COUNCILMEMBER DONNA FRYE
City of San Diego
Sixth District

MEMORANDUM

DATE: **July 31, 2007**

TO: **Mayor Jerry Sanders**
City Attorney Michael Aguirre
Deputy City Attorney for Disclosure, Mark Blake
Acting City Auditor/COO/CFO, Jay Goldstone

FROM: **Councilmember Donna Frye** Donna Frye

SUBJECT: **Debt Management Policy**

At the July 25, 2007, City Council Budget and Finance Committee meeting, there was an item brought forward by the Mayor's office regarding the City's Debt Management Policy (Debt Policy). However, this Debt Policy did not include the Pension debt or the Retiree Health Care debt. In addition, it is not clear if the Debt Policy included the Preservation of Benefits debt. Instead, the Pension and Retiree Health Care debt was described as "soft" debt and, therefore, was not included in the Debt Policy.

Given that the above debt accounts for at least $2 billion, it is unclear how this amount is *not* considered debt for purposes of the City's Debt Policy. At a minimum, it should be disclosed in the Debt Policy. This is especially relevant given U.S. Securities and Exchange Commission Chairman Christopher Cox's comments in his July 18, 2007, speech "Integrity in the Municipal Marketplace." He noted:

"Very recently the SEC sanctioned the City of San Diego for committing securities fraud. They failed to disclose to municipal bond investors important information about their pension and retiree health care obligations. San Diego's offering documents didn't tell investors that the city's unfunded liability to its pension plan was projected to grow dramatically – from $284 million at the beginning of 2002 to $2 billion by 2009 – or that the city's liability for retiree health care was projected to grow to more than $1 billion. Investors had no way of knowing that the city knowingly under-funded its pension obligations so that it could increase pension benefits, while deferring the costs. If investors had known this, they could also have figured out that San Diego was bound to face severe difficulty funding its future pension and retiree health care obligations – a minor little piece of accounting business."

As follow-up to the issues I raised at the Budget and Finance Committee meeting, I am requesting that the following information be provided before the Debt Policy is brought back to the committee:

- A list of all City debt that is not included in the City's Debt Policy, including the dollar amount (both principal and interest) and repayment schedules.
- A definition of the word "debt" as used in the Debt Policy.
- Legal analysis as to why only some debt is included as such in the City's Debt Policy.
- Comparison of City's debt capacity with and without "soft" debt

Cc: Andrea Tevlin, IBA
Stanley Keller, Independent Consultant

ATTACHMENT 1

THE CITY OF SAN DIEGO
MAYOR JERRY SANDERS

MEMORANDUM

DATE: September 18, 2007

TO: Councilmember Donna Frye

FROM: Jay M. Goldstone, Chief Operating Officer (Interim)/Chief Financial Officer

SUBJECT: Debt Policy

Following the Budget and Finance Committee ("Committee") meeting on July 25, 2007, you requested, in a memorandum dated July 31, 2007, certain information to be provided before the Debt Policy item is brought back to the Committee. Following are the responses to the questions listed in the memorandum:

1. A list of all City debt that is not included in the City's Debt Policy, including the dollar amount (both principal and interest) and repayment schedules.

   Attachment 1, which is an excerpt from the FY 2004 Comprehensive Annual Financial Report ("CAFR"), is a comprehensive list of liabilities and the amortization requirements of the City and its Related Entities (as of 6/30/2004). Attachment 1 includes the following notes to the financial statements (FY 2004 CAFR):
   - Note 5: Governmental Activities Long-Term Liabilities
   - Note 6: Business Type Activities Long-Term Liabilities
   - Note 7: Discretely Presented Component Units Long-Term Debt
   - Note 8: Short-Term Notes Payable
   - Note 19: Third Party Debt (Conduit Debt)

   Consistent with GASB standards, the Net Pension Obligation ("NPO") is reflected in the Governmental Activities Note 5 of FY 2004 CAFR as a long term liability. Starting FY 2008, any Other Post Employment Benefits ("OPEB") related NPO will also be captured in the same section.

As you are aware, through separate pension and OPEB actuarial valuations, CERS and the City, respectively, have determined the pension Unfunded Actuarial Liability ("UAL") and OPEB related UAL as follows (as of 6/30/06): Pension UAL - $1,000.8 million[1] and OPEB UAL - $1,382.2 million (based on a 4% earnings assumption) (also refer to "Letter of Transmittal" - FY 2004 CAFR). Subsequent OPEB UAL calculation by the City actuary, based on a 5% earnings assumption, resulted in an OPEB UAL of $1,097.2 million.

Redevelopment Agency: Redevelopment Agency's external obligations are included in the CAFR, Note 5 - Governmental Activities Long-Term Liabilities. See Attachment 1. Loans made by the City to the Redevelopment Agency are not reflected in this Note. Following Generally Accepted Accounting Principles ("GAAP"), blended component unit funds are treated the same as any other fund of the City. Since the Redevelopment Agency and the City share the same governing board, the Agency is considered a blended component unit of the City. Additionally, according to GASB Standard 34, loans between funds should be recorded as inter fund loans. If the loans are not expected to be repaid within a reasonable time, these should be recorded as transfers. Due to the fact that there are no repayment schedules associated with City loans to the Agency, and because the Agency is not anticipated to repay based on a fixed schedule to the City in the near term, these loans are recorded as transfers in the CAFR instead of a long term liability in Note 5 of CAFR where Redevelopment Agency's external liabilities are booked. Similarly, periodic loan repayments from the Agency to the City are also recorded as transfers from the Agency funds to the fund that originally issued the loan.

Please note that the Redevelopment Agency's Annual Financial Report ("RDA Financial Report") reflects the activities of the Agency as a separate legal entity from the City. As such, loans from the City are reflected as a long term liability in the Statement of Net Assets as well as in the Long Term Debt Note (Note 5 – see Attachment 2) to the RDA Financial Report. As reflected in Note 5 of the RDA Financial Report, the balance outstanding in loans payable to the City is $225.6 million as of 6/30/04. The breakdown of the loans payable, not listed in the RDA Financial Report - Note 5, is as follows (break down by the three administering units of the Redevelopment Agency's 17 project areas):

- CCDC (Centre City and Horton Plaza): $112.8 million
- SEDC (Central Imperial, Gateway, Mt. Hope, and Southcrest): $65.8 million
- Redevelopment Division (Barrio Logan, City Heights, College Community, College Grove, Crossroads, Linda Vista, Market Street, NTC, North Bay, North Park and San Ysidro): $47.0 million

As discussed below, the Debt Policy addresses debt instruments issued by the City in public or private bond markets.

[1] The Pension UAL is calculated at $1,000.8 million using the Projected Unit Credit (PUC) methodology; using the Entry Age Normal methodology the UAL is calculated at $1,210.0 million.

2. A definition of the word "debt" as used in the Debt Policy.

The Debt Policy primarily addresses debt instruments/securities issued by the City in public or private bond markets. This is consistent with examples of debt policies of other comparable municipalities, GFOA guidelines, and rating agency guidelines. The debt policies pertain to debt that is typically incurred when capital is raised in the public or private markets, including borrowings from sophisticated qualified institutional buyers, to meet the City's funding needs. Such debt constitutes obligations whereby a third-party has provided funds, which is evidenced by the formal execution of a bond or certificate (or a similar instrument), and is held by the third-party until it is repaid[2].

Attachment 3 is a list of such debt issuances and the respective repayment schedules. These include:

- General Obligation Bonds
- General Fund Backed Lease Revenue Bonds and Certificates of Participation
- Tax and Revenue Anticipation Notes
- Enterprise Fund Revenue Bonds (Water and Wastewater)
- Special Districts Bonds

Appendix A of this Debt Policy provides policy direction on the Special Districts Formation and Financing. This policy replaces the existing Council Policy 800-03 (Public Infrastructure Financing Assessment Districts and Community Facilities) that currently addresses Special Districts Formation and Financing. Appendix B, Council Policy 100-12 (Industrial Development Bond Program), provides policy direction with regards the Industrial Development Bonds. Also refer to Chapter 3, section 3.9.

While various financing instruments are available to the City and its related agencies as discussed in Chapter 3 of the Debt Policy, guidelines and parameters established under this Debt Policy do not encompass debt and other liabilities issued and administered by the City of San Diego Redevelopment Agency and the San Diego Housing Authority[3].

3. Legal analysis as to why only some debt is included as such in the City's Debt Policy.

The City Attorney's office will provide its response to the Committee at the Committee meeting on September 26, 2007.

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[2] Pension and Retiree Health Care debt was not included in the Debt Policy as these are not debt instruments/securities issued by the City in public or private bond markets, which is the focus of this Debt Policy. As discussed in the context of debt affordability ratios and in accordance with industry standards, long-term liabilities like unfunded pension liabilities are not included unless they are owed to a third party over a predetermined schedule in the form of, for example, pension obligation bonds which are issued to refund the UAL.

