWNERS’ RISKS – Effects from COVID-19 Pandemic” regarding economic disruptions caused by COVID-19 pandemic.

Source: State of California, Employment Development Department.

The following table lists the major employers within the City and their estimated number of employees:

City of Montclair Largest Employers (as of June 30, 2021)

Company	Product or Service	Estimated # of Employees
1. Ontario-Montclair School District	School District- Service	2,465
2. Chaffey Joint Union High School District	School District- Service	2,010
3. Montclair Plaza (all stores)	Retail- Product	2,000
4. Montclair Hospital Medical Center	Medical- Service	410
5. City of Montclair	Local Government	381
6. Target	Retail- Product	230
7. Metro Motorplex Auto Dealerships (Acura, Honda & Nissan)	Sales- Product	220
8. Costco	Retail- Product	200
9. Best Buy (including Best Buy Outlet)	Retail- Product	130
10. STG Auto Group of Montclair	Sales- Product	100

Source: City of Montclair.

Median Household Income

The following table shows the estimated median household income for the City, the County, the State and the United States for the years shown.

City of Montclair, Orange County, California and the United States Estimated Median Household Income Calendar Years 2015 through 2019

<u>Year</u>	<u>City</u>	<u>County</u>	<u>State</u>	<u>U.S.</u>
2015	\$49,366	\$53,433	\$61,818	\$53,889
2016	50,374	54,469	63,783	55,322
2017	54,192	57,156	67,169	57,652
2018	58,012	60,164	71,228	60,293
2019	62,024	63,362	75,235	62,843

Source: U.S. Census Bureau, 2015-2019 American Community Survey 5-Year Estimates.

Community Services

The City is a full-service City with a police and fire department. The City's Public Works Department provides inspections, traffic safety, building maintenance, street maintenance, including maintaining 78.16 acres in 13 parks. The City's Human Services Department staff administers recreational programs for residents of all ages, provides professional medical and mental health services, health education, early childhood education, operates a variety of senior citizen programs including daily meal service, and coordinates involvement with various community groups, such as social service agencies, mental health clinics, medical liaisons and law enforcement groups.

Located in and around the Civic Center are The Alma Hofman Park, a youth center and a senior center. Located in Alma Hofman Park is the Montclair Splash Pad, a 1,963-square-foot splash pad which is a zero-depth aquatic recreational feature that contains ground-mounted elements that spray water when activated by motion sensors connected to each of the individual elements and a skate park on Benito Street.

APPENDIX B

**CITY OF MONTCLAIR FINANCIAL AUDIT REPORT
FOR YEAR ENDED JUNE 30, 2020**

APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF TRUST AGREEMENT

APPENDIX D

FORM OF OPINION OF BOND COUNSEL

Upon issuance and delivery of the Bonds, Bond Counsel proposes to render its final approving opinion in substantially the following form:

_____, 2021

City of Montclair
Montclair, California

\$ _____
City of Montclair
2021 Taxable Pension Obligation Bonds

Ladies and Gentlemen:

We have acted as Bond Counsel to the City of Montclair (the “City”) in connection with the issuance of the above-captioned bonds (the “Bonds”), issued pursuant to a Trust Agreement, dated as of _____ 1, 2021 (the “Trust Agreement”), by and between the Agency and U.S. Bank, National Association, as trustee (the “Trustee”). Capitalized terms used but not defined herein shall have the meaning ascribed to such term as set forth in the Trust Agreement.

As Bond Counsel, we have examined copies, certified to us as being true and complete, of the Trust Agreement, 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. We have not undertaken to verify independently the accuracy of the factual matters represented, warranted or certified therein, and we have assumed the genuineness of all signatures thereto.

We have, with your approval, assumed that all items submitted to us as originals are authentic and that all items submitted as copies conform to the originals.

