

Insured Ratings: Fitch IBCA: AAA
 Moody's: Aaa
 Standard & Poor's: AAA
 Underlying Ratings: Fitch IBCA: AA-
 Moody's: Aa3
 Standard & Poor's: A+ (prov.)
 (See "MISCELLANEOUS — Ratings" herein.)

In the opinion of Orrick, Herrington & Sutcliffe LLP, Los Angeles, California and Alvarado, Smith, Villa & Sanchez, Irvine, California ("Co-Bond Counsel"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, compliance with certain covenants, interest on the 1998A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Co-Bond Counsel, interest on the 1998A Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Co-Bond Counsel observe that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Co-Bond Counsel express no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the 1998A Bonds. See "LEGAL MATTERS — Tax Exemption" herein.

\$205,000,000

**Convention Center Expansion Financing Authority
 Lease Revenue Bonds, Series 1998A
 (City of San Diego, California, as Lessee)**

Dated: September 1, 1998

Due: April 1, as shown below

The proceeds of the \$205,000,000 Convention Center Expansion Financing Authority Lease Revenue Bonds, Series 1998A (the "1998A Bonds") will be used (i) to finance the cost of certain improvements to the San Diego Convention Center (the "Expansion Project"), (ii) to reimburse the City of San Diego (the "City") for advances to the Expansion Project and for costs of issuance previously advanced, (iii) to pay San Diego Unified Port District for certain expenses it incurred incident to the transactions contemplated hereby, (iv) to fund a Reserve Account for the 1998A Bonds and (v) to pay costs of issuance with respect to the 1998A Bonds. In order to effect such financing, the Convention Center Expansion Financing Authority (the "Authority") and the City will enter into a Convention Center Facility Lease, dated as of September 1, 1998 (the "Convention Center Facility Lease"), between the Authority, as lessor, and the City, as lessee. The 1998A Bonds will be issued pursuant to an Indenture, dated as of September 1, 1998 (the "Indenture"), between the Authority and BNY Western Trust Company, as trustee (the "Trustee"). The 1998A Bonds are payable from and secured by a pledge of Revenues, consisting primarily of Base Rental Payments to be paid by the City and received by the Authority with respect to that portion of the San Diego Convention Center leased to the City (the "Leased Property") pursuant to the Convention Center Facility Lease, and certain other monies as described in the Indenture. The Base Rental Payments are subject to abatement in the event of damage, destruction, condemnation or title defects with respect to the Leased Property as more particularly described in the Convention Center Facility Lease. See "RISK FACTORS" herein.

Interest due on the 1998A Bonds is payable semiannually on April 1 and October 1 of each year, commencing April 1, 1999. See "THE 1998A BONDS — General Provisions" herein. The 1998A Bonds will be initially 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 1998A Bonds as described in "APPENDIX E — BOOK-ENTRY SYSTEM." The City shall make Base Rental Payments to the Trustee, as assignee of the Authority under the Assignment Agreement (as defined herein) for the use and possession of the Leased Property during each annual period. The Trustee shall deposit such Base Rental Payments in the Bond Fund established under the Indenture. Such Base Rental Payments, if paid in full, will be sufficient, in both time and amount, to pay when due the principal of and interest on the 1998A Bonds. Pursuant to the Indenture, the Trustee will, on each Interest Payment Date, apply funds available in the Bond Fund, in the amounts required to pay principal of and interest on the 1998A Bonds when due.

The 1998A Bonds are subject to optional, mandatory and extraordinary redemption as described herein. See "THE 1998A BONDS — Redemption Provisions" herein.

Payment of the principal of and interest on the 1998A Bonds when due will be insured by a municipal bond insurance policy to be issued by Ambac Assurance Corporation simultaneously with the delivery of the 1998A Bonds.

AMBAC

Neither the 1998A Bonds nor the obligation of the City to make Base Rental Payments under the Convention Center Facility Lease constitutes an obligation of the City for which the City is obligated to levy to pledge any form of taxation or for which the City has levied or pledged any form of taxation. The Authority has no taxing power. Neither the 1998A Bonds nor the obligation of the City to make such Base Rental Payments constitutes an indebtedness of the City, the State of California or any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction. See "SECURITY AND SOURCES OF PAYMENT FOR THE 1998A BONDS" and "RISK FACTORS" herein.

MATURITY SCHEDULE

Maturity (April 1)	Principal Amount	Interest Rate	Price or Yield	Maturity (April 1)	Principal Amount	Interest Rate	Price or Yield
2002	\$4,020,000	3.800%	100.000	2011	\$5,760,000	5.250%	106.225
2003	4,170,000	3.800	3.850%	2012	6,065,000	5.250	105.397
2004	4,330,000	3.900	3.950%	2013	6,380,000	5.250	104.728
2005	4,500,000	4.000	4.050%	2014	6,715,000	5.250	104.262
2006	4,680,000	4.100	4.150%	2015	7,070,000	5.250	103.798
2007	4,870,000	4.200	100.000	2016	7,440,000	5.250	103.336
2008	5,075,000	4.250	100.000	2017	7,830,000	4.875	4.930%
2009	5,290,000	4.300	4.350%	2018	8,210,000	4.875	4.980%
2010	5,520,000	4.400	4.450%				

\$107,075,000 4.750% Term Bond due April 1, 2028-Price 95.566
 (Accrued Interest to be Added)

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO MAKE AN INFORMED INVESTMENT DECISION.

The 1998A Bonds will be offered when, as and if issued, subject to the approval as to legality by Orrick, Herrington & Sutcliffe LLP, Los Angeles, California and Alvarado, Smith, Villa & Sanchez, Irvine, California, and to certain other conditions. Certain legal matters for the Authority and the City will be passed upon by Casey Gwinn, Esq., City Attorney of the City of San Diego and General Counsel to the Authority and for the Underwriters by O'Melveny & Myers. It is anticipated that the 1998A Bonds in book-entry form will be available for delivery through DTC in New York, New York, on or about September 17, 1998.

Merrill Lynch & Co.

**Prudential Securities Incorporated
 Redwood Securities Group, Inc.**

**George K. Baum & Company
 Alamo Capital**

Dated: September 1, 1998

No dealer, broker, salesperson or other person has been authorized by the Authority or the City to give any information or to make any representations other than as contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by the Authority or the City. 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 1998A Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the 1998A Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact. The summaries or references to the Indenture, the Convention Center Facility Lease, the Existing Center Lease, the Expansion Lease, the Assignment Agreement, the Continuing Disclosure Agreement and other documents, agreements and statutes referred to herein, and the description of the 1998A Bonds included in this Official Statement, do not purport to be comprehensive or definitive, and such summaries, references and descriptions are qualified in their entirety by reference to each such document or statute. All capitalized terms used in this Official Statement (unless otherwise defined herein) shall have the meanings set forth in the Indenture or the Convention Center Facility Lease.

The information set forth herein has been obtained from official sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Authority or the City. The information and expressions of opinions herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority or the City since the date hereof. This Official Statement is submitted in connection with the sale of the 1998A Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 1998A 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 UNDERWRITERS MAY OFFER AND SELL THE 1998A BONDS TO CERTAIN DEALERS, DEALER BANKS AND BANKS ACTING AS AGENT AT PRICES LOWER THAN THE PUBLIC OFFERING PRICE STATED ON THE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICE MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS.

**CITY OF SAN DIEGO
CITY COUNCIL
Susan Golding, *Mayor***

Harry Mathis
Byron Wear
Christine Kehoe
George Stevens

Barbara Warden
Valerie Stallings
Judy McCarty
Juan Vargas

CITY OFFICIALS

Michael T. Uberuaga
City Manager

Casey Gwinn
City Attorney

Ed Ryan
City Auditor and Comptroller

Patricia T. Frazier
Deputy City Manager

Charles Abdelnour
City Clerk

Conny M. Jamison
City Treasurer

**CONVENTION CENTER EXPANSION FINANCING AUTHORITY
BOARD OF DIRECTORS**

Susan Golding, *Chairman*
Michael T. Uberuaga

David Malcolm, *Vice Chairman*
Lawrence Killeen

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Los Angeles, California

Alvarado, Smith, Villa & Sanchez
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DISCLOSURE COUNSEL

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Public Financial Management, Inc.
San Francisco, California

Municipal Capital Management, Inc.
Los Angeles, California

TRUSTEE

BNY Western Trust Company
Los Angeles, California

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TABLE OF CONTENTS
(continued)

	Page
Possible Insufficiency of Insurance Proceeds.....	35
Limitations on Remedies Available to Owners of the 1998A Bonds.....	35
The Santa Clara Decision.....	36
Proposition 218.....	36
Other Financial Matters.....	36
Pending Litigation Attacking a Source of City General Fund Revenue.....	37
THE AUTHORITY.....	37
LEGAL MATTERS.....	37
Tax Exemption.....	37
Legal Opinions.....	39
Litigation Matters.....	39
Legality for Investment in California.....	40
UNDERWRITING.....	40
MISCELLANEOUS.....	41
Ratings.....	41
Co-Financial Advisors.....	41
Additional Information.....	41
Execution and Delivery.....	42
APPENDIX A THE CITY OF SAN DIEGO	
APPENDIX B EXCERPTS FROM THE CITY'S COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 1997	
APPENDIX C SUMMARY OF PRINCIPAL LEGAL DOCUMENTS	
APPENDIX D FORM OF CONTINUING DISCLOSURE AGREEMENT	
APPENDIX E BOOK-ENTRY SYSTEM	
APPENDIX F PROPOSED OPINION OF CO-BOND COUNSEL	
APPENDIX G FORM OF MUNICIPAL BOND INSURANCE POLICY	

OFFICIAL STATEMENT

\$205,000,000
CONVENTION CENTER EXPANSION FINANCING AUTHORITY
LEASE REVENUE BONDS, SERIES 1998A
(City of San Diego, California, as Lessee)

INTRODUCTION

This Official Statement, which includes the cover page and appendices hereto, is provided to furnish certain information in connection with the issuance and sale of the Convention Center Expansion Financing Authority Lease Revenue Bonds, Series 1998A in the aggregate principal amount of \$205,000,000 (the "1998A Bonds"). The 1998A Bonds, in book-entry form, will be issued pursuant to an Indenture, dated as of September 1, 1998 (the "Indenture"), between the Convention Center Expansion Financing Authority, a California joint powers agency (the "Authority"), and BNY Western Trust Company, as trustee (the "Trustee"). The proceeds of the 1998A Bonds will be used (i) to finance the construction of certain improvements to the San Diego Convention Center (the "Expansion Project"), (ii) to reimburse the City of San Diego (the "City") for advances to the Expansion Project and for certain costs of issuance previously advanced, (iii) to pay San Diego Unified Port District (the "District") for certain expenses it incurred incident to the transactions contemplated hereby, (iv) to fund a Reserve Account (the "Reserve Account") for the 1998A Bonds and (v) to pay costs of issuance with respect to the 1998A Bonds.

This Introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of the 1998A Bonds to potential investors is made only by means of the entire Official Statement.

The 1998A Bonds are payable from and secured by a pledge of Revenues, consisting primarily of lease payments made by the City under the Convention Center Facility Lease, dated as of September 1, 1998 (the "Convention Center Facility Lease"), between the City and the Authority. Such lease payments are defined as "Base Rental Payments" or "Base Rental," and are designed to be sufficient, in both time and amount, to pay when due the principal of and interest on the 1998A Bonds. The City shall make Base Rental Payments to the Trustee, as assignee of the Authority under the Assignment Agreement, dated as of September 1, 1998 (the "Assignment Agreement"), between the Authority and the Trustee, for the use and possession of the real property encumbered by the Convention Center Facility Lease (the "Leased Property") during each annual period. The Trustee shall deposit such Base Rental Payments in the Bond Fund established under the Indenture. The Indenture provides that the Trustee will apply Base Rental Payments (as defined herein) and other monies received by it for the benefit of the registered owners of the 1998A Bonds (the "Owners") to the payment of principal of, premium, if any, and interest on the 1998A Bonds, and will perform certain other functions. See "APPENDIX C--SUMMARY OF PRINCIPAL LEGAL DOCUMENTS--

Indenture.” As used herein, the term “Bonds” means the 1998A Bonds, and any Additional Bonds issued under the Indenture.

The Leased Property will consist of (i) the existing San Diego Convention Center (the “Existing Center”) to be leased to the Authority by the San Diego Unified Port District (the “District”) pursuant to the Existing Center Lease, dated as of September 1, 1998 (the “Existing Center Lease”), between the Authority and the District, until September 16, 2002 (the “Existing Center Expiry Date), and (ii) the Expansion Project to be financed with the net proceeds of the 1998A Bonds, which will be leased to the Authority by the District pursuant to the Expansion Lease, dated as of September 1, 1998 (the “Expansion Lease”), between the Authority and the District. After the Existing Center Expiry Date, the Leased Property will consist solely of the Expansion Project. The City will not be required to make Base Rental Payments for the use and occupancy of the Expansion Project earlier than its substantial completion date, currently scheduled for May 2001. See **“THE LEASED PROPERTY”** and **“RISK FACTORS--Construction Risk”** and **“--Substitution and Removal of Leased Property.”**

Payment of the principal of and interest on the 1998A Bonds when due will be insured by a municipal bond insurance policy to be issued by Ambac Assurance Corporation (“Ambac Assurance”) simultaneously with the delivery of the 1998A Bonds. See **“SECURITY AND SOURCES OF PAYMENT FOR THE 1998A BONDS--Municipal Bond Insurance Policy.”**

Neither the 1998A Bonds nor the obligation of the City to make Base Rental Payments under the Convention Center Facility Lease constitutes an obligation of the City for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation. Neither the 1998A Bonds nor the obligation of the City to make such Base Rental Payments constitutes an indebtedness of the City, the State of California or any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction. See **“SECURITY AND SOURCES OF PAYMENT FOR THE 1998A BONDS”** and **“RISK FACTORS.”**

Brief descriptions of the 1998A Bonds, Security and Sources of Payment for the 1998A Bonds, the Expansion Project, the Leased Property, Risk Factors and the Authority follow. A brief description of the City is provided in **“APPENDIX A--THE CITY OF SAN DIEGO.”** Certain audited financial statement information relating to the City’s General Fund is provided in **“APPENDIX B--EXCERPTS FROM THE CITY’S COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 1997.”** Summaries of the Indenture, the Convention Center Facility Lease, the Existing Center Lease, the Expansion Lease and the Assignment Agreement are provided in **“APPENDIX C--SUMMARY OF PRINCIPAL LEGAL DOCUMENTS.”** A form of the Continuing Disclosure Agreement of the City with respect to the 1998A Bonds is provided in **“APPENDIX D--FORM OF CONTINUING DISCLOSURE AGREEMENT.”** Such descriptions and summaries do not purport to be comprehensive or definitive. All references made to various documents herein are qualified in their entirety by reference to the actual forms thereof, copies of which may be obtained from the Trustee. All capitalized terms used in this Official Statement (unless otherwise defined herein) shall have the meanings set forth in the Indenture or the

Convention Center Facility Lease. See **“APPENDIX C--SUMMARY OF PRINCIPAL LEGAL DOCUMENTS.”**

THE 1998A BONDS

General Provisions

The 1998A Bonds will be executed and delivered in the aggregate principal amount of \$205,000,000, will be dated September 1, 1998, will be payable as to interest from September 1, 1998 at the rates set forth on the cover page hereof, semiannually on each April 1 and October 1 (each an “Interest Payment Date”), commencing April 1, 1999, and will mature on April 1 in each of the designated years and in the principal amounts shown on the cover page hereof.

Debt Service Payment Schedule

Base Rental Payments are required to be made by the City to the Trustee under the Convention Center Facility Lease and the Assignment Agreement, for the use and possession of the Leased Property during each annual period. The Trustee shall deposit such Base Rental Payments in the Bond Fund established under the Indenture. Such Base Rental Payments, if paid in full, will be sufficient, in both time and amount, to pay when due the principal of and interest on the 1998A Bonds. Pursuant to the Indenture, the Trustee will, on each Interest Payment Date, apply funds available in the Bond Fund in the amounts required to make principal and interest payments due on the 1998A Bonds.

The following table presents the debt service requirements with respect to the 1998A Bonds. See **“SECURITY AND SOURCES OF PAYMENT FOR THE 1998A BONDS--Base Rental Payments.”**

**Convention Center Expansion Financing Authority
Lease Revenue Bonds, Series 1998A**

Debt Service Payment Schedule⁽¹⁾

Bond Payment Dates	Principal	Interest	Total	Fiscal Year Total
April 1, 1999		\$5,647,037.08	\$5,647,037.08	\$5,647,037.08
October 1, 1999		4,840,317.50	4,840,317.50	
April 1, 2000		4,840,317.50	4,840,317.50	9,680,635.00
October 1, 2000		4,840,317.50	4,840,317.50	
April 1, 2001		4,840,317.50	4,840,317.50	9,680,635.00
October 1, 2001		4,840,317.50	4,840,317.50	
April 1, 2002	\$4,020,000	4,840,317.50	8,860,317.50	13,700,635.00
October 1, 2002		4,763,937.50	4,763,937.50	
April 1, 2003	4,170,000	4,763,937.50	8,933,937.50	13,697,875.00
October 1, 2003		4,684,707.50	4,684,707.50	
April 1, 2004	4,330,000	4,684,707.50	9,014,707.50	13,699,415.00
October 1, 2004		4,600,272.50	4,600,272.50	
April 1, 2005	4,500,000	4,600,272.50	9,100,272.50	13,700,545.00
October 1, 2005		4,510,272.50	4,510,272.50	
April 1, 2006	4,680,000	4,510,272.50	9,190,272.50	13,700,545.00
October 1, 2006		4,414,332.50	4,414,332.50	
April 1, 2007	4,870,000	4,414,332.50	9,284,332.50	13,698,665.00
October 1, 2007		4,312,062.50	4,312,062.50	
April 1, 2008	5,075,000	4,312,062.50	9,387,062.50	13,699,125.00
October 1, 2008		4,204,218.75	4,204,218.75	
April 1, 2009	5,290,000	4,204,218.75	9,494,218.75	13,698,437.50
October 1, 2009		4,090,483.75	4,090,483.75	
April 1, 2010	5,520,000	4,090,483.75	9,610,483.75	13,700,967.50
October 1, 2010		3,969,043.75	3,969,043.75	
April 1, 2011	5,760,000	3,969,043.75	9,729,043.75	13,698,087.50
October 1, 2011		3,817,843.75	3,817,843.75	
April 1, 2012	6,065,000	3,817,843.75	9,882,843.75	13,700,687.50
October 1, 2012		3,658,637.50	3,658,637.50	
April 1, 2013	6,380,000	3,658,637.50	10,038,637.50	13,697,275.00
October 1, 2013		3,491,162.50	3,491,162.50	
April 1, 2014	6,715,000	3,491,162.50	10,206,162.50	13,697,325.00
October 1, 2014		3,314,893.75	3,314,893.75	
April 1, 2015	7,070,000	3,314,893.75	10,384,893.75	13,699,787.50
October 1, 2015		3,129,306.25	3,129,306.25	
April 1, 2016	7,440,000	3,129,306.25	10,569,306.25	13,698,612.50
October 1, 2016		2,934,006.25	2,934,006.25	
April 1, 2017	7,830,000	2,934,006.25	10,764,006.25	13,698,012.50
October 1, 2017		2,743,150.00	2,743,150.00	
April 1, 2018	8,210,000	2,743,150.00	10,953,150.00	13,696,300.00
October 1, 2018		2,543,031.25	2,543,031.25	
April 1, 2019	8,615,000	2,543,031.25	11,158,031.25	13,701,062.50
October 1, 2019		2,338,425.00	2,338,425.00	
April 1, 2020	9,020,000	2,338,425.00	11,358,425.00	13,696,850.00
October 1, 2020		2,124,200.00	2,124,200.00	
April 1, 2021	9,450,000	2,124,200.00	11,574,200.00	13,698,400.00
October 1, 2021		1,899,762.50	1,899,762.50	
April 1, 2022	9,900,000	1,899,762.50	11,799,762.50	13,699,525.00
October 1, 2022		1,664,637.50	1,664,637.50	
April 1, 2023	10,370,000	1,664,637.50	12,034,637.50	13,699,275.00
October 1, 2023		1,418,350.00	1,418,350.00	
April 1, 2024	10,860,000	1,418,350.00	12,278,350.00	13,696,700.00
October 1, 2024		1,160,425.00	1,160,425.00	
April 1, 2025	11,380,000	1,160,425.00	12,540,425.00	13,700,850.00
October 1, 2025		890,150.00	890,150.00	
April 1, 2026	11,920,000	890,150.00	12,810,150.00	13,700,300.00
October 1, 2026		607,050.00	607,050.00	
April 1, 2027	12,485,000	607,050.00	13,092,050.00	13,699,100.00
October 1, 2027		310,531.25	310,531.25	
April 1, 2028	13,075,000	310,531.25	13,385,531.25	13,696,062.50
TOTALS	\$205,000,000	\$189,878,729.58	\$394,878,729.58	\$394,878,729.58

(1) One-half of each fiscal year's Base Rental Payments under the Convention Center Facility Lease will be paid three Business Days before each October 1 and April 1 of a fiscal year. Principal and interest payments will be made in accordance with the Schedule.