[3] The San Diego Housing Commission has Debt Policy specific to the Multifamily Mortgage Revenue Bond Program administered by the Housing Commission. The City of San Diego Redevelopment Agency currently does not have a formal written debt policy.

4. Comparison of City's debt capacity with or without "soft" debt.

Debt affordability ratios discussed in Chapter 4 of the Debt Policy, guided by rating agency methodology standards, only include general obligation bonds and general fund backed bond obligations such as lease revenue bonds and certificates of participation. As indicated in the release by Fitch Ratings - "To Bond or Not To Bond – Debt Affordability Guidelines and Their Impact on Credit [4]", other long-term liabilities like unfunded pension liabilities are not included in these ratios unless they are owed to a third party over a predetermined schedule in the form of, for example, pension obligation bonds which are issued to refund UAL.

The affordability ratios for the combined general fund backed debt (general obligation bonds and general fund backed certificates of participation and lease revenue bonds) are as follows:

- Debt per capita: This is the outstanding bond principal of above stated categories as a percentage of population.
- Debt as a percent of assessed valuation: This is the outstanding bond principal as a percentage of assessed valuation.
- Debt service as a percent of operating budget: This is the annual debt service (principal and interest due annually) as a percentage of General Fund revenues. Based on the current outstanding debt in the General Obligation bonds and General Fund Backed Lease Revenue Bonds and Certificates of Participation, and utilizing the debt affordability ratios, the City's debt capacity is summarized below[5]:

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Assessed Valuation (in millions) (1)	$ 163,636	$ 173,454	$ 178,658	$ 184,018	$ 189,538	$ 195,224	$ 201,081
Population (2)	1,316,837	1,330,005	1,343,305	1,356,738	1,370,306	1,384,009	1,397,849
GF Revenues (in thousands) (3)	$ 1,021,203	$ 1,103,967	$ 1,091,700	$ 1,121,000	$ 1,151,700	$ 1,183,700	$ 1,215,660
Outstanding Debt (Current)							
G.O. Bonds	$ 10,705,000	$ 8,580,000	$ 6,315,000	$ 4,340,000	$ 2,240,000	$ -	$ -
G.F. Backed Lease Revenue Bonds	$ 438,775,000	$ 424,865,000	$ 410,900,000	$ 396,230,000	$ 383,745,000	$ 370,600,000	$ 356,770,000
G.F. Backed Certificates of Participation	$ 33,770,000	$ 28,695,000	$ 23,390,000	$ 19,255,000	$ 14,905,000	$ 13,950,000	$ 12,950,000
Total G.F. Outstanding Debt	**$ 483,250,000**	**$ 462,140,000**	**$ 440,605,000**	**$ 419,825,000**	**$ 400,890,000**	**$ 384,550,000**	**$ 369,720,000**
Direct Debt as a % of AV	0.30%	0.27%	0.25%	0.23%	0.21%	0.20%	0.18%
Debt per Capita	$ 367	$ 347	$ 328	$ 309	$ 293	$ 278	$ 264
Gross Debt Service	**$ 49,547,756**	**$ 45,821,179**	**$ 45,800,911**	**$ 41,063,123**	**$ 41,059,168**	**$ 37,529,788**	**$ 35,210,331**
Port Authority Transfer	$ (4,500,000)	$ (4,500,000)	$ (4,500,000)	$ (4,500,000)	$ (4,500,000)	$ (4,500,000)	$ (4,500,000)
Sports Arena/Midway Lease Transfer	$ (3,419,859)	$ (3,522,454)	$ (3,628,128)	$ (3,736,972)	$ (3,849,081)	$ (3,964,554)	$ (4,083,491)
Net Debt Service	**$ 41,627,897**	**$ 37,798,725**	**$ 37,672,783**	**$ 32,826,151**	**$ 32,710,087**	**$ 29,065,234**	**$ 26,626,841**
Gross Debt Service as a % of Revenues	4.85%	4.15%	4.20%	3.66%	3.57%	3.17%	2.90%
Net Debt Service as a % of Revenues	4.08%	3.42%	3.45%	2.93%	2.84%	2.46%	2.19%

1. A 6% growth rate is assumed for FY 2008 and 3% annual growth rate thereafter
2. A 1% growth rate is assumed starting FY 2008
3. A 3% growth rate is assumed starting FY 2009

As discussed in Chapter 4 of the Debt Policy, coverage ratios for revenue bonds are treated separately from General Fund backed debt obligations.

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[4] See Attachment 4.

[5] Further, to illustrate the debt capacity as measured by these debt affordability ratios, for every $100 million in new debt issued, the debt service as a percentage of revenues will increase by approximately 0.70% (using FY 2008 revenue base).

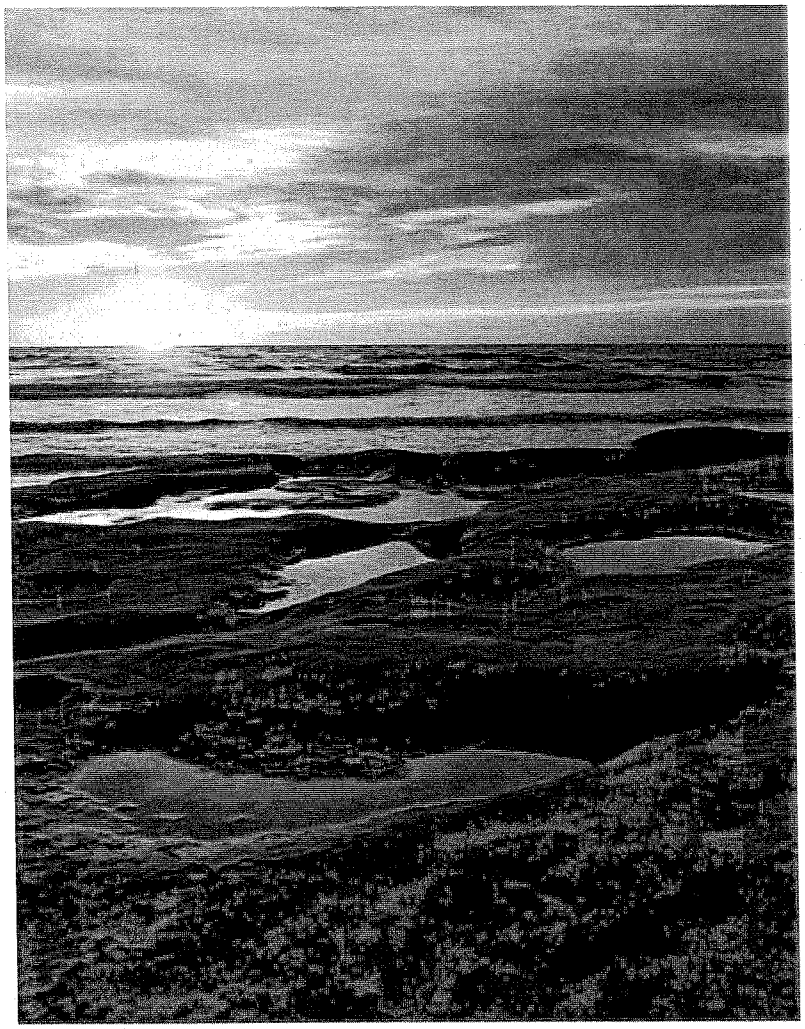
Attachments:

1. Excerpts of the FY 2004 Comprehensive Annual Financial Report
2. Excerpts of the FY 2004 Redevelopment Agency Annual Financial Report
3. List of debt issuances included in the Debt Policy
4. Fitch Ratings Release: "To Bond or Not To Bond – Debt Affordability Guidelines and Their Impact on Credit"

cc: Honorable Mayor Jerry Sanders
City Attorney Michael Aguirre
Mark D. Blake, Chief Deputy City Attorney
Andrea Tevlin, Independent Budget Analyst
Stanley Keller, Independent Consultant

Attachment 1
FY 2004 CAFR Excerpts

comprehensive annual financial report



for Fiscal Year Ended June 30, 2004

5. GOVERNMENTAL ACTIVITIES LONG-TERM LIABILITIES (In Thousands)

a. Long-Term Liabilities

Governmental long-term liabilities as of June 30, 2004 are comprised of the following:

Type of Obligation	Interest Rates	Fiscal Year Maturity Date	Original Amount	Balance Outstanding June 30, 2004
Arbitrage Liability				$ 262
Compensated Absences				71,895
Liability Claims				202,914
Capital Lease Obligations				30,619
Contracts Payable:				
Contract Payable to SDSU Foundation, dated December 1991	7.02%	---	1,598	1,598
Amendment to Contract Payable to SDSU Foundation, dated January 1995	7.02%	---	117	117
Total Contracts Payable				1,715
Notes Payable:				
Note Payable to Lorren Daro, dated March 1995	8.0	2005	257	30
Note Payable to Wal-Mart, dated June 1998	10.0	2017	1,308	853
Notes Payable to San Diego Revitalization, dated April 2001	5.0	2032	5,115	5,115
Total Notes Payable				5,998
Loans Payable:				
International Gateway Associates, LLC, dated October 2001	10.0	2032	1,876	1,865
Padres, L.P., dated March 1999	6.0	2005	3,500	3,000
Total Loans Payable				4,865
San Diego Association of Governments (SANDAG) Loans Payable				19,302
Section 108 Loans Payable				44,917
General Obligation Bonds:				
Public Safety Communications Project, Series 1991	5.0 - 8.0%*	2012	25,500	14,390
Open Space Park Refunding Bonds, Series 1994	5.0 - 6.0*	2009	64,260	31,385
Total General Obligation Bonds				45,775
Revenue Bonds / Lease Revenue Bonds / COPs:				
MTDB Authority Lease Revenue Refunding Bonds, Series 1994	4.25 - 5.625*	2010	66,570	21,775
Public Facilities Financing Authority Stadium Lease Revenue Bonds, Series 1996 A	6.2 - 7.45*	2027	68,425	62,870

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Type of Obligation	Interest Rates	Fiscal Year Maturity Date	Original Amount	Balance Outstanding June 30, 2004
San Diego Facilities and Equipment Leasing Corp. Certificates of Participation, Series 1996 A	4.0 - 5.6*	2011	$ 33,430	$ 20,570
San Diego Facilities and Equipment Leasing Corp. Certificates of Participation Refunding, Series 1996 B	4.0 - 6.0*	2022	11,720	9,845
Convention Center Expansion Financing Authority Lease Revenue Bonds, Series 1998 A	3.8 - 5.25*	2028	205,000	192,480
Centre City Parking Revenue Bonds, Series 1999 A	4.5 - 6.49*	2026	12,105	11,365
Public Facilities Financing Authority Reassessment District Refunding Revenue Bonds, Series 1999 A	2.75 - 4.75*	2018	30,515	20,735
Public Facilities Financing Authority Reassessment District Refunding Revenue Bonds, Series 1999 B	3.5 - 5.10*	2018	7,630	5,165
Public Facilities Financing Authority Ballpark Lease Revenue Bonds, Series 2002	7.15 - 7.7*	2032	169,685	169,685
Public Facilities Financing Authority Fire and Life Safety Lease Revenue Bonds, Series 2002 B	3.55 - 7.0*	2032	25,070	24,665
Centre City Parking Revenue Bonds, Series 2003 B	3.0 - 5.30%*	2027	20,515	20,515
MTDB Authority Lease Revenue Refunding Bonds, Series 2003	2.0 - 4.375*	2023	15,255	15,010
San Diego Facilities Equipment Leasing Corp. Certificates of Participation Refunding, Series 2003	1.0 - 4.0*	2024	17,425	16,940
Total Revenue Bonds / Lease Revenue Bonds / COPs				591,620
Special Assessment / Special Tax Bonds				
1915 Act Otay Mesa Industrial Park Improvement Bonds, Series 1992	5.5 - 7.95*	2013	2,235	475
Miramar Ranch North Special Tax Refunding Bonds, Series 1998	3.75 - 5.375*	2021	59,465	50,775
Santaluz Special Tax Bonds, Series 2000 A	4.75 - 6.375*	2031	56,020	55,755
Santaluz Special Tax Bonds, Series 2000 B	4.5 - 6.2*	2031	4,350	4,295
City of San Diego Reassessment District Limited Obligation Refunding Bonds, Series 2003-1	4.25 - 5.8*	2018	8,850	8,850
Piper Ranch Limited Obligation Improvement Bonds, Series 2003	2.5 - 6.2*	2034	5,430	5,430
Santaluz Special TaxBonds, Improvement Area No.1, Series 2004	1.7 - 5.5*	2031	5,000	5,000
Santaluz Special TaxBonds, Improvement Area No.4, Series 2004	1.65 - 5.5*	2034	9,965	9,965
Total Special Assessment / Special Tax Bonds				140,545

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Type of Obligation	Interest Rates	Fiscal Year Maturity Date	Original Amount	Balance Outstanding June 30, 2004
Tax Allocation Bonds:				
Centre City Redevelopment Project Tax Allocation Bonds Series 1993 A	5.5 - 6.5*	2011	$ 27,075	$ 13,850
Centre City Redevelopment Project Tax Allocation Bonds, Series 1993 B	4.875 - 5.4*	2017	27,275	19,655
Gateway Center West Redevelopment Project Tax Allocation Bonds, Series 1995	7.8 - 9.75*	2014	1,400	940
Mount Hope Redevelopment Project Tax Allocation Bonds, Series 1995 A	4.4 - 6.0*	2020	1,200	960
Mount Hope Redevelopment Project Tax Allocation Bonds, Series 1995 B	6.9 - 8.2*	2021	3,955	3,400
Southcrest Redevelopment Project Tax Allocation Bonds, Series 1995	4.75 - 6.592*	2020	3,750	2,660
Horton Plaza Redevelopment Project Tax Allocation Refunding Bonds, Series 1996 A	3.8 - 6.0*	2016	12,970	9,585
Horton Plaza Redevelopment Project Tax Allocation Refunding Bonds, Series 1996 B	4.3 - 7.0*	2007	9,830	1,155
Centre City Redevelopment Tax Allocation Bonds, Series 1999 A	3.0 - 5.125*	2019	25,680	25,390
Centre City Redevelopment Tax Allocation Bonds, Series 1999 B	6.25*	2014	11,360	11,360
Centre City Redevelopment Tax Allocation Bonds, Series 1999 C	3.1 - 4.75*	2025	13,610	12,835
City Heights Redevelopment Tax Allocation Bonds, Series 1999 A	4.5 - 5.8*	2029	5,690	5,690
City Heights Redevelopment Tax Allocation Bonds, Series 1999 B	5.75 - 6.4**	2029	10,141	13,745
Central Imperial Redevelopment Project Tax Allocation Bonds, Series 2000	4.45 - 6.6*	2031	3,395	3,260
Centre City Redevelopment Project Tax Allocation Bonds, Series 2000 A	4.0 - 5.6*	2025	6,100	5,665
Centre City Redevelopment Project Tax Allocation Bonds, Series 2000 B	3.95 - 5.35*	2025	21,390	20,565
Horton Plaza Redevelopment Project Tax Allocation Bonds, Series 2000	4.25 - 5.8*	2022	15,025	14,680
North Bay Redevelopment Project Tax Allocation Bonds, Series 2000	4.25 - 5.875*	2031	13,000	12,340
North Park Redevelopment Project Tax Allocation Bonds, Series 2000	4.1 - 5.9*	2031	7,000	6,650
Southcrest Redevelopment Project Tax Allocation Bonds, Series 2000	4.45 - 6.5*	2026	1,860	1,750

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Type of Obligation	Interest Rates	Fiscal Year Maturity Date	Original Amount	Balance Outstanding June 30, 2004
Centre City Redevelopment Tax Allocation Bonds, Series 2001 A	4.93 - 5.55***	2027	$ 58,425	$ 60,083
Mount Hope Redevelopment Project Tax Allocation Bonds, Series 2002 A	5.0*	2027	3,055	3,055
Centre City Redevelopment Project Tax Allocation Bonds, Series 2003 A	2.5 - 5.0*	2029	31,000	27,880
City Heights Redevelopment Project Tax Allocation Bonds, Series 2003 A	5.875 - 6.5*	2034	4,955	4,955
City Heights Redevelopment Project Tax Allocation Bonds, Series 2003 B	2.5 - 4.25*	2014	865	865
North Park Redevelopment Project Tax Allocation Bonds, Series 2003 A	1.5 - 6.125*	2028	7,145	7,145
North Park Redevelopment Project Tax Allocation Bonds, Series 2003 B	4.75 - 5.0*	2034	5,360	5,360
Horton Plaza Redevelopment Project Tax Allocation Bonds, Series 2003 A	4.65 - 5.1*	2022	6,325	6,325
Horton Plaza Redevelopment Project Tax Allocation Bonds, Series 2003 B	3.25-5.45*	2022	4,530	4,530
Horton Plaza Redevelopment Project Tax Allocation Bonds, Series 2003 C	3.49-7.74*	2022	8,000	8,000
Total Tax Allocation Bonds				314,333
Total Bonds Payable				1,092,273
Net Pension Obligation				203,589
Total Governmental Activities Long-Term Liabilities				$ 1,678,349

* Interest rates are fixed, and reflect the range of rates for various maturities from the date of issuance to maturity.

** The City Heights Redevelopment Tax Allocation Bonds, Series 1999 B, are capital appreciation bonds, which mature from fiscal year 2011 through 2029. The balance outstanding at June 30, 2004 includes an accreted amount of $3,694. The principal amount at full maturity will be $33,910.