On the basis of such examination, our reliance upon the assumptions contained herein and our consideration of such questions of law as we considered relevant, and subject to the limitations and qualifications in this opinion, we are of the opinion that:

1. The Bonds constitute the valid and binding limited obligations of the City.
2. The Trust Agreement has been duly executed and delivered by, and, assuming due authorization, execution and delivery by the other parties thereto, constitutes the legally valid and binding obligation of, the City, enforceable in accordance with its terms. Enforcement thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws or equitable principles affecting the enforcement of creditors’ rights generally, the exercise of judicial discretion, the application of equitable principles

if equitable remedies are sought and limitations on remedies against counties in the State of California.

3. Interest on the Bonds is not excluded from gross income for federal income tax purposes.

4. Interest on the Bonds is exempt from personal income taxes of the State of California under present state law.

The opinions set forth in paragraphs 1 and 2 above are subject to (a) applicable bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting creditors' rights generally (including, without limitation, fraudulent conveyance laws), (b) the effect of general principles of equity, including, without limitation, concepts of materiality, reasonableness, good faith and fair dealing and the possible unavailability of specific performance or injunctive relief, regardless of whether considered in a proceeding in equity or at law, and (c) the limitations on legal remedies against government entities in the State of California. We express no opinion with respect to any indemnification, contribution, choice of law, choice of forum or waiver provisions contained in the Trust Agreement, and we express no opinion on the laws of any jurisdiction other than the State of California and the United States of America.

Except as stated in paragraphs 3 and 4, we express no opinion as to any other federal, state or local tax consequences of the ownership or disposition of the Bonds. Furthermore, we express no opinion as to any federal, state or local tax law consequences with respect to the Bonds, or the interest thereon, if any action is taken with respect to the Bonds or the proceeds thereof upon the advice or approval of other counsel.

No opinion is expressed herein on the accuracy, completeness or sufficiency of any offering material relating to the Bonds. This opinion is expressly limited to the matters set forth above and we render no opinion, whether by implication or otherwise, as to any other matters.

We do not undertake to advise you of any subsequent events or developments which might affect the statements contained herein. Our engagement with respect to this matter has ended as of the date hereof, and we disclaim any obligation to update this letter.

Respectfully submitted,

APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the “Disclosure Certificate”), dated October _____, 2021, is executed and delivered by the City of Montclair (the “City”) in connection with the City’s issuance of its 2021 Taxable Pension Obligation Bonds, in the aggregate principal amount of \$_____ (the “Bonds”). The Bonds are being issued pursuant to a Trust Agreement, dated as of [October] 1, 2021, 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 Underwriter in complying with the Rule (as defined below).

Section 2. Definitions. In addition to the definitions set forth in the Official Statement (defined below, 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.

“Dissemination Agent” shall mean initially U.S. Bank National Association, or any successor Dissemination Agent designated in writing by the City and which has filed with the City and the Trustee a written acceptance of such designation.

“EMMA” shall mean the Electronic Municipal Market Access system located at <http://www.emma.msrb.org>, as the centralized on-line repository for municipal disclosure documents to be filed with the MSRB pursuant to the Rule, or such other successor repository site as prescribed by the MSRB.

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

“MSRB” shall mean the Municipal Securities Rulemaking Board or any successor thereto.

“Official Statement” shall mean the final Official Statement, dated _____, 2021, relating to the Bonds.

“Participating Underwriter” shall mean Hilltop Securities Inc., as the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

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

“SEC” shall mean the United States Securities and Exchange Commission.

Section 3. Provisions of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, no later than nine months after the close of the City’s fiscal year (which currently will be March 31 of each year based on a June 30 end of fiscal year), commencing with the report for the 2020-21 fiscal year, provide to the MSRB, via EMMA, an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report, and later than the date required above for the filing of the Annual Report if not available by that date. If the City’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(b).

(b) Not later than 15 business days prior to the date specified in subsection (a) above for providing the Annual Report to the MSRB, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). If by such date, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the City to determine if the City is in compliance with the first sentence of this subsection (b). If requested by the Dissemination Agent, the City shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent may conclusively rely upon such certification of the City and shall have no duty or obligation to review such Annual Report.