Redemption Provisions

Extraordinary Redemption. The 1998A Bonds are subject to redemption, in whole or in part, on any date, from prepaid Base Rental Payments made by the City from Net Proceeds received by the City pursuant to the title insurance policies required to be maintained under the Convention Center Facility Lease or due to a casualty loss or award in eminent domain for any portion of the Leased Property, at a redemption price equal to the principal amount thereof together with accrued interest to the date fixed for redemption, without premium. The Convention Center Facility Lease requires the City to apply casualty insurance proceeds to repair, reconstruct or replace the Leased Property if to do so would fully restore the Leased Property. In the event that the casualty insurance proceeds are not sufficient to fully restore the Leased Property, the City may elect to budget and appropriate additional funds and fully restore the Leased Property. If the City does not make such an election and the available casualty proceeds are at least sufficient to redeem all of the Outstanding 1998A Bonds, at par plus accrued interest, then the proceeds shall be used for that purpose; in the event the proceeds are not so sufficient, the City may elect to budget and appropriate additional funds so that the available casualty proceeds and such additional funds are sufficient to redeem all of the Outstanding 1998A Bonds at par plus accrued interest, in which case the same shall be used for this purpose. Further, the Convention Center Facility Lease provides that if there are not sufficient Net Proceeds received from casualty insurance so as to redeem all of the Outstanding 1998A Bonds and the City elects not to budget and appropriate additional funds necessary to redeem all of the Outstanding 1998A Bonds, then such proceeds will be used to repair, reconstruct or replace the Leased Property. Its decision with respect to an award in condemnation or payment under a title insurance policy will depend upon the extent of the condemnation of, or title defects relating to, the Leased Property. If any portion of the Leased Property has been affected by condemnation or a title defect which will result in an abatement of Base Rental Payments payable by the City under the Convention Center Facility Lease, then the Trustee shall use Net Proceeds available from condemnation or any policy of title insurance to redeem Outstanding 1998A Bonds. For a discussion of the insurance required to be maintained by the City, see **“SECURITY AND SOURCES OF PAYMENT FOR THE 1998A BONDS--Insurance”** and **APPENDIX C - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - Facility Lease.**

Optional Redemption. The 1998A Bonds maturing on or before April 1, 2008 are not subject to optional redemption prior to their respective stated maturities. The 1998A Bonds maturing on or after April 1, 2009 shall be subject to redemption prior to their respective stated maturities at the option of the Authority on or after October 1, 2008, as a whole, or in part (in such maturities as are designated to the Trustee by the Authority no later than 45 days prior to the redemption date or, if the Authority fails to designate such maturities, on a proportional basis among maturities) on any date, from funds derived by the Authority from any source at the following redemption prices (expressed as percentages of the principal amount of 1998A Bonds called for redemption), together with interest accrued thereon to the date fixed for redemption:

Redemption Date (dates inclusive)	Redemption Price
October 1, 2008 to September 30, 2009	101%
October 1, 2009 to September 30, 2010	100.5
October 1, 2010 and thereafter	100

Mandatory Redemption. The 1998A Bonds maturing on April 1, 2028 are also subject to redemption prior to their stated maturity, in part by lot, from sinking account payments deposited in the Sinking Account, on any April 1 on or after April 1, 2019 at the principal amount thereof and interest accrued thereon to the date fixed for redemption, without premium, according to the following schedule:

Redemption Date (April 1)	Principal Amount Redeemed
2019	\$8,615,000
2020	9,020,000
2021	9,450,000
2022	9,900,000
2023	10,370,000
2024	10,860,000
2025	11,380,000
2026	11,920,000
2027	12,485,000
2028*	13,075,000

* Maturity

Method of Selection for Redemption. If less than all Outstanding 1998A Bonds are to be redeemed at any time from Net Proceeds, the Trustee shall use the net insurance proceeds or condemnation awards attributable to the portion of the Leased Property destroyed, damaged, stolen or taken, to redeem, on a pro rata basis among all maturities of 1998A Bonds, as directed in writing by the City, pursuant to the Convention Center Facility Lease. Subject to the foregoing, if less than all Outstanding 1998A Bonds maturing by their terms on any one date are to be so redeemed at any one time, the Trustee shall select the 1998A Bonds of such maturity date to be redeemed in any manner that it deems appropriate; provided, however, that if the remaining Base Rental Payments will not be reasonably level after such prepayment of Outstanding 1998A Bonds, the City shall deliver to the Trustee an Opinion of Counsel that the Convention Center Facility Lease will continue to be valid and binding obligation of the City after such redemption.

Notice of Redemption. Notice of redemption shall be mailed by the Trustee, not less than 30 nor more than 60 days prior to the redemption date to (i) the respective Owners of the 1998A Bonds designated for redemption at their addresses appearing on the registration

books of the Trustee by first class mail, (ii) the Securities Depositories and (iii) the Information Services. Notice of redemption to the Securities Depositories and the Information Services shall be given by registered mail or by overnight delivery. Each notice of redemption shall state the date of such notice, the redemption price, the name and appropriate address of the Trustee, the CUSIP number (if any) of the maturity or maturities, and, if less than all of any such maturity is to be redeemed, the distinctive certificate numbers of the 1998A Bonds of such maturity to be redeemed and, in the case of 1998A Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that on said date there will become due and payable on each of said 1998A Bonds thereof and in the case of a 1998A Bond to be redeemed in part only, the specified portion of the principal amount thereof to be redeemed, together with interest accrued thereon to the redemption date, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such 1998A Bonds be then surrendered at the address of the Trustee specified in the redemption notice. As long as a book-entry method is used for the 1998A Bonds, such notice shall be sent by the Trustee to the securities depository for the 1998A Bonds, initially DTC or its nominee. Beneficial owners of interests in the 1998A Bonds are to receive notification of such redemption as described in "**APPENDIX E--BOOK-ENTRY SYSTEM.**"

The Indenture provides that if notice of redemption has been duly given as provided in the Indenture and money for the payment of the redemption price of the 1998A Bonds called for redemption is held by the Trustee, then on the redemption date designated in such notice the 1998A Bonds shall become due and payable, and from and after the date so designated, interest on the 1998A Bonds so called for redemption shall cease to accrue, and the Owners of such 1998A Bonds shall have no rights in respect thereof except to receive payment of the redemption price thereof.

Failure by the Trustee to give notice to any one or more of the Information Services or Securities Depositories, or the insufficiency of any such notices, shall not affect the sufficiency of the proceedings for redemption. Failure by the Trustee to mail or otherwise provide notice of redemption to any one or more of the respective Owners of any 1998A Bonds designated for redemption shall not affect the sufficiency of the proceedings for redemption with respect to the Owners to whom such notice was mailed.

Additional Bonds

The Authority may at any time issue Additional Bonds payable from Revenues as provided in the Indenture and secured by a pledge of Revenues on a parity with the pledge securing the Outstanding 1998A Bonds, subject to certain conditions set forth in the Indenture, including the following:

- (i) The Authority shall be in compliance with all agreements and covenants contained in the Indenture and no event of default shall have occurred and be continuing under the Convention Center Facility Lease.
- (ii) The issuance of such Additional Bonds shall have been authorized by the Authority and shall have been provided for by a Supplemental Indenture which shall specify, among other things, the following:

- (a) The purpose for which such Additional Bonds are to be issued; provided that proceeds of such Additional Bonds shall be applied solely for (1) costs of issuance; (2) funding any increase in the Reserve Requirement; and (3)(A) the purpose of acquiring, constructing, maintaining, operating, improving and leasing the Expansion Project (as defined in the Indenture), and/or (B) the purpose of refunding any Bonds or Additional Bonds, then Outstanding; and
- (b) The amount to be deposited from the proceeds of sale of such Additional Bonds in the Reserve Account, which amount shall be sufficient to cause the amount on deposit in the Reserve Account to equal the Reserve Requirement upon the issuance of such Additional Bonds.
- (iii) The Convention Center Facility Lease shall have been further amended so as to increase the aggregate Base Rental payable by the City thereunder by an amount at least sufficient to pay the interest on and principal of such Additional Bonds as the same become due, subject to the limitation that the increase in Base Rental together with existing Base Rental Payments shall not in any year be in excess of the annual fair rental of the Leased Property determined as of the time the Additional Bonds are issued.
- (iv) The Authority shall have received confirmation in writing from the Rating Agencies then providing a rating on any Outstanding Bonds that the issuance of such Additional Bonds will not, in and of itself, cause a downgrading or withdrawal of such rating. The Authority need not seek such a confirmation in writing if the annual amount of interest and principal, including sinking fund payments, payable on the Additional Bonds does not exceed the corresponding amount of such payments on the Outstanding Bonds being refunded, provided, that the term of the Additional Bonds does not exceed the term on the Outstanding Bonds being refunded.

Since the Convention Center Facility Lease cannot be amended without Ambac Assurance's consent, the issuance of Additional Bonds would require Ambac Assurance's consent. For additional information with respect to the issuance of Additional Bonds under the Indenture, see **"APPENDIX C--SUMMARY OF PRINCIPAL LEGAL DOCUMENTS--Indenture."**

Continuing Disclosure

The Authority has determined that no financial or operating data concerning the Authority is material to an evaluation of the offering of the 1998A Bonds or to any decision to purchase, hold or sell the 1998A Bonds and the Authority will not provide any such information. The City has undertaken all responsibilities for any continuing disclosure to Owners of the 1998A Bonds as described below, and the Authority shall have no liability to the Owners of the

1998A Bonds or any other person with respect to Rule 15c2-12(b)(5) of the Securities and Exchange Commission under the Securities Exchange Act of 1934 (the "Rule").