*** The Centre City Redevelopment Tax Allocation Bonds, Series 2001 A, partially include capital appreciation bonds, which mature from fiscal year 2015 through 2027. The balance outstanding at June 30, 2004 includes an accreted amount of $2,063. The principal amount at full maturity will be $85,140.

Liability claims are primarily liquidated by the Self Insurance Fund and Enterprise Funds. Compensated absences are paid out of the operating funds and the miscellaneous internal service funds. Pension liabilities are paid out of the operating funds based on a percentage of payroll.

Public safety general obligation bonds are secured by a pledge of the full faith and credit of the City or by a pledge of the City to levy ad valorem property taxes without limitation. Open space general obligation bonds are backed by Environmental Growth Fund 2/3 franchise fees.

Revenue bonds are secured by a pledge of specific revenue generally derived from fees or service charges related to the operation of the project being financed. Certificates of Participation (COPs) and lease revenue bonds provide long-term financing through a lease agreement, installment sales agreement, or loan agreement that does not constitute indebtedness under the state constitutional debt limitation and is not subject to other statutory requirements applicable to bonds.

Special assessment/special tax bonds are issued by the City to provide funds for public improvements in/and or serving special assessment and Mello-Roos districts created by the City. The bonds are secured by assessments and special taxes levied on the properties located within the assessment districts and the community facilities districts, and are payable solely from the assessments and special taxes collected. The assessments and the special taxes, and any bonds payable from them, are secured by a lien on the properties upon which the assessments and the special taxes are levied. Neither the faith and credit nor the taxing power of the City is pledged to the payment of the bonds.

Section 108 loans are the loan guarantee provisions of the Community Development Block Grant (CDBG) program. Section 108 loans provide the community with a source of financing for economic development, housing rehabilitation, public facilities, and large-scale physical development projects.

SANDAG loans are comprised of two components: repayment of debt service on bonds, and repayment of proceeds from commercial paper. The City received distributions of SANDAG bond proceeds, based on the City's agreement with SANDAG. The annual debt service payments related to these bond issuances are recovered by SANDAG through reductions in TransNet allocations that would otherwise be available for payment to the City. TransNet – Proposition A, was passed in 1987 to enact a ½ percent sales tax increase to fund regional transportation projects. All expenses must first be approved by SANDAG and be included on the Regional Transportation Plan (RTP). The City recognizes repayment of the principal and interest on bonds as an increase in TransNet revenues and an offsetting debt service expenditure. In addition to financing from bond issuances, financing for TransNet related projects is made available through the issuance of commercial paper notes by SANDAG, at the request of the City. Repayment of proceeds related to the commercial paper is collected in future periods through reductions in TransNet allocations, similar to the repayment of the debt service on bonds. The interest rates used are based on a floating rate that changes daily, averaging 3.5 percent during fiscal year 2004.

b. Amortization Requirements

The annual requirements to amortize such long-term debt outstanding as of June 30, 2004, including interest payments to maturity, are as follows:

Year Ending June 30,	Capital Lease Obligations		Contracts Payable		Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	$ 10,075	$ 1,102	$ -	$ -	$ 65	$ 341
2006	8,090	735	-	-	38	338
2007	5,201	447	-	-	42	334
2008	2,846	277	-	-	46	329
2009	1,919	171	-	-	51	325
2010-2014	2,166	313	-	-	342	1,432
2015-2019	322	16	-	-	299	1,340
2020-2024	-	-	-	-	-	1,279
2025-2029	-	-	-	-	-	1,279
2030-2034	-	-	-	-	5,115	767
Unscheduled*	-	-	1,715	-	-	-
Total	$ 30,619	$ 3,061	$ 1,715	$ -	$ 5,998	$ 7,764

** The contract payable to San Diego State University Foundation in the amount of $1,715 does not have an annual repayment schedule. Annual payments on this debt are based on the availability of tax increment net of the low-moderate and taxing agency set-asides as well as project area administration costs.*

Year Ending June 30,	Loans Payable		SANDAG Loans		Section 108 Loans		General Obligation Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2005	$ 3,013	$ 367	$ 5,323	$ 746	$ 2,059	$ 2,274	$ 6,885	$ 2,761
2006	14	185	6,653	526	2,483	2,407	7,440	2,337
2007	15	184	5,091	315	2,959	2,270	8,045	1,878
2008	17	182	2,235	109	3,422	2,101	8,225	1,388
2009	18	181	-	-	2,246	1,951	8,865	898
2010-2014	123	872	-	-	12,987	7,717	6,315	646
2015-2019	199	796	-	-	12,355	3,596	-	-
2020-2024	320	675	-	-	5,759	980	-	-
2025-2029	515	480	-	-	647	19	-	-
2030-2034	631	165	-	-	-	-	-	-
Total	$ 4,865	$ 4,087	$ 19,302	$ 1,696	$ 44,917	$ 23,315	$ 45,775	$ 9,908

Year Ending June 30,	Revenue Bonds / COPs		Special Assessment / Special Tax Bonds		Tax Allocation Bonds		
	Principal	Interest	Principal	Interest	Principal	Unaccreted Appreciation	Interest
2005	$ 20,275	$ 34,261	$ 3,000	$ 7,667	$ 8,728	$ 66	$ 14,674
2006	21,435	33,380	3,505	7,471	8,856	137	14,311
2007	19,880	32,418	3,775	7,312	9,305	199	13,927
2008	20,865	31,440	4,050	7,138	9,881	259	13,517
2009	21,565	30,397	4,325	6,946	10,358	304	13,077
2010-2014	93,770	136,799	26,375	31,067	61,255	3,157	56,394
2015-2019	100,090	110,435	33,390	23,094	76,235	8,968	38,873
2020-2024	125,890	78,071	25,155	14,539	68,849	19,091	20,571
2025-2029	124,355	37,506	22,780	8,040	44,458	18,797	6,742
2030-2034	43,495	6,610	14,190	1,311	10,651	-	1,160
Subtotal	591,620	531,317	140,545	114,585	308,576	50,978	193,246
Add: Accreted Appreciation through June 30, 2004	-	-	-	-	5,757	-	-
Total	$ 591,620	$ 531,317	$ 140,545	$ 114,585	$ 314,333	$ 50,978	$ 193,246

c. Change in Long-Term Liabilities

Additions to governmental activities long-term debt for contracts, notes and loans payable may differ from proceeds reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances due to funding received in prior fiscal years being converted from short-term to long-term debt as a result of developers extending the terms of the obligation.

The following is a summary of changes in governmental activities long-term liabilities for the year ended June 30, 2004. The effect of bond accretion, bond premium, discounts and deferred amounts on bond refunds are amortized as adjustments to long-term liabilities.

	Governmental Activities				
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Arbitrage Liability	$ 363	$ 262	$ (363)	$ 262	$ -
Compensated Absences	70,654	52,531	(51,290)	71,895	29,938
Liability Claims	154,089	86,967	(38,142)	202,914	42,414
Capital Lease Obligations	37,701	4,238	(11,320)	30,619	10,075
Contracts Payable	1,882	-	(167)	1,715	-
Notes Payable	8,416	-	(2,418)	5,998	65
Loans Payable	2,851	3,500	(1,486)	4,865	3,013
Section 108 Loans Payable	25,925	21,107	(2,115)	44,917	2,059
SANDAG Loans Payable	17,341	6,400	(4,439)	19,302	5,323
General Obligation Bonds	52,165	-	(6,390)	45,775	6,885
Revenue Bonds / COPs	609,785	-	(18,165)	591,620	20,275
Unamortized Bond Premiums, Discounts and Deferred Amounts on Refunding	(1,078)	-	79	(999)	-
Net Revenue Bonds/COP's	608,707	-	(18,086)	590,621	20,275
Special Assessment / Special Tax Bonds	123,130	29,245	(11,830)	140,545	3,000
Unamortized Bond Premiums, Discounts and Deferred Amounts on Refunding	-	(748)	47	(701)	-
Net Special Assestment Bonds	123,130	28,497	(11,783)	139,844	3,000
Tax Allocation Bonds	279,136	37,180	(7,740)	308,576	8,794
Interest Accretion	4,174	1,583	-	5,757	-
Balance with Accretion	283,310	38,763	(7,740)	314,333	8,794
Unamortized Bond Premiums, Discounts and Deferred Amounts on Refunding	(132)	(11)	175	- 32	- -
Net Tax Allocation Bonds	283,178	38,752	(7,565)	314,365	8,794
Net Pension Obligation	141,712	61,877	-	203,589	-
Total	$ 1,528,114	$ 304,131	$ (155,564)	$ 1,676,681	$ 131,841

d. Defeasance of Debt

Limited Obligation Refunding Bonds for the Reassessment District No. 2003-1 were issued by the City in the amount of $8,850. These bonds are payable from and secured by unpaid Reassessments upon real property located in the Reassessment District, proceeds from foreclosure proceedings, and other amounts held in certain funds maintained under the Indenture. The majority of the bond proceeds were used to refund three limited obligation improvement bonds issued under the Improvement Bond Act of 1915. The three issuances refunded were De La Fuente Phase I, De La Fuente Phase II, and the International Business Center Project, maturing on September 2 of 2013, 2017, and 2015, respectively. The refunded bonds are defeased and the corresponding liability has been removed from the Statement of Net Assets. The refunding resulted in a total economic gain of approximately $441, and a cash flow savings of $2,283. The current bonds issued are payable in increasing installments of principal over the next fourteen years. The refunded bonds were redeemed at a call date prior to the end of the fiscal year and, accordingly, there was no balance outstanding as of June 30, 2004.