(c) If the Dissemination Agent is unable to verify that an Annual Report has been provided to the MSRB by the date required in subsection (a), the Dissemination Agent shall in a timely manner send a notice to the MSRB, in such form as prescribed or acceptable to MSRB.

(d) The Dissemination Agent (if other than the City) shall, if and to the extent, the City has provided an Annual Report in final form to the Dissemination Agent for dissemination, file a report with the City certifying that the Annual Report has been provided to the MSRB pursuant to this Disclosure Certificate, and stating the date it was provided.

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

(a) The audited financial statements of the City for the most recently completed fiscal year. Such audited financial statements shall be 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, as may be further modified by applicable state law. If such audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the audited financial statements customarily used by the City, and

the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) To the extent not contained in the audited financial statements filed pursuant to the preceding subsection (a) by the date required by Section 3 hereof:

- (i) Tables 2 - 9 of the Official Statement;
- (ii) the then currently outstanding principal amount of the Bonds; and
- (iii) a list of then outstanding bonds, lease and other long-term obligations incurred by the City that are payable from the General Fund.

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

Any or all of the items listed above for inclusion in the Annual Report 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 available to the public on EMMA or filed with the SEC. The City shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the City shall give, or cause to be given to the MSRB, via EMMA, notice of the occurrence of any of the following Listed Events with respect to the Bonds, which notice shall be given in a timely manner, not in excess of ten business days after the occurrence of such Listed Event:

- (1) Principal and interest payment delinquencies;
- (2) Non-payment related defaults, if material;
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties; provided, it is hereby acknowledged that, at the issuance date of the Bonds, there is no debt service reserve established or required under the governing documents for the Bonds;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers, or their failure to perform;
- (6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices

or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security;

- (7) Modifications to rights of Bond owners, if material;
- (8) Bond calls, if material, and tender offers;
- (9) Defeasances;
- (10) Release, substitution, or sale of property securing repayment of the Bonds, if material;
- (11) Rating changes;
- (12) Bankruptcy, insolvency, receivership or similar event of the City;
- (13) 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, if material;
- (14) Appointment of a successor or additional trustee or the change of name of a trustee, if material;
- (15) Incurrence of a financial obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the City, any of which affect security holders, if material; and
- (16) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the City, any of which reflect financial difficulties.

(For Listed Events listed in Section 5(a)(15) and (16), “financial obligation” has such meaning as set forth in the Rule which, as of the date of this Disclosure Certificate, includes: (i) a debt obligation; (ii) a 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) a guarantee of (i) or (ii); provided that municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule is not a “financial obligation” for this purpose.)

(b) The Dissemination Agent (if different from the City) shall, within one business day after obtaining knowledge of the occurrence of any of the events listed in Section 5(a) (1), (3), (4), (5), (6), (9), (11), (12) or (16), or (8) with respect to tender offers, inform the City of the occurrence of such event. In any case, as soon as reasonably practicable after obtaining knowledge of the occurrence of such event, the City shall, or shall cause the Dissemination Agent

to, file in a timely manner, not in excess of ten business days after the occurrence of any such event, a notice of such occurrence with the MSRB, in an electronic format accompanied by identifying information as prescribed by the MSRB.

(c) The Dissemination Agent (if different from the City) shall, within one business day after obtaining knowledge of the occurrence of any of the events listed in Section 5(a) (2), (7), (10), (13), (14), (15) or (8) with respect to bond calls, inform the City of the occurrence of such event and request that the City promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to subsection (d). So long as the Trustee also serves as the Dissemination Agent, “knowledge” means the actual knowledge at the corporate trust office of the Trustee by an officer of the Trustee with responsibility for matters related to the administration of the Trust Agreement. The Dissemination Agent (if different from the City) shall have no responsibility to determine the materiality of any of the listed events.