The City has covenanted for the benefit of Owners and Beneficial Owners of the 1998A Bonds to provide certain financial information and operating data relating to the City by not later than 285 days following the end of the City's Fiscal Year (which Fiscal Year currently ends on June 30) (the "Annual Report"), commencing with the City's Annual Report for the Fiscal Year ended June 30, 1998, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed by the City with each Nationally Recognized Municipal Securities Information Repository and the State Repository. Currently, there is no State Repository. The notices of material events will be filed by the City with the Municipal Securities Rulemaking Board, each Nationally Recognized Municipal Securities Information Repository and the State Repository. The specific nature of the information to be contained in the Annual Report or the notices of material events is summarized in "**APPENDIX D--FORM OF CONTINUING DISCLOSURE AGREEMENT.**" The City has never failed to comply in all material respects with any previous undertakings with regard to said Rule to provide annual reports or notices of material events.

Judicial Proceedings Validating the Transaction

On May 3, 1996, plaintiffs Richard Rider, Pat Wright and Chris Winkler (collectively, "Rider") challenged the legality of the lease financing structure contemplated hereby. A Superior Court granted summary judgment in favor of the City on July 12, 1996 (*Richard Rider, et al. v. The City of San Diego, et al.*, Case No. 699767), and Rider appealed. The California Court of Appeal, Fourth Appellate District, upheld the decision of the Superior Court and reaffirmed the legal validity of the City's proposed lease financing in a published decision filed on December 27, 1996. See *Richard Rider, et al. v. The City of San Diego, et al.*, 96 Daily Journal D.A.R. 15617; 59 Cal.Rptr.2d 659 (1996). Rider sought and was granted discretionary review by the California Supreme Court (the "Supreme Court") in April 1997, and on August 6, 1998, the Supreme Court unanimously affirmed the holding of the Court of Appeal. See *Richard Rider, et al. v. The City of San Diego, et al.*, (S058956). The Supreme Court's decision becomes final on September 8, 1998. No petition for rehearing was filed within the time allowed by law.

Voter Approval

After the Supreme Court granted Rider discretionary review in April 1997, the City considered an alternative financing structure that did not raise the same legal issues as those before the Supreme Court in the *Rider* case. The City Council approved terms of an alternative financing structure for the Expansion Project, by ordinance in November 1997. The ordinance also reaffirmed the desire of the City Council to proceed with the financing contemplated hereby if the decision by the Supreme Court in the *Rider* case was favorable to the City. Subsequently, through a referendum process, there was placed on the June 2, 1998, ballot Proposition A to approve/disapprove the ordinance adopted by the City Council in November 1997. This measure was approved by 62% of the voters voting on the measure, although it only required a simple majority.

SECURITY AND SOURCES OF PAYMENT FOR THE 1998A BONDS

Pledge of Revenues

The 1998A Bonds are payable from and secured by Revenues and certain amounts on deposit in the funds and accounts established under the Indenture. Revenues consist primarily of all Base Rental Payments made by the City pursuant to the Convention Center Facility Lease. Base Rental Payments shall be paid by the City from any and all legally available funds. The City has covenanted under the Convention Center Facility Lease to take such action as may be necessary to include all Base Rental Payments and Additional Rental payments due under the Convention Center Facility Lease in its operating budget for each fiscal year and to make all necessary appropriations for such Base Rental Payments and Additional Rental payments and, to the extent permitted by law, the City covenants to take such action as may be necessary to amend or supplement the budget appropriations for payments under the Convention Center Facility Lease at any time and from time to time during any fiscal year in the event that the actual Base Rental Payments and Additional Rental paid in any fiscal year exceeds the pro rata portion of the appropriations then contained in the City's budget. As and to the extent set forth in the Indenture, all Revenues and amounts on deposit in the funds, accounts and subaccounts established under the Indenture (other than the Rebate Fund) are irrevocably pledged to payment of the principal of, premium, if any, and interest on the 1998A Bonds and any Additional Bonds Outstanding; provided, however, that out of Revenues there may be allocated such sums for such purposes as are expressly permitted by the Indenture.

The City's obligation to make Base Rental Payments is subject to abatement if, by reason of material damage to, destruction or condemnation of, or title defect with respect to, the Leased Property, there is substantial interference with the City's right to use and possess the Leased Property. See "**RISK FACTORS--Abatement.**"

Neither the 1998A Bonds nor the obligation of the City to make Base Rental Payments under the Convention Center Facility Lease constitutes an obligation of the City for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation. Neither the 1998A Bonds nor the obligation of the City to make such Base Rental Payments constitutes an indebtedness of the City, the State of California or any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction.

Base Rental Payments

The 1998A Bonds are payable from Base Rental Payments made by the City under the Convention Center Facility Lease for the use and possession of the Leased Property during each annual period. See "**THE LEASED PROPERTY**" and "**RISK FACTORS--Substitution and Removal of Leased Property.**" The Indenture requires that Base Rental Payments be deposited in the Bond Fund maintained by the Trustee. Pursuant to the Indenture, on April 1 and October 1 of each year, commencing April 1, 1999, the Trustee will apply amounts in the Bond Fund to make principal and interest payments with respect to the 1998A Bonds as the same shall become due and payable and in amounts sufficient to meet the payment schedule shown above under "**THE 1998A BONDS--Debt Service Payment Schedule.**"

Pursuant to the Convention Center Facility Lease and the Assignment Agreement, the City is required to make Base Rental Payments to the Trustee three Business Days preceding each October 1 and each April 1 in each fiscal year during the term of the Convention Center Facility Lease, commencing April 1, 1999, in an amount equal to 50% of the annual Base Rental Payments for such fiscal year. Amounts received by the Trustee will be held as security for the payments due on the 1998A Bonds. The amount of Base Rental Payments is designed to be sufficient to pay principal of and interest and redemption premiums, if any, on the 1998A Bonds when due. The Convention Center Facility Lease also provides that Base Rental Payments shall be abated in whole or in part if there is substantial interference with the City's use and possession of any portion of the Leased Property due to damage, destruction, title defect or condemnation. The amount of abatement shall be such that the resulting Base Rental Payments represent fair consideration for the use and possession of the remaining portions of the Leased Property as to which such damage, destruction, title defect or condemnation do not substantially interfere with the use and right of possession by the City. Such abatement shall continue for the period commencing with the date of the substantial interference due to damage, destruction, title defect or condemnation and ending with the substantial completion of the work of repair or replacement of the portions of the Leased Property so damaged, destroyed, defective or condemned. See **"RISK FACTORS--Abatement."**

The City is obligated to make Base Rental Payments from any and all General Fund monies legally available to the City, although the City's General Fund is not pledged to secure the payment of Base Rental Payments. For certain economic, demographic and financial information relating to the City, see **"APPENDIX A--THE CITY OF SAN DIEGO."** For certain audited financial statement information relating to the City's General Fund, see **"APPENDIX B--EXCERPTS FROM THE CITY'S COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 1997."**

Reserve Account

The Reserve Account is established within the Bond Fund under the Indenture. The Reserve Account will be funded initially from the proceeds of the 1998A Bonds in the amount of \$6,850,531, and as contemplated by any Supplemental Indenture authorizing the issuance of Additional Bonds, in order that the aggregate amount therein is equal to the least of (i) 10% of the stated principal amount of the Bonds, (ii) one-half of Maximum Annual Debt Service for the current or any future Bond Year, or (iii) 125% of average Annual Debt Service (the "Reserve Requirement").

The City may satisfy all or part of the Reserve Requirement with a line of credit, letter of credit, insurance policy, surety bond or other credit source deposited with the Trustee and rated not lower than Aa/AA by the Rating Agencies, subject to the further requirements of the Indenture. See **"APPENDIX C--SUMMARY OF PRINCIPAL LEGAL DOCUMENTS--Indenture."**

All amounts in the Reserve Account shall be used and withdrawn by the Trustee for the purpose of replenishing the Interest Account or the Principal Account in such order, in the event of any deficiency at any time in either of such accounts, or for the purposes of paying the principal of and interest and redemption premiums, if any, on the 1998A Bonds and any

Additional Bonds in the event that no other money of the Authority is lawfully available therefor, or for the retirement of all the 1998A Bonds and any Additional Bonds then Outstanding. All interest income received by the Trustee from the investment of moneys in the Reserve Account (as well as from the investment of moneys in other Funds and Accounts) shall be transferred to the Interest Account of the Bond Fund, or, at the direction of the City, to the Construction Fund, until such time as the Expansion Project is completed, and thereafter to the Principal Account of the Bond Fund; provided, however, that such interest income shall be transferred to the Rebate Fund as and when required by the Indenture and retained in the Reserve Account to the extent that amounts therein have been transferred to make up a deficiency in the Interest Account or the Principal Account. See "APPENDIX C--SUMMARY OF PRINCIPAL LEGAL DOCUMENTS."

Municipal Bond Insurance Policy

Ambac Assurance has made a commitment to issue a municipal bond insurance policy (the "Municipal Bond Insurance Policy") relating to the 1998A Bonds effective as of the date of issuance of the 1998A Bonds. See "AMBAC ASSURANCE CORPORATION." Under the terms of the Municipal Bond Insurance Policy, Ambac Assurance will pay to the United States Trust Company of New York, in New York, New York or any successor thereto (the "Insurance Trustee") that portion of the principal of and interest on the 1998A Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer (as such terms are defined in the Municipal Bond Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Trustee. The insurance will extend for the term of the 1998A Bonds and, once issued, cannot be canceled by Ambac Assurance.

The Municipal Bond Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates in the case of principal, and on stated dates for payment, in the case of interest. If the 1998A Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding 1998A Bonds, Ambac Assurance will remain obligated to pay principal of and interest on outstanding 1998A Bonds on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the 1998A Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Trustee has notice that any payment of principal of or interest on a 1998A Bond which has become Due for Payment and which is made to a Bondholder by or on behalf of the Issuer has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Municipal Bond Insurance Policy does not insure any risk other than Nonpayment, as defined in the Municipal Bond Insurance Policy. Specifically, the Municipal Bond Insurance Policy does not cover.

1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity.
2. payment of any redemption, prepayment or acceleration premium.
3. nonpayment of principal or interest caused by the insolvency or negligence of any Trustee or Paying Agent, if any.

If it becomes necessary to call upon the Municipal Bond Insurance Policy, payment of principal, requires surrender of 1998A Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such 1998A Bonds to be registered in the name of Ambac Assurance to the extent of the payment under the Municipal Bond Insurance Policy. Payment of interest pursuant to the Municipal Bond Insurance Policy requires proof of Bondholder entitlement to interest payments and an appropriate assignment of the Bondholder's right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the owner of the 1998A Bond, appurtenant coupon, if any, or right to payment of principal or interest on such 1998A Bond and will be fully subrogated to the surrendering Bondholder's rights to payment.