As of June 30, 2004, principal amounts payable from escrow funds established for defeased bonds are as follows:

Defeased Bonds	Amount (In Thousands)
Horton Plaza Redevelopment Project Subordinate Tax Allocation Refunding Bonds, Series 1996 B	$ 6,640
Miramar Ranch North Special Tax Bonds, Series 1995 B	20,010
Total Defeased Bonds Outstanding	$ 26,650

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6. BUSINESS-TYPE ACTIVITIES LONG-TERM LIABILITIES (In Thousands)

a. Long-Term Liabilities

Business-type activities long-term liabilities as of June 30, 2004 are comprised of the following:

Type of Obligation	Interest Rates	Fiscal Year Maturity Date	Original Amount	Balance Outstanding June 30, 2004
Arbitrage Liability				$ 221
Compensated Absences				16,595
Liability Claims				49,249
Capital Lease Obligations				5,008
Loans Payable:				
Loans Payable to San Diego County Water Authority	-	-	100	100
Loans Payable to State Water Resources Control Board, issued February 9, 2000	1.80%**	2020	10,606	8,781
Loans Payable to State Water Resources Control Board, issued February 9, 2000	1.80%**	2022	6,684	6,120
Loans Payable to State Water Resources Control Board, issued March 30, 2001	1.80%**	2022	33,720	30,874
Loans Payable to State Water Resources Control Board, issued May 17, 2001	1.80%**	2022	7,742	7,086
Loans Payable to State Water Resources Control Board, issued May 17, 2001	1.80%**	2021	860	750
Loans Payable to State Water Resources Control Board, issued June 11, 2001	1.80%**	2021	2,525	2,202
Loans Payable to State Water Resources Control Board, issued October 3, 2002	1.99%**	2020	3,767	3,412
Loans Payable to State Water Resources Control Board, issued October 3, 2002	1.80%**	2023	8,068	7,729
Total Loans Payable				67,054
Bonds Payable:				
Sewer Revenue Bonds, Series 1993	2.8 - 5.25*	2023	250,000	195,510
Sewer Revenue Bonds, Series 1995	3.9 - 6.0*	2025	350,000	301,385
Sewer Revenue Bonds, Series 1997 A	3.7 - 5.375*	2027	183,000	160,425

(continued on next page)

Type of Obligation	Interest Rates	Fiscal Year Maturity Date	Original Amount	Balance Outstanding June 30, 2004
Sewer Revenue Bonds, Series 1997 B	3.7 - 5.375%*	2027	$ 67,000	$ 58,730
Water Certificate of Undivided Interest, Series 1998	4.0 - 5.375*	2029	385,000	286,665
Sewer Revenue Bonds, Series 1999 A	3.5 - 5.125*	2029	203,350	186,960
Sewer Revenue Bonds, Series 1999 B	3.5 - 5.125*	2029	112,060	103,205
Subordinated Water Revenue Bonds, Series 2002	2.0 - 5.0*	2033	286,945	286,945
Sewer Revenue Bonds, Series 2004	1.7163***	2008	152,000	152,000
Total Bonds Payable				1,731,825
Estimated Landfill Closure and Postclosure Care				12,679
Net Pension Obligation				28,346
Total Business-Type Activities Long-Term Liabilities				$ 1,910,977

* *Interest rates are fixed, and reflect the range of rates for various maturities from the date of issuance to maturity.*
** *Effective rate*
*** Variable Interest Rate

b. Amortization Requirements

Annual requirements to amortize long-term debt as of June 30, 2004, including interest payments to maturity, are as follows:

Year Ending June 30	Revenue Bonds Payable		Loans Payable		Capital Lease Obligations	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	$ 33,765	$ 80,810	$ 3,251	$ 1,214	$ 1,514	$ 178
2006	73,355	79,120	3,311	1,155	1,454	120
2007	117,645	76,278	3,371	1,095	1,046	69
2008	81,615	73,074	3,432	1,034	841	30
2009	45,595	70,851	3,494	971	153	3
2010-2014	262,415	319,763	18,446	3,883	-	-
2015-2019	335,785	246,056	20,180	2,148	-	-
2020-2024	412,825	151,625	11,469	429	-	-
2025-2029	319,020	52,552	-	-	-	-
2030-2034	49,805	5,136	-	-	-	-
Unscheduled *	-	-	100	-	-	-
Total	$ 1,731,825	$ 1,155,265	$ 67,054	$ 11,929	$ 5,008	$ 400

* *The loan payable to the San Diego County Water Authority in the amount of $100 does not have an annual repayment schedule. The payment is due if funding for the projects for which the loan was received becomes available from other sources.*

c. Change in Long-Term Liabilities

The following is a summary of changes in long-term liabilities for the year ended June 30, 2004. The effect of bond premiums, discounts and deferred amounts on refunding are reflected as adjustments to long-term liabilities.

	Business-Type Activities				
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Arbitrage Liability	$ 1,812	$ 36	$ (1,627)	$ 221	$ -
Compensated Absences	16,106	12,937	(12,448)	16,595	7,111
Liability Claims	47,043	5,053	(2,847)	49,249	1,953
Capital Lease Obligations	6,465	-	(1,457)	5,008	1,514
Loans Payable	69,093	466	(2,505)	67,054	3,251
Revenue Bonds Payable	1,612,200	152,000	(32,375)	1,731,825	33,765
Unamortized Bond Premiums, Discounts and Deferred Amounts on Refunding	(9,418)	-	338	(9,080)	-
Net Revenue Bonds Payable	1,602,782	152,000	(32,037)	1,722,745	33,765
Estimated Landfill Closure and Postclosure Care	11,674	1,005	-	12,679	-
Net Pension Obligation	20,902	7,444	-	28,346	-
Total	$ 1,775,877	$ 178,941	$ (52,921)	$ 1,901,897	$ 47,594

d. Defeasance of Debt

As of June 30, 2004, principal amounts payable from escrow funds established for defeased bonds are as follows:

Defeased Bonds	Balance
Water Revenue Bonds, Series 1998	$ 77,155
Total Defeased Bonds Outstanding	$ 77,155

7. DISCRETELY PRESENTED COMPONENT UNITS LONG-TERM DEBT (In Thousands)

Discretely presented component units long-term debt as of June 30, 2004 is comprised as follows:

San Diego Convention Center Corporation

Type of Obligation	Interest Rate	Fiscal Year Maturity Date	Original Amount	Balance Outstanding June 30, 2004	Due Within One Year
Note Payable to San Diego Unified Port District, dated 1999	0.00%	2010	$ 10,000	$ 6,500	$ 1,000

SDCCC will repay the note at the rate of zero percent (0.0%) per annum with principal payable as follows:

Fiscal Year	Amount
2005	$ 1,000
2006	1,000
2007	1,000
2008	1,000
2009	1,000
2010 and thereafter	1,500
Total	$ 6,500

San Diego Housing Commission

Type of Obligation	Interest Rate	Fiscal Year Maturity Date	Original Amount	Balance Outstanding June 30, 2004	Due Within One Year
Note Payable to Bank of America, dated February 1985	5.0 – 10.2%	2025	$ 3,789	$ 3,263	$ 89
Note Payable to Ciy of San Diego Redevelopment Agency, dated March 1992	0.0	2022	696	696	-
Note Payable to Washington Mutual, dated June 1995	Variable*	2011	4,725	3,919	161
Note Payable to State of California (RHCP)	0.0	2015	3,149	3,149	-
Note Payable to State of California (RHCP)	0.0	2013	1,405	1,405	-
Note Payable to State of California (CalHELP)	0.0	2013	704	704	-
Total Notes Payable				$ 13,136	$ 250

* The interest rate as of June 30, 2004 was 3.13%

Annual requirements to amortize such long-term debt as of June 30, 2004 to maturity are as follows:

Year Ending June 30	Principal	Interest
2005	$ 250	$ 316
2006	260	306
2007	271	294
2008	283	282
2009	295	270
2010-2014	2,868	1,288
2015-2019	4,957	943
2020-2024	2,237	514
2025-2026	1,715	33
Total	$ 13,136	$ 4,246

8. SHORT-TERM NOTES PAYABLE (In Thousands)

The City issues Tax Anticipation Notes (TANS) in advance of property tax collections, depositing the proceeds in its General Fund. These notes are necessary to meet the cash requirements of the City prior to the receipt of property taxes.