(d) Whenever the City obtains knowledge of the occurrence of any event specified in Section 5(a) (2), (7), (10), (13), (14), (15) or (8) with respect to bond calls, the City shall as soon as possible, in order to meet the ten business day deadline to file notices required under the Rule and pursuant to the following sentence, determine if such event would be material under applicable Federal securities law. If the City determines that knowledge of the occurrence of such event would be material under applicable Federal securities law, the City shall, or shall cause the Dissemination Agent to, file in a timely manner, not in excess of ten business days after the occurrence of any such event, a notice of such occurrence with the MSRB, in an electronic format accompanied by identifying information as prescribed by the MSRB.

Section 6. Termination of Reporting Obligation. The City’s obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(b); provided, that this requirement shall be deemed satisfied by the filing of a notice of defeasance or full redemption pursuant to Section 5(b).

Section 7. Dissemination Agent. The initial Dissemination Agent shall be the City. From time to time, the City may appoint a different Dissemination Agent to assist it in carrying out its obligations (or designate itself as the Dissemination Agent) under this Disclosure Certificate. The Dissemination Agent may resign by providing 30 days written notice to the City and the Trustee. The City may replace the Dissemination Agent with or without cause.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

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

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

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

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first annual financial information filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided. For purposes of this paragraph, “impact” has the meaning as that word is used in the letter from the staff of the Securities and Exchange Commission to the National Association of Bond Lawyers dated June 23, 1995.

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing financial statements, the annual financial information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the City to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative. A notice of the change in the accounting principles shall be sent to the MSRB in the same manner as for a Listed Event under Section 5(b).

No amendment to this Agreement which modifies the duties or rights of the Dissemination Agent shall be made without the prior written consent of the Dissemination Agent.

Section 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. Default. In the event of a failure of the City or the Dissemination Agent to comply with any provision of this Disclosure Certificate, any Participating Underwriter or any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City

or the Dissemination Agent, as the case may be, to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Trust Agreement, and the sole remedy under this Disclosure Certificate in the event of any failure of the City or the Dissemination Agent to comply with this Disclosure Certificate shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of Dissemination Agent. If the Dissemination Agent is not the City, the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of 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) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent (acting in such capacity and not as other role) shall have only such duties as are specifically set forth in this Disclosure Certificate. The Dissemination Agent (if different than the City) shall be paid compensation by the City for its services provided hereunder in accordance with its schedule of fees as amended from time to time. The Dissemination Agent shall have no duty or obligation to review any information provided to it hereunder and shall not be deemed to be acting in any fiduciary capacity for the City, the Holders, or any other party. The Dissemination Agent may rely and shall be protected in acting or refraining from acting upon any direction from the City or an opinion of nationally recognized bond counsel. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, the Participating Underwriter and holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

IN WITNESS WHEREOF, the City has caused its duly authorized officer to execute and deliver this Certificate on the date first written above.

CITY OF MONTCLAIR

By: _____
City Manager

APPENDIX F

DTC'S BOOK-ENTRY ONLY SYSTEM

The information in this Appendix concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof. The City give no assurances that (i) DTC, the Direct and Indirect Participants or others will distribute payments of principal, premium (if any) or interest with respect to the Bonds paid to DTC or its nominee as, the registered owner, to the Beneficial Owners, (ii) such entities will distribute redemption notices or other notices, to the Beneficial Owners, or (iii) an error or delay relating thereto will not occur.

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest 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: 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.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing

details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds 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 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMD Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, premium (if any) and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the 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 City or the Trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Principal, premium (if any) and interest payments with respect to the Bonds 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 Bonds 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, Bond certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered in accordance with the provisions of the Trust Agreement.



CITY OF MONTCLAIR Unfunded Accrued Liability (UAL) Pension Policy

PURPOSE

The purpose of this Unfunded Accrued Liability ("UAL") Pension Policy ("Policy") is to provide guidance on the development and adoption of a funding plan for any UAL that are calculated annually by the California Public Employees' Retirement System ("CalPERS"), or for any UAL remaining immediately after issuance of a pension obligation bond ("POB").