In the event that Ambac Assurance were to become insolvent, any claims arising under the Policy would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

Insurance

The Convention Center Facility Lease requires the City to procure or cause to be procured and maintain or cause to be maintained throughout the term thereof for the Leased Property insurance against the following risks in the following respective amounts:

(1) Insurance against loss or damage to the Leased Property caused by fire, lightning or earthquake, with an extended coverage endorsement covering the risk of vandalism and malicious mischief, sprinkler system leakage and boiler loss; provided that earthquake coverage shall be required only if: (a) available from reputable insurers at commercially reasonable rates; and (b) the Leased Property cannot satisfy any earthquake standards which may be imposed by any Rating Agency then rating the 1998A Bonds or any Additional Bonds. In the event the City is unable to obtain earthquake coverage on any Leased Property which it previously has maintained, it will promptly so notify all Rating Agencies then rating the 1998A Bonds or any Additional Bonds. The insurance described in this paragraph (1) shall be in an amount equal to the lesser of (a) replacement cost (without deduction for depreciation) of improvements located or to be located on the Leased Property or, if lower, \$50,000,000 in the case of earthquake insurance, or (b) the remaining unpaid principal amount of 1998A Bonds (and

any Additional Bonds) Outstanding plus the amount of use and occupancy coverage described in paragraph (2) below, except that such insurance may be subject to deductible clauses of not to exceed the first one hundred thousand dollars (\$100,000) of the amount of any one loss (or ten percent (10%) of the amount insured, in the case of earthquake). Insurance described in this paragraph (1) and in paragraph (2) below may be in the form of a policy which covers the Leased Property and one or more additional parcels of real property insured by the City; provided that the amount of coverage available thereunder shall be at least equal to the cumulative replacement values of the Leased Property and any other such property which is the subject of a lease, installment purchase or other financing arrangement ("Financed Property") for which bonds, certificates of participation or other obligations shall have been issued ("Obligations") plus the amount of use and occupancy coverage required by paragraph (2) below. In the event the City elects to obtain insurance for the Leased Property and one or more additional parcels of real property and the amount of the insurance proceeds available to pay all claims thereunder is not sufficient to cover the replacement values of all such properties, then any such proceeds shall be used first to rebuild or repair the Leased Property and all Financed Properties or to repay all Obligations, the 1998A Bonds and any Additional Bonds.

(2) Use and occupancy insurance against loss, total or partial, of the use and occupancy of the Leased Property as a result of any of the hazards covered by the insurance described in paragraph (1) immediately above, in an amount sufficient to pay the Base Rental Payments attributable to the Leased Property for a twenty-four month period; provided, that the amount of such insurance need not exceed the total remaining Base Rental Payments attributable to the Leased Property; and provided further, that such insurance may be part of a policy described in paragraph (1) above, which policy may provide that insurance proceeds paid for coverage described in paragraph (1) above may reduce amounts payable under coverage described in this paragraph (2) and vice-versa. The City may obtain use and occupancy insurance covering the Leased Property as well as other parcels of property owned by the City, provided that the cumulative amount thereof is at least equal to the cumulative amount of use and occupancy insurance required by the Convention Center Facility Lease and any similar agreements relating to Financed Property in respect of which Obligations are outstanding. There can be no assurance that the coverage afforded by such insurance will be adequate to prevent a reduction in Base Rental Payments. See "**RISK FACTORS--Abatement**" herein.

(3) Workers' compensation insurance covering all employees working in or on the Leased Property, in the same amount and type as other workers' compensation insurance maintained by the City for similar employees doing similar work. The City shall also require any other person or entity working in or on the Leased Property to carry the foregoing amount of workers' compensation insurance. Any such policy maintained by the City may provide for a deductible so long as the deductible is covered by a self-insurance or self-funding method or plan permitted by the Convention Center Facility Lease.

(4) Standard, commercial general liability insurance to protect the Authority and the City and their directors, officers and employees and the Trustee, indemnifying and defending such parties against direct or contingent loss or liability for damages for personal injury, death or property damage related to the possession, operation or use of the Leased Property, with a minimum combined single limit of one million dollars (\$1,000,000) for personal injury or death of one or more persons, and for property damage, in each accident or

event (subject to a deductible clause of not to exceed one hundred thousand dollars (\$100,000) or such greater amount as may be covered by any self-insurance or self-funding method or plan permitted by the Convention Center Facility Lease).

As an alternative to providing the insurance described in paragraphs (3) or (4) above, the Convention Center Facility Lease permits the City to provide a self-insurance or self-funding method or plan of protection for any part or all of the requirements for such insurance and, through such a plan or method, provide for deductible or retention amounts greater than those described in paragraphs (3) or (4) above. See **“APPENDIX C--SUMMARY OF PRINCIPAL LEGAL DOCUMENTS--Convention Center Facility Lease--Insurance.”**

Any insurance policy issued pursuant to paragraph (1) above shall be so written or endorsed as to make losses, if any, payable to the City, the Authority, the District and the Trustee as their respective interests may appear and the net proceeds of the insurance described in paragraph (1) above shall be applied as provided in the Convention Center Facility Lease. The net proceeds, if any, of the insurance policy described in paragraph (1) above shall, to the extent that such proceeds are paid on account of loss or damage to the Leased Property, be payable to the Trustee and deposited in the Insurance Proceeds and Condemnation Awards Fund and applied as described in the Indenture. The net proceeds, if any, of the insurance policy described in paragraph (2) above shall, to the extent that such proceeds relate to the use and occupancy of the Leased Property, be payable to the Trustee and deposited in the Bond Fund. Each insurance policy provided for in the Convention Center Facility Lease shall contain a provision to the effect that the insurance company shall not cancel the policy or modify it materially and adversely to the interests of the Authority and the Trustee without first giving written notice thereof to the Authority and the Trustee at least 60 days in advance of such intended cancellation or modification.

The City further covenants and agrees in the Convention Center Facility Lease to deliver or cause to be delivered to the Trustee on the date of issuance of the 1998A Bonds a California Land Title Association leasehold policy or policies, or a commitment for such policy or policies, with respect to the Leased Property with liability in the aggregate amount equal to the principal amount represented by the 1998A Bonds. Such policy or policies, when issued, will name the Trustee as the insured and will insure the leasehold estate of the Authority in the Leased Property subject only to such exceptions as do not materially affect the City's right to the use and occupancy of the Leased Property.

See **“APPENDIX C--SUMMARY OF PRINCIPAL LEGAL DOCUMENTS--Convention Center Facility Lease--Insurance”** for additional information regarding on the insurance requirements under the Convention Center Facility Lease.

AMBAC ASSURANCE CORPORATION

General

Ambac Assurance is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam and the Commonwealth of

Puerto Rico, with admitted assets of approximately \$3,073,000,000 (unaudited) and statutory capital of approximately \$1,769,000,000 (unaudited) as of June 30, 1998. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., Moody's Investors Service and Fitch IBCA, Inc. have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in its municipal bond insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the issuer of the 1998A Bonds.

Ambac Assurance makes no representation regarding the 1998A Bonds or the advisability of investing in the 1998A Bonds and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by Ambac Assurance and presented under the heading **"SECURITY AND SOURCES OF PAYMENT FOR THE 1998A BONDS - Municipal Bond Insurance Policy"** and **"AMBAC ASSURANCE CORPORATION."**

Available Information

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "Commission"). Such reports, proxy statements and other information may be inspected and copied at the public reference facilities maintained by the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 and at the Commission's regional offices at 7 World Trade Center, New York, New York 10048 and Northwestern Atrium Center, 500 West Madison Street Suite 1400, Chicago, Illinois 60661. Copies of such material can be obtained from the public reference section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. In addition, the aforementioned material may also be inspected at the offices of the New York Stock Exchange, Inc. (the "NYSE") at 20 Broad Street, New York, New York 10005. The Company's Common Stock is listed on the NYSE.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices and its telephone number are One State Street Plaza, 17th Floor, New York, New York 10004 and (212) 668-0340.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the Commission (File No. 1-10777) are incorporated by reference in this Official Statement:

(1) The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1997 and filed on March 31, 1998;

(2) The Company's Current Report on Form 8-K dated March 27, 1998 and filed on March 27, 1998;

(3) The Company's Amendment to its Annual Report on Form 10-K/A for the fiscal year ended December 31, 1997 and filed on March 31, 1998;

(4) The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 1998 and filed on May 15, 1998; and

(5) The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 1998 and filed on August 14, 1998.

PLAN OF FINANCE AND SOURCES AND USES OF FUNDS

General

The overall budget for the Expansion Project is \$216.3 million. Of this amount approximately \$30 million has already been expended and the City will be seeking reimbursement for approximately \$14.5 million from proceeds of the securities offered hereby. Principal components of the budget are as follows:

1.	Design, Engineering and Construction Management	\$ 28,067,000
2.	Relocation of Existing Occupant, Special Consultants and City Project Management	\$ 10,238,000
3.	Construction	\$ 159,913,000 ⁽¹⁾
4.	Contingency	\$ 8,982,000 ⁽²⁾
5.	Furniture, Fixtures, Equipment	\$ <u>9,100,000</u>
	Total	\$ 216,300,000 ⁽³⁾

- (1) Includes the various fees for permits and plan checks, and the costs of payment and performance bonds and the various insurance policies required during construction.
- (2) Does not include \$3 million in City funds which have been set aside and are available as an additional contingency amount.
- (3) See "RISK FACTORS – Construction Risk" for information regarding the current absence of a binding fixed price construction contract.

The sources of funding for the Expansion Project budget are as follows:

1.	Net Proceeds of 1998A Bonds	\$ 180,420,304
2.	Interest Earnings on Proceeds	\$ 14,885,804 ⁽¹⁾
3.	Contribution by the District	\$ 9,000,000 ⁽²⁾
4.	Contribution by the City	\$ <u>11,993,892</u>
	Total	\$ 216,300,000 ⁽³⁾

- (1) Additional interest earnings on proceeds will be used either to pay the interest components of Base Rental Payments prior to completion of construction or to pay additional construction costs of the Expansion Project.
- (2) See "SAN DIEGO CONVENTION CENTER – Mutual Agreements with the District – Support Agreement."
- (3) Does not include \$3 million in City funds which have been set aside and are available as an additional contingency amount.