Short-term debt activity for the year ended June 30, 2004, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Tax Anticipation Notes	$ 93,200	$ 110,900	$ (204,100)	$ -

The $93.2 million FY03 TANS issue had an interest rate of 3.0% and was repaid on August 1, 2003.
The $110.9 million FY04 TANS issue had an interest rate of 1.75% and was repaid on June 30, 2004.

The Redevelopment Agency issues short-term promissory notes to finance various redevelopment activities. These promissory notes may be repaid with set-aside housing funds, in-lieu and land payment funds, and/or discretionary tax increment funds.

Short-term debt activity for the year ended June 30, 2004 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Notes Payable to San Diego Revitalization Corporation, dated February 2003	$ 2,596	$ -	$ (2,596)	$ -

9. JOINT VENTURE (In Thousands)

San Diego Medical Services Enterprise, LLC

A joint venture is a legal entity or other organization that results from a contractual arrangement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control. San Diego Medical Services Enterprise, LLC (SDMSE) is a joint venture that is reported within the General Fund.

SDMSE was organized on May 2, 1997 to provide emergency medical services and medical transportation services to the citizens of San Diego. Operations began July 1, 1997 under an initial 5 year agreement that was extended on June 30, 2002 for an additional three year period. The SDMSE partners are the City of San Diego and Rural Metro of San Diego, Inc., a wholly owned subsidiary of Rural Metro Corporation (a publicly traded corporation). The SDMSE governing board is comprised of five members, three of whom are appointed by the City. In accordance with GASB 14, the financial impacts of the joint venture are reported in the General Fund.

The maximum funds which the City is required to contribute to the costs of SDMSE operations are limited to an aggregate of $8,450. This aggregate includes a $650 annual subsidy and any other amounts to be paid to the City since 1997 under the original contract, and any losses the City is required to cover under the extended contract, excluding any amount the City contributes for Medicare fee reimbursements. Cumulatively, the City has paid annual

19. THIRD PARTY DEBT (In Thousands)

The City has authorized the issuance of certain conduit revenue private activity bonds, in its name, to provide tax exempt status because it perceives a substantial public benefit will be achieved through the use of the proceeds. Aside from the fact that these bonds have been issued in the City's name, the City has no legal obligation to make payment on these bonds and has not pledged any City assets as a guarantee to the bondholders. The following describes the various types of such third party debt:

Mortgage and Revenue Bonds

Single family mortgage revenue bonds have been issued to provide funds to purchase mortgage loans secured by first trust deeds on newly constructed and existing single-family residences. The purpose of this program is to provide low interest rate home mortgage loans to persons of low or moderate income who are unable to qualify for conventional mortgages at market rates. Multi-family housing revenue bonds are issued to provide construction and permanent financing to developers of multi-family residential rental projects located in the City to be partially occupied by persons of low or moderate income.

Industrial Development Revenue Bonds

Industrial Development Revenue bonds have been issued to provide financial assistance for the acquisition, construction, and installation of privately-owned facilities for industrial, commercial or business purposes to mutually benefit the citizens of the City of San Diego.

1911 Act Special Assessment Bonds

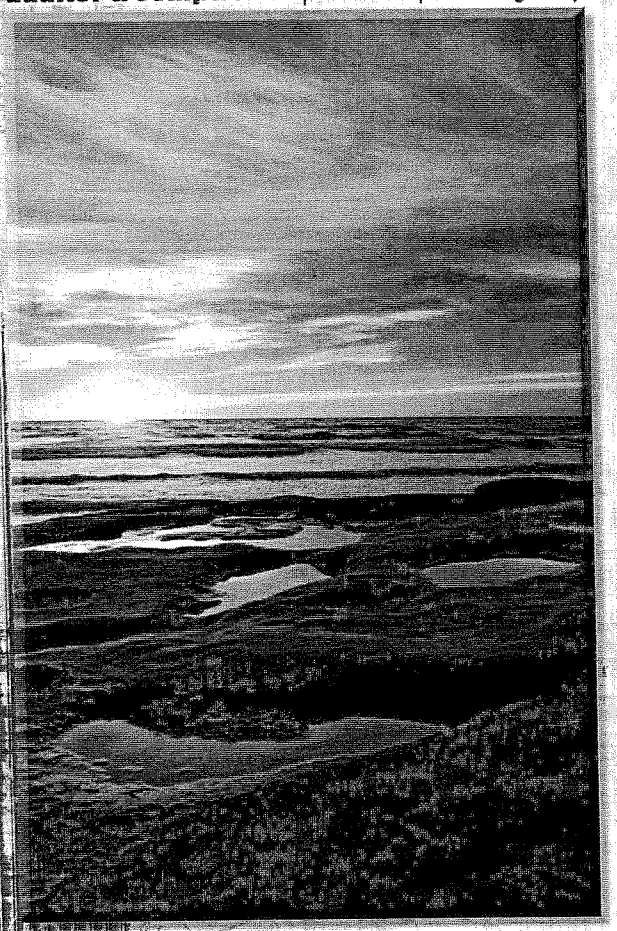
1911 Act Special Assessment Bonds have been issued to provide funds for the construction or acquisition of public improvements, and/or the acquisition of property for public purposes, for the benefit of particular property holders within the City. Each bond is secured by a lien on a specific piece of property.

As of June 30, 2004, the status of all third party bonds issued is as follows (in thousands):

	Original Amount	Balance June 30, 2004
Mortgage Revenue	$ 132,390	$ 125,415
Industrial Development Revenue	345,805	342,005
1911 Act Special Assessment	236	25
Total	$ 478,431	$ 467,445

These bonds do not constitute an indebtedness of the City. The bonds are payable solely from payments made on and secured by a pledge of the acquired mortgage loans, certain funds and other monies held for the benefit of the bondholders pursuant to the bond indentures, property liens and other loans. In reliance upon the opinion of bond counsel, City officials have determined that these bonds are not payable from any revenues or assets of the City, and neither the full faith nor credit for the taxing authority of the City, the state, or any political subdivision thereof is obligated to the payment of principal or interest on the bonds. In essence, the City is acting as a conduit for the private property owners/bondholders in collecting and forwarding the funds. Accordingly, no liability has been recorded in the City's government-wide statement of net assets.

auditor & comptroller | redevelopment agency



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4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2004, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Non-Depreciable Capital Assets:				
Land	$ 82,869,108	$ 2,274,242	$ -	$ 85,143,350
Constructions in Progress	-	16,576,142	-	16,576,142
Total Non-Depreciable Capital Assets	82,869,108	18,850,384	-	101,719,492
Depreciable Capital Assets:				
Structures and Improvements	8,106,544	-	-	8,106,544
Equipment	818,706	-	-	818,706
Total Depreciable Capital Assets	8,925,250	-	-	8,925,250
Less Accumulated Depreciation for:				
Structures and Improvements	(405,328)	(202,664)	-	(607,992)
Equipment	(562,140)	(32,126)	-	(594,266)
Total Accumulated Depreciation	(967,468)	(234,790)	-	(1,202,258)
Total Depreciable Capital Aseets, Net	7,957,782	(234,790)	-	7,722,992
Governmental Activities Capital Assets, Net	$ 90,826,890	$ 18,615,594	$ -	$ 109,442,484

Depreciation expense was charged to the Neighborhood Services governmental activities function in the amount of $ 234,790.

