

CONDITIONAL NOTICE OF OPTIONAL PREPAYMENT

**TO THE HOLDERS OF
CERTIFICATES OF UNDIVIDED INTEREST
(IN INSTALLMENTS PAYMENTS PAYABLE FROM NET SYSTEM REVENUES OF
THE WATER UTILITY FUND OF THE CITY OF SAN DIEGO, CALIFORNIA) SERIES 1998**

CONDITIONAL NOTICE is hereby given on behalf of the City of San Diego (the “City”) that, pursuant to Section 4.01(a) of the Trust Agreement dated as of August 1, 1998 (the “**Agreement**”), by and among the City, San Diego Facilities and Equipment Leasing Corporation, and State Street Bank and Trust Company of California, N.A. (as predecessor-in-interest to Wells Fargo Bank, National Association), as trustee (the “**Trustee**”), the above-referenced certificates (the “**Certificates**”) in the aggregate principal amount of \$141,320,000 as listed below are being called for prepayment on June 30, 2010 (the “**Prepayment Date**”), with the Certificates being prepaid at the respective prepayment prices (expressed as a percentage of the principal amount of Certificates called for prepayment) set forth below (collectively, the “**Prepayment Price**”) plus accrued interest to the Prepayment Date. On and after June 30, 2010, interest shall cease to accrue on the Certificates being called for prepayment.

Maturity Date (August 1)	Interest Rate	Prepayment Price	Principal Amount Called	CUSIP No.
2024	5.200%	100.5%	\$38,405,000	797263BB5
2028	4.750%	100.0%	\$102,915,000	797263BC3

This Conditional Notice will be withdrawn if the Public Facilities Financing Authority of the City of San Diego fails to issue its Public Facilities Financing Authority of the City of San Diego Water Revenue Bonds, Refunding Series 2010A (Payable Solely From Installment Payments Secured by Net System Revenues of the Water Utility Fund) (the “2010A Bonds”), on or before the Prepayment Date. If this Conditional Notice is withdrawn by the City, this Conditional Notice shall be of no force or effect, and none of the Certificates shall be prepaid on the Prepayment Date.

In addition, notwithstanding the issuance of the 2010A Bonds, the City may determine to prepay less than all of the principal amount of the Certificates called for prepayment, as set forth above. In such case, this Conditional Notice shall be of no force or effect with respect to any Certificates not prepaid on the Prepayment Date.

Payment of the Prepayment Price on the Certificates called for prepayment will become due and payable on the Prepayment Date upon presentation and surrender thereof in the following manner.

By Registered or Certified Mail:

Wells Fargo Bank Minnesota, N.A.
Attn: Corporate Trust Operations
P.O. Box 1517
Minneapolis, MN 55480-1517

If in person, by hand:

Wells Fargo Bank Minnesota, N.A.
Northstar East Building
608 Second Avenue South
12th Floor—Corporate Trust Services
Minneapolis, MN

By Air Courier:

Wells Fargo Bank Minnesota, N.A.
Attn: Corporate Trust Operations
MAC Code: N9303-121
6th & Marquette
Minneapolis, MN 55479

Our customer service number is 1-800-344-5128.

Registered or certified mail is suggested when submitting Certificates for payment.

When inquiring about this prepayment, please have the Certificate number available. Please inform the customer service representative of the CUSIP number(s) of the affected Certificates.

Under section 3406(a)(1) of the Internal Revenue Code, the Trustee making payment of interest or principal on securities may be obligated to withhold a percentage of the payment to a holder who has failed to furnish the Registrar with a valid taxpayer identification number, certification that the number supplied is correct, and that the holder is not subject to backup withholding. Holders of the Certificates who wish to avoid the application of these provisions should submit either a completed IRS (Internal Revenue Service) Form W-9 (use only if the holder is a U.S. person, including a resident alien), or the appropriate form W-8 (use only if you are neither a U.S. person or a resident alien), when presenting the certificates for payment. See IRS Publication 515, Withholding of Tax on Nonresident Aliens and Foreign Entities. Publication 515 and W-8 forms and instructions are available through the IRS via their web site at www.irs.gov.

The CUSIP numbers have been assigned by Standard & Poor’s Corporation and are included solely for the convenience of the Certificate holders. Neither the City nor the Trustee shall be responsible for the selection or use of the CUSIP numbers nor is any representation made as to their correctness on the Certificates or as indicated in any prepayment notice.

**Dated: May 28, 2010
Loan Key: SAND898CUIWU**

**Wells Fargo Bank, National Association
as Trustee**

**MATERIAL EVENT NOTICE
REPORT OF BOND CALL**

**Facilities and Equipment Leasing Corporation of the City of San Diego
Certificates of Undivided Interest, Series 1998**

Maturity
08/01/2024
08/01/2028

CUSIP No.
797263BB5
797263BC3

On June 30, 2010, the outstanding maturities of the Certificates of Undivided Interest, Series 1998 ("1998 Certificates") captioned above were redeemed.

Attached is the Trustee's Conditional Notice of Redemption issued on May 28, 2010.

DATED: 7/19, 2010

CITY OF SAN DIEGO*

By: Mary Lewis

Mary Lewis
Chief Financial Officer