Sources and Uses of Bond Proceeds

The estimated sources and uses of proceeds from the sale of the securities offered hereby are set forth below.

Sources

Principal Amount	\$205,000,000
Accrued Interest ⁽¹⁾	430,250
Original Issue Discount	(3,211,103)
Total	\$202,219,147

Uses

Deposit to Construction Fund ⁽²⁾	\$190,537,548
Deposit to Reserve Fund	6,850,531
Interest Account ⁽¹⁾	430,250
Costs of Issuance ⁽³⁾	3,304,480
Underwriter's Discount	1,096,338
Total	\$202,219,147

(1) Represents accrued interest from September 1, 1998 to September 17, 1998.

(2) Includes approximately \$14,500,000 to be reimbursed to the City for Expansion Project advances. Also includes \$10,117,244, some or all of which may be used to pay interest on the 1998A Bonds.

(3) Costs of Issuance include fees and expenses of the Co-Financial Advisors, Co-Bond Counsel and the Trustee, expenses for obtaining ratings for the 1998A Bonds, Official Statement printing costs, the premium for the Municipal Bond Insurance Policy, other costs related to the issuance of the 1998A Bonds, litigation expenses incurred incident to the Expansion Project, and certain amounts payable by the City to the District for expenses incurred by the District incident to the transactions contemplated hereby. See "**THE 1998A BONDS - Judicial Proceeding Validating the Transaction.**" Approximately \$1.5 million has already been expended in costs of issuance and will be reimbursed to the City or the District as the case may be.

SAN DIEGO CONVENTION CENTER

General

The Existing Convention Center is located on eleven acres along San Diego Bay in downtown San Diego, at 111 West Harbor Drive near Harbor Drive and 1st Avenue, adjacent to the waterfront of the Pacific Ocean. The Existing Convention Center, which opened in November 1989, and has not since been expanded, consists of approximately 250,000 square feet of exhibit space, a 40,000 square-foot ballroom (the largest in the City), 32 meeting rooms, and a 100,000 square-foot, covered special events area. The Existing Convention Center also includes approximately 2,000 underground parking spaces.

The real property and the improvements comprising the Existing Convention Center are owned by the District. The Existing Convention Center will comprise a portion of the "Leased Property" as described below, until the Existing Center Expiry Date. See "**THE LEASED PROPERTY.**"

The Existing Convention Center regularly hosts tradeshows, exhibitions and conventions, public admission shows, and major meetings and banquets. Functions held at the Existing Convention Center range from local gatherings to major national events, such as the 1996 Republican National Convention. Occupancy levels at the Existing Convention Center are at or near capacity throughout most of the year (see "**Bookings**" below), and concurrent events are scheduled in order to maximize Convention Center utilization and revenues. These booking practices are expected to continue after completion of the Expansion Project. The benefits to the City from use and occupancy of the Existing Convention Center come primarily from hotel transient occupancy taxes ("TOT") and, to a lesser degree, from sales taxes. The Convention Center generates revenue from its operations, but not in sufficient amounts to cover operating costs and capital requirements. These deficits are covered by the City from its General Fund. See "**Budgeting and Funding**" below.

More than 7,500 hotel rooms exist within a one-mile radius of the Existing Convention Center. The City understands that the District is holding discussions with developers relating to either the building of new hotels on District property in proximity to the Existing Convention Center or the expansion of existing hotels so located. The District has advised the City that while only some of the negotiations are complete, should the maximum number of hotel rooms that are being contemplated be built, an additional 2,300 hotel rooms would be available. The City also understands that these various projects are conditioned upon the completion of the Expansion Project.

With the completion of the Expansion Project, it is contemplated that the City will be able to seek not only larger single purpose conventions but multiple conventions and conventions and tradeshows running concurrently. However, in order to do this, it will be necessary that an additional "headquarters" hotel be constructed and available to accommodate such concurrent conventions. Such a hotel, with approximately 1,000 rooms, is included within the 2,300 hotel rooms referred to above. While the City understands that discussions regarding such a hotel are under way with the District there has been no definitive commitment made by a developer.

The Existing Convention Center is considered to be an integral part of the economy of the City, and is a central element of the City's tourism industry. For each of the five fiscal years ended June 30, 1998, the Existing Convention Center has attracted to the City between an estimated 250,000 and 346,000 convention delegates annually, almost all of whom were from out of town; according to the San Diego Convention and Visitors Bureau ("ConVis"), the estimated annual direct spending of these delegates has ranged from \$182 million to \$317 million during the same period.

In general, many conventions of an annual nature rotate to different parts of the country in successive years so that the existing Convention Center's primary competitors are convention centers located in Anaheim, Las Vegas, Los Angeles and San Francisco. Each of these four West Coast convention centers has expanded since the Existing Convention Center opened in 1989. The Convention Center expansion and other improvements contemplated by the Expansion Project are intended to enhance the Existing Convention Center's competitive position for all but the largest conventions and tradeshows. See "**THE EXPANSION PROJECT.**"

Booking Policy

Bookings at the Existing Convention Center are the responsibility of the new City Wide Convention Center Sales Department (the “Sales Department”), created by the recent consolidation of the sales teams of ConVis and the San Diego Convention Center Corporation (the “Corporation”). The focus of the Sales Department is the generation of hotel room occupancy within the City through the confirmation of out-of-town conventions and tradeshow and the generation of revenues for the Convention Center through convention and tradeshow, consumer shows, meetings and community events. The Existing Convention Center currently has bookings scheduled decades in advance, and which are either “definite” or “tentative,” through the fiscal year ending June 30, 2022, including a significant number of bookings between 2002 and 2022 for which the Expansion Project, as well as hotel-room additions, will be necessary. A “definite booking” is one for which the dates and rooms in the Convention Center have been selected and approved by the group’s governing body and for which the group has signed a confirmation agreement with ConVis. Confirmation agreements are typically signed from two to eight years before an event occurs. Although a booking may be classified as definite with ConVis, contracts originating from the Convention Center are generally not signed until 12 to 18 months before an event occurs. A “tentative booking” is one in which a group has shown interest for specific dates and rooms at the Convention Center and ConVis is holding those dates and rooms for the group, but is awaiting final approval from the group’s governing body. The Sales Department is also responsible for booking events scheduled less than 18 months in advance, such as consumer shows, meetings, community events, banquets and other activities which draw primarily local attendance.

Bookings

During each of the five fiscal years ended June 30, 1998, the Existing Convention Center had the following events which were attended by the following estimated number of attendees:

Type of Event	Fiscal Year Ended June 30,				
	1994	1995	1996	1997	1998
Conventions with tradeshows	38	43	39	42	47
Estimated Attendance	187,000	228,000	209,000	209,000	310,000
Conventions only	3	2	5	8	5
Estimated Attendance	10,000	62,000	12,000	37,000	12,000
Tradeshows only	4	2	4	1	1
Estimated Attendance	48,000	38,000	64,000	24,000	1,000
Incentive meetings	2	8	9	9	5
Estimated Attendance	5,000	18,000	20,000	14,000	7,000
All others ⁽¹⁾	173	154	147	166	145
Estimated Attendance	508,000	509,000	372,000	419,000	392,000
Total Events	220	209	204	226	203
Total Estimated Attendance	758,000	855,000	677,000	703,000	722,000

(1) Consumer shows, meetings and seminars, community events, local tradeshows and food and beverage events.

Conventions with tradeshows as well as conventions and tradeshows typically last three to five days and result in attendees utilizing local hotel rooms. Incentive meetings last anywhere from one to four days on average and also result in attendees utilizing local hotel rooms. All other events generally are attended primarily by local attendees and do not result in any significant bookings of hotels.

During the five fiscal years ending on June 30, 2003, the Existing Convention Center has the following number of definite bookings of conventions with tradeshows, conventions only, tradeshows only, and incentive meetings, of which 30% of those booked in the two fiscal years 2002 and 2003 are dependent upon the completion of the Expansion Project, as well as additional hotel room development in the vicinity of the Existing Center.

Fiscal Year Ending June 30,				
1999	2000	2001	2002	2003
62	47	43	28	22

In addition, the Corporation is currently in negotiations for additional bookings of conventions with tradeshows during the same five-year period.

Operations

The current arrangement between the City and the District, described below under **“Material Agreements with District,”** provides that the City will manage, operate, maintain and promote the Existing Convention Center, and the District will manage, operate and maintain the parking facilities and tennis courts located at the Existing Convention Center. The City has delegated the day-to-day responsibility of operating the Existing Convention Center to the Corporation, a not-for-profit corporation. Under an agreement which is expected to become effective in October 1998, the arrangements between the City and the Corporation may be terminated by either party by 90 days’ prior written notice to the other party. Subject to the right

of termination, the agreement continues indefinitely until terminated by either party. This agreement will also apply to the Expansion Project.

Staff of the Corporation

The Corporation has a complete operations, marketing and administrative staff to handle the operating requirements of the Existing Convention Center. Food services are provided by an independent contractor under a concession contract, which expires on June 30, 2001. The Corporation employed 235 full-time employees and over 560 part-time employees as of June 30, 1998. Brief biographies of the Corporation's current senior management are provided below.

President, Chief Operating Officer. Carol Wallace has served as President and Chief Operating Officer since December, 1991. Prior to her appointment as President, Ms. Wallace held senior management positions at other convention centers, including serving as General Manager of the Denver Convention Complex. The President has broad discretion to direct the operation of the Existing Convention Center.

Executive Vice President. Donald Telford has served as Executive Vice President since September, 1997. He has over 20 years of service at the Corporation's Concourse/Civic Theatre operation where he served as the Concourse Director for the four years prior to his current appointment. Mr. Telford works closely with the President and they jointly act as the Corporation's executive team directing and overseeing its management and operation.

Vice President of Sales/Marketing. Christine Shimasaki has served as Vice President of Sales/Marketing since the July, 1996 consolidation of ConVis and Corporation personnel. Ms. Shimasaki has been and is currently employed by ConVis. Prior to her position with the Existing Convention Center, Ms. Shimasaki worked extensively in sales and marketing positions, including serving as Director of Sales, Citywide Conventions for ConVis. She oversees the overall marketing and sales effort for the Existing Convention Center.

Vice President, Finance. Mark Emch has served as Vice President, Finance since September, 1994. Prior to holding this position, Mr. Emch spent over a decade in financial auditing and management. He oversees the accounting, finance, purchasing and computer services at the Existing Convention Center. Mr. Emch is a Certified Public Accountant.