This funding Policy should also support the decision-making process of the City Council of the City of Montclair ("City Council") and should be consistent with the overall purpose and goals of the City of Montclair's public employee pension plans. As used in this Policy, "City" shall mean the City of Montclair and/or its related entities, as the context may require.

The City recognizes that a fiscally prudent Policy should achieve the following:

- Maintain the City's sound financial position;
- Ensure the City has the flexibility to respond to changes in future service priorities, revenue levels, and operating expenditures, including meeting its ongoing payment obligations related to the City's POB, its normal employer pension rate component, and any new or remaining UAL after POB issuance;
- Protect the City's creditworthiness;
- Ensure that all pension funding decisions are structured to protect both current and future taxpayers, ratepayers, and residents of the City; and

- Ensure that the City's debt, including the structure of the City's POB and future UAL amortization, is consistent with the City's short- and long-term strategic planning goals, objectives, capital improvement program, fiduciary responsibilities, and/or annual adopted budgets.

BACKGROUND

The primary operating objective behind the provision of defined benefit pension plans is to provide for pension benefit security; i.e., ensure that sufficient assets will be accumulated to deliver promised benefits when they come due, thereby protecting pension benefits in situations that involve employer insolvency or bankruptcy. Establishing sound funding guidelines promotes pension benefit security. The City's pension benefit security objective is to fund the total of its CalPERS pension plans to a level between no less than 80%, and up to 100% of the total accrued liability whenever financially practicable.

The City is committed to processes that promote fiscal sustainability. These processes including employing long-term financial planning efforts; maintaining appropriate reserve levels; employing prudent practices in governance, management, budget administration, and financial reporting; and making all relevant information readily available to decision-makers and the public to improve the quality of decisions, identify policy goals, and demonstrate the City's commitment to long-term financial planning. Adherence to these processes that promote fiscal sustainability signals to rating agencies and the capital markets that the City is well managed and able to meet its fiscal obligations in a timely manner.

In furtherance of this Policy, the City has committed to a framework for funding the City's defined benefit pension plans, taking into account factors that are relevant to pension benefit security and the fiscal and operational health of the City. These factors include, but are not limited to the following:

- The financial position of the City;
- Stability of the City's pension plans (pension benefit security) and/or affordability of the City's annual pension-related payments;
- Terms of the City's CalPERS contract and collective bargaining agreements; and
- Minimum pension funding requirements under State law.

The City has identified several advantages to developing a funding policy that addresses pension liabilities. These advantages include, but are not limited to, the following:

- Allows for proper management of long-term pension liabilities, thereby minimizing both the short- and long-term fiscal effects of these liabilities on municipal operations development of annual operating budgets.
- Provides for a disciplined decision-making process, which contributes to better predictability in funding pension and other municipal obligations.
- Promotes transparency of funding decisions and comprehension of pension funding issues.
- Facilitates identification, understanding, and management of risk factors that affect the variability of pension funding obligations.
- Promotes the conceptualization and comprehension of pension benefit security.

REMAINING UNFUNDED ACCRUED LIABILITY

The City is in the process of issuing a POB that will generate bond proceeds for deposit with CalPERS, up to an amount equal to 100% of the estimated UAL as of **October 27, 2021** (based on the latest actuarial valuation information available to the City). After the deposit of bond proceeds with CalPERS, the City may or may not have a remaining UAL balance still owed to CalPERS.

If the City issues a POB for less than the full 100% of the UAL, any remaining UAL will be accounted for as a separate General Fund pension obligation of the City, and, for purposes of this Policy, separate from any new increase in the City's UAL resulting from annual actuarial valuation report changes.

The City will create a payoff/funding plan that will address any remaining UAL immediately after the issuance of the POB. The remaining UAL will be paid off or fully funded within a twenty (20) year period from the date of issuance of the POB.