5. GOVERNMENTAL ACTIVITIES LONG-TERM DEBT

a. Long-Term Liabilities

Governmental activities long-term debt consists of revenue bonds, tax allocation bonds, contracts payable, notes payable, and loans payable. A summary of these obligations as recorded in the government-wide Statement of Net Assets as of June 30, 2004, is as follows:

Type of Obligation	Interest Rates	Fiscal Year Maturity Date	Original Amount	Balance Outstanding June 30, 2004
Revenue Bonds:				
Centre City Parking Revenue Bonds, Series 1999 A	4.5-6.49%	2026	$ 12,105,000	$ 11,365,000
Centre City Parking Revenue Bonds, Series 2003 B	3.0-5.3	2027	20,515,000	20,515,000
Total Revenue Bonds				31,880,000
Tax Allocation Bonds:				
Centre City Redevelopment Project Tax Allocation Bonds, Series 1993 A	5.5-6.5	2011	27,075,000	13,850,000
Centre City Redevelopment Project Tax Allocation Bonds, Series 1993 B	4.875-5.4	2017	27,275,000	19,655,000
Gateway Center West Redevelopment Project Tax Allocation Bonds, Series 1995	7.8-9.75	2014	1,400,000	940,000

5 GOVERNMENTAL ACTIVITIES LONG-TERM DEBT (Continued)

Type of Obligation	Interest Rates	Fiscal Year Maturity Date	Original Amount	Balance Outstanding June 30, 2004
Mount Hope Redevelopment Project Tax Allocation Bonds, Series 1995 A	4.4-6.0	2020	1,200,000	960,000
Mount Hope Redevelopment Project Tax Allocation Bonds, Series 1995 B	6.9-8.2	2021	3,955,000	3,400,000
Southcrest Redevelopment Project Tax Allocation Bonds, Series 1995	4.75-6.592	2020	3,750,000	2,660,000
Horton Plaza Redevelopment Project Tax Allocation Refunding Bonds, Series 1996 A	3.8-6.0	2016	12,970,000	9,585,000
Horton Plaza Redevelopment Project Tax Allocation Refunding Bonds, Series 1996 B	4.3-7.0	2007	9,830,000	1,155,000
Centre City Redevelopment Project Tax Allocation Bonds, Series 1999 A	3.0-5.125	2019	25,680,000	25,390,000
Centre City Redevelopment Project Tax Allocation Bonds, Series 1999 B	6.25	2014	11,360,000	11,360,000
Centre City Redevelopment Project Tax Allocation Bonds, Series 1999 C	3.1-4.75	2025	13,610,000	12,835,000
City Heights Redevelopment Project Tax Allocation Bonds, Series 1999 A	4.5-5.8	2029	5,690,000	5,690,000
City Heights Redevelopment Project Tax Allocation Bonds, Series 1999 B	Various*	2029	10,140,523	13,745,458
Central Imperial Redevelopment Project Tax Allocation Bonds, Series 2000	4.45-6.6	2031	3,395,000	3,260,000
Centre City Redevelopment Project Tax Allocation Bonds, Series 2000 A	4.0-5.6	2025	6,100,000	5,665,000
Centre City Redevelopment Project Tax Allocation Bonds, Series 2000 B	3.95-5.35	2025	21,390,000	20,565,000
Horton Plaza Redevelopment Project Tax Allocation Bonds, Series 2000	4.25-5.8	2022	15,025,000	14,680,000
North Bay Redevelopment Project Tax Allocation Bonds, Series 2000	4.25-5.875	2031	13,000,000	12,340,000
North Park Redevelopment Project Tax Allocation Bonds, Series 2000	4.1-5.9	2031	7,000,000	6,650,000
Southcrest Redevelopment Project Tax Allocation Bonds, Series 2000	4.45-6.5	2026	1,860,000	1,750,000
Centre City Redevelopment Project Tax Allocation Bonds, Series 2001 A	Various**	2027	58,425,100	60,082,613
Mount Hope Redevelopment Project Tax Allocation Bonds, Series 2002 A	5.0	2027	3,055,000	3,055,000
Centre City Redevelopment Project Tax Allocation Bonds, Series 2003 A	2.5-5.0	2029	31,000,000	27,880,000
City Heights Redevelopment Project Tax Allocation Bonds, Series 2003 A	5.875-6.5	2034	4,955,000	4,955,000
City Heights Redevelopment Project Tax Allocation Bonds, Series 2003 B	2.5-4.25	2014	865,000	865,000

5. GOVERNMENTAL ACTIVITIES LONG-TERM DEBT (Continued)

Type of Obligation	Interest Rates	Fiscal Year Maturity Date	Original Amount	Balance Outstanding June 30, 2004
Horton Plaza Redevelopment Project Tax Allocation Bonds, Series 2003 A	4.65-5.1	2022	6,325,000	6,325,000
Horton Plaza Redevelopment Project Tax Allocation Bonds, Series 2003 B	3.25-5.45	2022	4,530,000	4,530,000
Horton Plaza Redevelopment Project Tax Allocation Bonds, Series 2003 C	3.49-4.9	2022	8,000,000	8,000,000
North Park Redevelopment Project Tax Allocation Bonds, Series 2003 A	1.5-5.35	2028	7,145,000	7,145,000
North Park Redevelopment Project Tax Allocation Bonds, Series 2003 B	4.75-5	2034	5,360,000	5,360,000
Total Tax Allocation Bonds				314,333,071
Total Bonds Payable				346,213,071
Contracts Payable:				
Contract Payable to SDSU Foundation, dated December 1991	7.02	unscheduled	1,597,744	1,597,744
Contract Payable to SDSU Foundation, amendment dated January 1995	7.02	unscheduled	117,123	117,123
Total Contracts Payable				1,714,867
Notes Payable:				
Note Payable to Lorren Daro, dated March 1995	8.0	2005	256,814	30,065
Note Payable to Wal-Mart, dated June 1998	10.0	2017	1,308,000	852,646
Note Payable to San Diego Revitalization, dated April 2001	5.0	unscheduled	5,115,000	5,115,000
Notes Payable to the City of San Diego dated various dates	Various	Various	12,241,902	12,241,902
Total Notes Payable				18,239,613
Loans Payable:				
Padres, L.P. - Centre City dated August 2003	6.0	2005	3,500,000	3,000,000
International Gateway Associates, LLC dated October 2001	10.0	unscheduled	1,876,000	1,864,595
City of San Diego dated various dates	Various	Various	225,619,556	225,619,556
Total Loans Payable				230,484,151
Total Governmental Activities				$ 596,651,702

*The City Heights Tax Allocation Bonds Series 1999 B are capital appreciation bonds which mature in 2029. The balance outstanding at June 30, 2004, includes principal of $10,051,232 and an accreted amount of $3,694,226. The principal amounts at full maturity will be $33,910,000.

**A portion of the Centre City Tax Allocation Bonds Series 2001 A are capital appreciation bonds which mature in 2015-2027. The balance outstanding at June 30, 2004, includes principal of $58,020,100 and an accreted amount of $2,062,513. The principal amounts at full maturity will be $85,140,000.

5. GOVERNMENTAL ACTIVITIES LONG-TERM DEBT (Continued)

b. Amortization Requirements

The debt service for revenue bonds and tax allocation bonds is paid from tax increment revenues received by the Agency. Revenue bonds are secured by a pledge of revenues generated by certain public parking facilities operated by the City pursuant to a Parking Structure Operating Agreement between the City and the Agency.

The annual requirements to amortize the Agency's long-term debt outstanding as of June 30, 2004, including interest payments to maturity, are as follows:

Year Ending June 30,	Revenue Bonds		Tax Allocation Bonds		
	Principal	Interest	Principal	Unaccreted Appreciation	Interest
2005	$ 825,000	$ 1,641,067	$ 8,728,167	$ 66,467	$ 14,674,227
2006	855,000	1,609,897	8,855,742	137,681	14,310,864
2007	890,000	1,577,212	9,305,387	199,399	13,927,154
2008	920,000	1,542,684	9,881,018	258,744	13,516,801
2009	960,000	1,504,981	10,357,552	303,846	13,076,545
2010 - 2014	5,450,000	6,822,678	61,254,994	3,157,159	56,394,038
2015 - 2019	6,975,000	5,244,718	76,234,859	8,968,332	38,873,441
2020 - 2024	9,140,000	3,001,458	68,849,475	19,090,525	20,570,617
2025 - 2029	5,865,000	445,093	44,458,485	18,796,515	6,741,581
2030 - 2034	-	-	10,650,653	-	1,160,483
Subtotal	31,880,000	23,389,788	308,576,332	50,978,668	193,245,751
Add: Accreted appreciation through June 30, 2004	-	-	5,756,739	-	-
Total	$ 31,880,000	$ 23,389,788	$ 314,333,071	$ 50,978,668	$ 193,245,751

Year Ending June 30,	Contracts Payable		Notes Payable		Loans Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	$ -	$ -	$ 64,835	$ 341,015	$ 3,012,545	$ 366,460
2006	-	-	38,247	337,538	13,800	185,205
2007	-	-	42,071	333,713	15,180	183,825
2008	-	-	46,278	329,506	16,698	182,307
2009	-	-	50,906	324,878	18,367	180,637
2010 - 2014	-	-	341,866	1,432,498	123,349	871,675
2015 - 2019	-	-	298,508	1,340,345	198,653	796,369
2020 - 2024	-	-	-	1,278,750	319,933	675,090
2025 - 2029	-	-	-	1,278,750	515,256	479,767
2030 - 2034	-	-	-	767,250	630,814	165,199
Unscheduled*	1,714,867	-	17,356,902	-	225,619,556	-
Total	$ 1,714,867	$ -	$ 18,239,613	$ 7,764,243	$ 230,484,151	$ 4,086,534

*The contract payable to SDSU Foundation in the amount of $1,714,867, notes payable to the San Diego Revitalization Corporation in the amount of $5,115,000, notes payable to the City in the amount of $12,356,902, and loans payable to the City in the amount of $225,619,556 do not have annual repayment schedules.