Budgeting and Funding

The day-to-day operations of the Existing Convention Center (except for the parking facilities and tennis courts) are the financial responsibility of the Corporation and the City. Each year, the Corporation develops a detailed annual operating budget, projecting all revenues and expenses associated with the operation and maintenance of the Existing Convention Center. Budgeted Existing Convention Center revenues include rental income, food and beverage commissions, utilities, audio visual services, telecommunications, and advertising, and budgeted expenses include personnel, utilities, repair and maintenance, contract services, insurance, telecommunications, and general expenses/supplies. Budgeted expenses also include certain capital expenditures required to maintain the Existing Convention Center. Under the

current operating agreement with the City, the Corporation submits a budget for approval by the City Council each year indicating overall recommended expenditures for the year for marketing, operations, maintenance and capital purposes, the source of funds therefore (including operating revenues) and any projected contributions by the City from its General Fund.

Operating expenses have exceeded operating revenues at the Existing Convention Center since the facility opened in November, 1989. The following table sets forth the operating deficit of and the capital expenditures for the Existing Convention Center for each of the five fiscal years ended June 30, 1998. The annual operating deficit and any capital expenditures for the Existing Convention Center are included as a single line item in the City's annual budget, which the City currently funds from its General Fund.

Convention Center
Operating Deficit and Capital Expenditures
for the Five Fiscal Years Ended June 30,
(unaudited and in thousands)

	1994	1995	1996	1997	1998 ⁽¹⁾
Total Revenues	\$8,985	\$9,148	\$10,891	\$11,620	\$12,536
Operating Expenses	(11,709)	(11,733)	(12,795)	(14,846)	(14,518)
Capital Expenditures ⁽²⁾	(217)	(242)	0	(433)	(213)
Total Expenses and Capital Expenditures	(<u>\$11,926</u>)	(<u>\$11,975</u>)	(<u>\$12,795</u>)	(<u>\$15,279</u>)	(<u>\$14,731</u>)
Net Deficit	(\$2,941)	(\$2,827)	(\$1,904)	(\$3,659) ⁽³⁾	(\$2,195)

(1) Estimated.

(2) Exclude capital expenditures included within the \$216.3 million Expansion Project budget.

(3) In the fiscal year ended June 30, 1997, the primary causes of the increased deficit were increases in convention event expenses paid by the Corporation and the significant lead time needed in one instance to prepare for a convention, as well as additional dismantling time, which reduced available revenue days.

Material Agreements with the District

Management Agreement. On June 12, 1985, the City and the District entered into an agreement (the "1985 Agreement") pursuant to which the District agreed to construct, and the City agreed to operate, manage, maintain and promote, a Convention Center on District land along San Diego Bay. The District retained operational control over the parking facilities located under the Convention Center facility. The 1985 Agreement currently governs Existing Convention Center operations.

On June 21, 1994, the City and the District entered into a Memorandum of Understanding (the "MOU"), concerning the construction and operation of the Expansion Project which is immediately adjacent to the Existing Convention Center and which would add approximately 860,000 square feet of space adjacent to the existing facility. For a three-year period after the execution of the MOU, the City and the District negotiated a series of agreements to clarify and specify the construction, financing and operational arrangements contemplated by the MOU. Among those agreements is the 1998 Convention Center

Management Agreement by and between the District and the City (the "Management Agreement"), which was approved by the City and the District in November, 1997.

The Management Agreement becomes effective upon the Closing Date for the financing contemplated hereby. Once effective, it will supersede the existing 1985 Agreement and will remain in force and effect until the expiration of the Expansion Lease (which can continue for up to 5 years after the scheduled final payment on the 1998A Bonds, if the 1998A Bonds are not fully paid by the scheduled final payment date). The Management Agreement essentially continues the present arrangement whereby the City manages the Existing Convention Center and the District manages the related parking facilities and tennis courts. The City (through the Corporation) retains the income from the rental and use of Existing Convention Center facilities, but pays the District a small percentage of revenues generated by certain non-convention and non-trade show uses. Other essential terms of the Management Agreement that vary from the terms of the 1985 Agreement include the City's assumption of responsibility for operating the Existing Convention Center dewatering system upon the performance by the District of certain regulatory obligations, all as more fully described below, and the City's indemnification of the District for all claims made in connection with the use of the Existing Convention Center facilities, except those arising from the District's direct negligence. The Management Agreement will apply to the Expansion Project as well when it is completed and occupied by the City.

The Management Agreement confirms that the District holds title to the Existing Convention Center, and upon completion of the Expansion Project the District will take title to the Expansion Project as well. So long as the securities offered hereby are Outstanding, however, the Management Agreement specifies that the District's title to the Existing Convention Center (but only until September 16, 2002) and the Expansion Project site will be subject to the Convention Center Facility Lease, and the District will not have any right to abrogate or abridge the City's rights to maintain, use and operate either the Existing Convention Center or the Expansion Project. The Management Agreement terminates upon termination of the Convention Center Facility Lease.

Support Agreement. The Support Agreement dated September 17, 1998, between the City and the District is another contract executed in furtherance of the MOU. The MOU specifies the District's obligation to make 20 annual payments of \$4.5 million to help defray the costs associated with the Expansion Project. Pursuant to the MOU, the District has already made two of such annual payments to the City, in Fiscal Years 1995 and 1996, for a total of \$9 million. This amount has been contributed toward the Expansion Project. The Support Agreement governs the terms and conditions for the payment of the 18 remaining \$4.5 million annual payments to the City, for Fiscal Years Ended June 30, 1997 through and including 2014 ("Support Payments"). Concurrently with the closing of the financing contemplated hereby, the District will make two payments (totalling \$9 million) toward the cost of the Expansion Project or Base Rental Payments, leaving 16 annual payments remaining. The District has agreed to make Support Payments from any lawfully available sources of funds, including "Net Revenues," generally defined in the Support Agreement to mean all non-Airport revenues of the District less associated maintenance and operation costs. Under the Support Agreement, the District may at any time and from time to time issue or create any obligations payable from such Net Revenues on a basis senior to or on a parity with the Support Payments, provided that certain

conditions are met, including Net Revenues amounting to at least 1.25 (for senior obligations) or 1.10 (for parity obligations) times the maximum annual debt service on all such obligations (as more fully described in the Support Agreement). To date, the District has not issued any obligations payable from Net Revenues. The District's obligation to make Support Payments abates during any period that the City fails to make required Base Rental Payments for any reason or is not obligated to make payments under the Facility Lease.

Although the City presently intends to apply the Support Payments received from the District to make Base Rental Payments, the 1998A Bonds are not directly payable from or secured by any pledge of Support Payments, and neither the Trustee nor any Owner of 1998 A Bonds has any right to enforce the District's obligation to make Support Payments to the City. Investors purchasing the securities offered hereby should make their respective investment decisions based upon the financial condition and prospects of the City, without regard to the remaining 16 payments by the District to the City.

Additional Financial Commitments by the District. The City and the District have two other agreements under which the City may obtain additional advances from the District. The first of these (the "Hotel Project") provides for the City to obtain advances of up to \$4.5 million for its General Fund if there has not been completed at least one hotel on District property in the vicinity of the Existing Convention Center by June 30, 2002. The second of these (the "TOT Transaction") provides that if City TOT receipts do not increase over any two-fiscal year period ending on or before June 30, 2011, the District will advance an additional \$5.5 million to the City for its General Fund. The City will become obligated to repay the amounts advanced by the District through a series of lease obligations. The City's lease obligations would be payable over 5 or 10 years in the case of the Hotel Project, and, in the case of the TOT Transaction, ratably and semiannually over the period from the borrowing to June 30, 2012. These repayment obligations by the City to the District would be on a parity with the City's obligation under the Facility Lease.

Dewatering Memorandum of Understanding. The City and the District have entered into a Memorandum of Understanding dated September 17, 1998 (the "Dewatering MOU") regarding the operation of the system which pumps groundwater from under the Existing Convention Center (the "dewatering system"). (It is not expected that there will be any need for a permanent dewatering system for the Expansion Project since there will be no below-grade construction (other than the sinking of pilings), whereas there is subterranean parking under the Existing Convention Center.) Under the Dewatering MOU, the District is required to do all things necessary to ensure the dewatering system is in compliance with the Regional Water Quality Control Board and the National Pollutant Discharge Elimination System ("NPDES") permit. The City will financially assist the District in meeting these requirements, but the City's commitment of financial assistance (to pay 50% of the cost of any remedial work necessary) is limited to \$2 million in the aggregate. (The City does not expect any material dewatering system deficiencies. However, the City has set aside \$2 million of its own funds, over and above the budget for the Expansion Project, should it be called upon to provide financial assistance.) After the system is in compliance and a valid NPDES permit is in place, the City will assume responsibility for both the operation of the dewatering system and the NPDES permit. The City will retain that responsibility for so long as the City is the Operator of the Convention Center

under the Management Agreement, and will return the responsibility to the District at termination of the Management Agreement.

THE LEASED PROPERTY

The City will be obligated to make Base Rental Payments pursuant to the Convention Center Facility Lease for the use and occupancy of the Leased Property. On the delivery date of the 1998A Bonds, the Leased Property will consist of two distinct parcels of real property: the Existing Convention Center and the Expansion Project to be financed with the net proceeds of the 1998A Bonds. See **“SAN DIEGO CONVENTION CENTER”** and **“THE EXPANSION PROJECT.”** From and after September 16, 2002 (the “Existing Center Expiry Date”), the existing Convention Center will no longer be encumbered by the Convention Center Facility Lease and the Leased Property will then consist solely of the Expansion Project.

The completion schedule for the Expansion Project is May 1, 2001, for substantial completion (obtaining a Temporary Certificate of Occupancy) and August 31, 2001, for final completion. If the Expansion Project is not completed by the Existing Center Expiry Date, the City will not be obligated to make Base Rental Payments under the Convention Center Facility Lease until such completion, or until other real property and improvements are substituted for the Expansion Project. The City is not obligated under the Convention Center Facility Lease to provide such substitute real property and improvements. See **“RISK FACTORS--Construction Risk.”**

The City has determined that the annual fair market rental value of the Leased Property (assuming the Expansion Project is completed prior to the Existing Center Expiry Date) exceeds the Base Rental payable under the Convention Center Facility Lease in each fiscal year of the City.