NEW UNFUNDED ACCRUED LIABILITY

Every June 30, CalPERS will complete a new actuarial valuation report and will calculate the City of Montclair’s pension liability as of the new valuation date. If the value of the funded assets is not equivalent to this new liability amount, the City will incur a new UAL at that point in time. The City's new UAL may increase or decrease from year to year, due to the following factors:

- Changes in actuarial assumptions and experience changes (e.g., changes in the discount rate, changes in demographic experience, etc.);
- Changes in actuarial gains and losses due to asset returns being higher or lower than expected; and
- Changes in plan benefits – the City anticipates no changes to pension plan benefits except as mandated by law, and is in full compliance with provisions of the Public Employee Pension Reform Act of 2012 (PEPRA).

Due to the possibility of a new UAL developing, the City desires to create a policy to immediately address any new pension liabilities, or amortization bases, that arise – any new increase or decrease in the liability resulting from the annual actuarial valuation is identified as a separate line item, or amortization base, on the annual CalPERS actuarial valuation report. **Table 1**, below, lays out the parameters for paying off/funding the new UAL in a designated amount of time, based on the amount of the UAL, as follows:

**Table 1
UAL Payoff Schedule**

New Unfunded Accrued Liability (Any new liability incurred after the June 30, 2020 valuation report)	Payoff / Funding Time Period
\$0 to \$5,000,000	Within 1 to 5 years
\$5,000,001 to \$10,000,000	Within 6 to 10 years
\$10,000,001 to \$20,000,000	Within 11 to 15 years
Over \$20,000,000	Within 16 to 20 years

Each year, when the City is provided with the annual valuation report from CALPERS, staff will present to the City Council, as part of the next budgetary cycle, the following:

- The dollar amount of the new liability (new amortization base);
- The number of years that staff is recommending to pay off/fund the liability;
- The dollar amount of the annual contribution to be made;
- The funding source(s) of the payments; and
- The short-term and long-term financial impacts on the City's General Fund reserve balance.

When a new amortization base results in a credit balance, the credit will be applied, first, to any negative bases during the same period and, secondly, against any prior year bases until the credit is fully exhausted. The remaining outstanding liability will then be recalculated and a new payoff schedule and annual contribution will be determined based on the payoff schedule in **Table 1**, above. New amortization repayment schedules should be kept under 20 years, thereby maximizing long-term savings.

PREPAYMENT OPTIONS

At the beginning of each fiscal year, the City will analyze the cost/benefits of prepaying any amount due CalPERS during that fiscal year. The City will strive to take advantage of any annual prepayment discount afforded by CalPERS.

FUNDING LEVELS

The City's target funding level will be 100% of the current UAL. The City will strive to achieve this funding level through debt refinancing, allocation of reserves, and/or cost containment measures. The total funding amount will be a combination of the amount on deposit with CalPERS, any funds deposited in a City established Section 115 trust, and any funds reserved by the City that are designated for pension liabilities.

FUNDING OPTIONS

Funding options for the remaining unfunded liability and/or any new UAL may include the use of a Section 115 Trust and/or allocating fund reserves from any allowable fund within the City, including a City established UAL/POB Amortization Fund.

SECTION 115 TRUST

A Section 115 Trust may be established to transfer funds to a trust to ensure that these funds will only be used for pension-related costs. Trust assets can be accessed to pay CalPERS at any time to reduce volatility and offset unexpected pension rate increases. The trust will have funds deposited into it at the discretion of the City Council, based on recommendations made by the City Manager or his/her designee during the annual budget adoption process. For the calculation of funding levels, monies put in a Section 115 Trust will be treated the same as putting monies on deposit with CalPERS.

ADDITIONAL DISCRETIONARY PAYMENTS

The City may make Additional Discretionary Payments (“ADP”) to CalPERS at any time. After completion of the City's annual audit, City staff review and assess discretionary fund reserve balances to determine availability of discretionary funds for ADPs – ADP's should not adversely affect the general operations of the City. At the City's discretion, ADP's may be paid directly to CalPERS or invested in a City established Section 115 trust.

Approved:

City Manager: _____ Date: _____