5. GOVERNMENTAL ACTIVITIES LONG-TERM DEBT (Continued)

c. Changes In Long-Term Liabilities

The following is a summary of changes in governmental activities long-term liabilities for the year ended June 30, 2004. The effects of bond accretion, bond premiums, discounts and deferred amounts on bond refunds are amortized as adjustments to long-term liabilities with corresponding adjustments made to beginning balances

	Balance, July 1, 2003	Additions	Reductions	Balance, June 30, 2004	Due Within One Year
Revenue Bonds	$ 32,140,000	$ -	$ (260,000)	$ 31,880,000	$ 825,000
Less deferred amounts:					
For Issuance Discounts	(122,152)	-	8,173	(113,979)	-
Net Revenue Bonds	32,017,848	-	(251,827)	31,766,021	825,000
Tax Allocation Bonds	279,135,623	37,180,000	(7,739,291)	308,576,332	8,794,634
Accretion	4,174,240	1,582,499	-	5,756,739	-
Net with Accretion	283,309,863	38,762,499	(7,739,291)	314,333,071	8,794,634
Less/Plus deferred amounts:					
For Issuance Premiums/Discounts	629,685	(10,628)	(38,801)	580,256	-
On Refunding	(761,753)	-	213,614	(548,139)	-
Net Tax Allocation Bonds	283,177,795	38,751,871	(7,564,478)	314,365,188	8,794,634
Contracts Payable	1,882,309	-	(167,442)	1,714,867	-
Notes Payable	19,930,755	726,682	(2,417,824)	18,239,613	64,835
Loans Payable	224,272,921	12,067,433	(5,856,203)	230,484,151	3,012,545
Total	$ 561,281,628	$51,545,986	$ (16,257,774)	$ 596,569,840	$12,697,014

Additions to governmental activities long-term debt for Notes and Loans Payable differs from proceeds reported on the Statement of Revenues, Expenditures and Changes in Fund Balances due to the inclusion of accumulated interest on notes and loans payable to the City. In the current year, accrued interest of $7,057,640 and $726,682 was added to Loans and Notes Payable respectively. Additional loans from the City incurred in the current year for the purpose of funding various redevelopment activities totaled $1,509,793 (See Note 10).

Also, $3,500,000 in land acquisition credits issued in prior years, due to Padres LP, were recharacterized as an interest bearing loan under an agreement reached in the current fiscal year.

In the current fiscal year, the Agency issued Tax Allocation Bonds in the amount of $18,855,000 for the Horton Plaza Project Area, $5,820,000 for the City Heights Project Area and $12,505,000 for the North Park Project Area. Proceeds of the bonds will be used to finance various redevelopment activities.

5. GOVERNMENTAL ACTIVITIES LONG-TERM DEBT (Continued)

Defeasance of Debt

As of June 30, 2004, principal amounts payable from escrow (irrevocable trust) funds established for defeased bonds are as follows:

Defeased Bonds	Amount Outstanding as of June 30, 2004
Horton Plaza Redevelopment Project Tax Allocation Refunding Bonds, Series 1996 B	$ 6,640,000

6. SHORT-TERM DEBT

The Agency issues short-term promissory notes to finance project improvement activities. These promissory notes may be repaid with housing set-aside funds, in-lieu and land payment funds, and/or discretionary tax increment funds.

Short-term debt activity for the year ended June 30, 2004, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Note Payable to San Diego Revitalization, dated February 2003	$ 2,595,495	$ -	$ (2,595,495)	$ -

7. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund receivable and payable balances are the result of loans between funds that are expected to be repaid during the next fiscal year. Interfund receivable/payable balances at June 30, 2004 are as follows:

	Benefiting Fund (Payable)			
	Special Revenue			Total
Contributing Fund (Receivable)	Other Centre City	Other Horton Plaza	Other Governmental	Governmental Funds
Centre City Debt Service	$ 4,386,598	$ -	$ -	$ 4,386,598
Centre City Capital Projects	25,041,548	-	-	25,041,548
Other Governmental Funds	-	20,023,671	3,949,538	23,973,209
Total Governmental Funds	$ 29,428,146	$ 20,023,671	$ 3,949,538	$ 53,401,355

List of Issuances included in the Debt Policy

I. GENERAL FUND

General Obligation Bonds

1. Public Safety Communications Bonds - 1991
2. San Diego Open Space Facilities District No. 1 Refunding Series - 1994

General Fund Backed Lease Revenue Bonds and Certificates of Participation

3. Balboa Park/Mission Bay Park Improvements Program - Series 1996A
4. Balboa Park/Mission Bay Park Improvements Program - Refunding Series 1996B
5. Balboa Park/Mission Bay Park Improvements Program - 2003 (1993 Refunding)

6. MTDB Lease Revenue Refunding Bonds - 1994
7. Stadium Improvements - 1996
8. Convention Center Expansion - 1998
9. Fire and Life Safety Facilities- 2002B
10. City/MTDB Bayside Trolley Extension- 2003 (1993 Refunding)
11. Ballpark Refunding - 2007

Tax and Revenue Anticipation Notes

12. Fiscal Year 2007-08 TRAN

II. ENTERPRISE FUND

Enterprise Fund Revenue Bonds (Water and Wastewater)

1. PFFA Sewer Revenue Bonds - 1993
2. PFFA Sewer Revenue Bonds - 1995
3. PFFA Sewer Revenue Bonds - 1997
4. PFFA Sewer Revenue Bonds - 1999
5. Sewer Revenue Note – 2007

6. FELC Water Certificates - 1998
7. PFFA Subordinated Water Revenue Bonds– 2002
8. Water Revenue Note – 2007

III. SPECIAL DISTRICTS BONDS

1. 1915 Act Assessment District Otay Mesa Industrial Park 1992
2. 1915 Piper Ranch Business Park Improvement Bonds, 2004

3. 1984 Act Reassessment District 2003-1 Refunding Bonds, 2003
4. PFFA Refunding Revenue Bonds, 1999A&B 1

5. Special Tax Bonds, Miramar Ranch North, 1998 1
6. Special Tax Bonds, Santaluz, 2004
7. Special Tax Bonds, Santaluz, 2000
8. Special Tax Bonds, Liberty station, 2006

FitchRatings Public Finance

Tax Supported
Special Report

To Bond or Not To Bond

Debt Affordability Guidelines and Their Impact on Credit

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Related Research

- "Local Government General Obligation Rating Guidelines," June 10, 2004
- "The 12 Habits of Highly Successful Finance Officers," Nov. 21, 2002
- "The Bottom Line: Local General Government Reserves and the Policies that Shape Them," Jan. 26, 2005
- "Guidelines for Interest Rate Swaps and Variable-Rate Debt," May 10, 2005

This is the second in a series of follow-up discussions to Fitch Ratings' Nov. 21, 2002 report "The 12 Habits of Highly Successful Finance Officers," which outlined the importance of management practices to credit ratings. The first, "The Bottom Line: Local General Government Reserves and the Policies that Shape Them," published on Jan. 26, 2005, addressed the establishment and maintenance of fund balance policies.

Summary

This report expands on Fitch Ratings' view of debt affordability policies and elaborates on the types of policies that support strong credit quality. Sound debt affordability policies offer benefits such as a framework for allocating resources, increased financial flexibility through limiting and adding predictability to the fixed cost burden, and greater tax rate stability. Keeping debt-related costs within a tolerable range for taxpayers may also reduce the likelihood of vocal public opposition to needed capital projects.

Fitch believes that debt affordability is best viewed in the context of a comprehensive assessment of capital needs. Although a government may not have the financial or operational means to fund all desired projects, identifying those projects creates a basis for prioritizing and seeking possible funding sources for them. Quantifying the amount of debt the tax base can support enables an entity to determine the scope and limits of immediate, medium-term, and long-term capital plans.

Restrictive debt policies that do not allow for the funding of essential capital projects carry risks that Fitch sees in some cases as greater than those of a high debt load. Some possible ramifications of failure to fund needs are increased operating and maintenance costs for antiquated facilities and infrastructure, growing costs of remediating long-neglected facilities, inability to provide adequate vital services to taxpayers (which could in turn reduce the community's desirability and economic competitiveness), and the potential for objections or even legal action by citizens, taxpayers, environmental groups, or regulatory agencies.

Fitch incorporates all long-term obligations, including certificates of participation and other appropriation-backed obligations, in its calculation of debt ratios and views more favorably policies that recognize and treat such instruments as debt. In many states, general obligation (GO) debt is less common than appropriation-backed debt or bonds secured by a specific pledged revenue source, and excluding such debt would not reflect the government's true long-term fixed cost obligations or their burden on residents and taxpayers. Fitch does not include unfunded pension liabilities or other long-term liabilities in its ratios unless they are owed to a third party over a predetermined schedule. However, Fitch does factor these liabilities into the rating and views favorably written policies and plans to address them.