The City has agreed to maintain, preserve and keep the Leased Property in good repair, working order and condition, and from time to time make or cause to be made all necessary and proper repairs, replacements and renewals. The Authority has no responsibility for such matters. The City must pay or cause to be paid all taxes, governmental charges and assessments and utility charges with respect to the Leased Property. See **“APPENDIX C--SUMMARY OF PRINCIPAL LEGAL DOCUMENTS--Convention Center Facility Lease.”**

The City and the Authority have the power to amend the Convention Center Facility Lease to substitute additional real property and/or improvements for existing Leased Property or to remove real property or improvements from the definition of Leased Property, upon compliance with all of the conditions set forth for such substitution or removal of Leased Property in the Convention Center Facility Lease. See **“RISK FACTORS--Substitution and Removal of Leased Property.”**

THE EXPANSION PROJECT

General

The Expansion Project consists of major improvements to the Existing Convention Center which will add approximately 860,000 square feet of space to the facility. The principal component of the Expansion Project is a two-story (plus a mezzanine area) free standing building which is designed to be fully integrated into the Existing Convention Center, with contiguous walls and jointly accessible areas. The Expansion Project will nearly double the exhibit hall capacity and add 100,000 square feet to the meeting and ballroom capacity of the Existing Convention Center, and will improve the efficiency of the public circulation and support areas.

The Expansion Project also includes the development of a 2.3-acre public plaza along the eastern edge of the Existing Convention Center, which will enhance access to the Existing Convention Center. In addition, the Expansion Project will entail excavating and lowering a portion of Harbor Drive approximately seven to eight feet below street grade in order to provide vehicular access directly into the Existing Convention Center parking garage. The Expansion Project initially will comprise a portion of, and eventually the sole "Leased Property" as described above. See "**THE LEASED PROPERTY.**"

Budget; Design/Build Contract

The total cost of the Expansion Project is budgeted at approximately \$216.3 million. Design and management work relating to the Expansion Project commenced in December 1994, and as of August 17, 1998, the City's Expansion Project expenditures have totaled approximately \$29.8 million. The City intends to reimburse itself for some of such Expansion Project expenditures with the proceeds of the securities offered hereby. See "**PLAN OF FINANCE AND SOURCES AND USES OF FUNDS.**"

All regulatory approvals needed for Expansion Project construction have been obtained. Site preparation began in August, 1998, construction work and utilities relocation are scheduled to commence in October, 1998, and substantial completion is expected by May, 2001, under an expedited design/build process. The design and construction manager of the Expansion Project is a joint venture comprised of Centex Golden Construction Company and Turner Construction Company (the "Design/Construction Manager"). The members of Design/Construction Manager have each constructed a number of convention centers throughout the world, including in California.

The Design/Construction/Management Agreement for the Expansion Project between the City and the Design/Construction Manager will contain a not-to-exceed contract amount of \$184,295,779 for the Expansion Project and the securities offered hereby are being issued in reliance on that. The not-to-exceed contract amount was agreed upon between the Design/Construction Manager and the City after receiving estimates from various prospective construction vendors and service providers, as well as an independent cost consultant, all of whom reviewed completed construction documents. The Design/Construction Management Agreement will be executed and delivered by the City after receipt of proceeds from the

securities offered hereby. However, most of the bids on the Expansion Project will not be received until after the securities offered hereby are issued and it is possible that the bids received could result in the actual construction cost of the Expansion Project being in excess of the not-to-exceed contract amount. Should that occur, the City would contribute up to \$3 million from its own funds, which amount has been set aside by the City and is over and above the Expansion Project budget amount. Should there still be a funding deficiency, there are five contractual cost saving measures that can be implemented. First, up to \$3 million, taken from the "owner's discretionary amount" (which aggregates \$3.582 million) within the budgeted contingency amount of \$8.982 million, will be contributed. Next, up to \$4 million in "deductive alternates" would be removed from the Expansion Project. If the resulting price still exceeds the not-to-exceed contract amount, the Design/Construction Manager shall revise at its cost the design and submit a revised not-to-exceed price based on such revisions. Should redesign efforts not be successful in achieving the not-to-exceed contract amount, an additional \$1.25 million shall be taken from the budgeted contingency amount in the Expansion Project budget. If costs still exceed the not-to-exceed contract amount, the City and the Design/Construction Manager will enter into good faith negotiations to agree upon a maximum price to be submitted to the City Council for approval (with the Design/Construction Manager contributing one-third of any remaining deficiency and the City contributing the balance) or the City may determine not to proceed with the Expansion Project and terminate the Design/Construction/Management Agreement. The City Council is under no obligation to approve any additional funding for the Expansion Project, should bids be in excess of the not-to-exceed contract amount.

The Design/Construction Management Agreement for the Expansion Project between the City and the Design/Construction Manager obligates the Design/Construction Manager to provide performance and payment bonds in favor of the City and the District to secure its obligations thereunder. A performance bond in the amount of approximately \$166 million, and covering the construction portion of the Design/Construction Management Agreement, will be issued by three insurance companies (each responsible for one-third), and a payment bond in the amount of approximately \$129 million will be issued by the same three insurance companies (each responsible for one-third). The performance bond covers the performance of the Design/Construction Manager. The payment bond covers payments owing by the Design/Construction Manager to contractors and subcontractors. The amounts payable under the performance and payment bonds are not pledged to the payment of the securities offered hereby.

Prospective Environmental Remediation

A portion of the site for the Expansion Project was used between 1910 and the early 1940's as a municipal site for the burning of solid waste, and the soil has never been remediated. Approximately 50,000 square feet, or 2.5% of the Expansion Project site, is affected by this. Included in the budget for the Expansion Project is the sum of \$2 million for soil remediation, and the City has obtained an environmental remediation analysis from the firm of Emcon Turner Environmental Corporation, which was based on some core samplings, soils reports and site closure plan. According to the analysis, the amount included in the budget for soil remediation is adequate. It will not be possible to actually know whether this is the case until land clearing and utilities relocation is undertaken, which will be after the securities offered hereby are sold and issued. The Design/Construction Manager has no responsibility for any

excess environmental remediation costs. Should the amount in the budget not be adequate, the City could fund the difference itself, although it is under no obligation to do so. However, if not needed to meet any funding deficiency described above under **"Budget; Design/Build Contract,"** any remaining part of the \$3.582 million "owner's discretionary amount" within the budgeted contingency amount would be available.

THE DISTRICT

The District is a Port District established by special legislation in 1962. It operates San Diego International Airport/Lindbergh Field as well as a variety of other facilities located within the tidelands trust property which was deeded to the District by the State of California for use in furtherance of commerce, navigation, fisheries and regional recreation. Except for the operations of San Diego International Airport/Lindbergh Field, the principal operations of the District are the leasing out of tidelands trust property for development by private enterprise and the District receives rental income as lessor. The land on which the Expansion Project will be located is property owned by the District as part of the tideland trust properties. The Existing Convention Center was constructed by the District and completed in 1989 and has since that time been operated by the City. The Expansion Project will revert to the District when the Convention Center Facility Lease terminates and the City's right to operate the Existing Convention Center and the Expansion Project under the Management Agreement then terminates.

RISK FACTORS

The following factors, along with all other information in this Official Statement, should be considered by potential investors in evaluating the investment risks inherent in purchasing the 1998A Bonds.

1998A Bonds Not General Obligation Debt of City or State

Neither the 1998A Bonds nor the obligation of the City to make Base Rental Payments under the Convention Center Facility Lease constitutes an obligation of the City for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation. The Authority has no taxing power. Neither the 1998A Bonds nor the obligation of the City to make such Base Rental Payments constitutes an indebtedness of the City, the State of California or any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction.

Base Rental Payments

Base Rental Payments are to be paid by the City from any and all General Fund monies legally available to the City. In the event the City's revenue sources are less than its total Base Rental obligations, the City could choose to fund other municipal services before making Base Rental Payments. (Should such a failure occur, it would be an Event of Default under the Convention Center Facility Lease and the Trustee could pursue available remedies.) The same result could occur if, because of State Constitutional limits on expenditures, the City is not

permitted to appropriate and spend all of its available revenues. The City's appropriations currently do not exceed the limitation on appropriations under Article XIII B of the California Constitution. See **"APPENDIX A--THE CITY OF SAN DIEGO--Limitations on Taxes and Appropriations."**

There are no legal limitations on the ability of the City to enter into other obligations that may constitute additional charges against its General Fund monies. To the extent that additional obligations are incurred by the City, the General Fund monies available to make Base Rental Payments may be decreased. The City is currently liable on other obligations payable from its General Fund and may incur additional obligations payable from its General Fund. See **"APPENDIX A--THE CITY OF SAN DIEGO--Bonded and Other Indebtedness."**

Abatement

Base Rental Payments may be abated in accordance with the Convention Center Facility Lease if there is substantial interference with the City's use and possession of any portion of the Leased Property due to damage, destruction, title defect or condemnation. The amount of abatement shall be such that the resulting Base Rental Payments represent fair consideration for the use and possession of the remaining portions of the Leased Property as to which such damage, destruction, title defect or condemnation do not substantially interfere with the use and right of possession by the City. Such abatement shall continue for the period commencing with the date of the substantial interference due to damage, destruction, title defect or condemnation and ending with the substantial completion of the work of repair or replacement of the portions of the Leased Property so damaged, destroyed, defective or condemned. Such reduced or abated Base Rental Payments, together with other monies available to the Trustee, may not be sufficient, after exhaustion of applicable use and occupancy insurance proceeds and depletion of amounts in the Reserve Account and in the Interest and Principal Accounts of the Bond Fund, to pay principal of and interest on the 1998A Bonds in full or in a timely manner. The failure of the City to make Base Rental Payments because of an abatement would not, under such circumstances, constitute a default under the Convention Center Facility Lease.

Under the Convention Center Facility Lease, the City must maintain use and occupancy insurance coverage in an amount sufficient to make Base Rental Payments for a period of at least twenty-four months during which the use of the Leased Property is interrupted as a result of any of the hazards covered by the fire, lightning, earthquake and extended coverage insurance which the City is required to maintain. Such insurance shall be maintained throughout the term of the Convention Center Facility Lease. There can be no assurance that in the event of such interruption any amounts will be payable pursuant to such insurance or will be adequate to cover Base Rental Payments abated or reduced during the period of interruption.

The Convention Center Facility Lease requires the City to apply casualty insurance proceeds to repair, reconstruct or replace the Leased Property if to do so would fully restore the Leased Property. In the event that the casualty insurance proceeds are not sufficient to fully restore the Leased Property, the City may elect to budget and appropriate additional funds and fully restore the Leased Property. If the City does not make such an election and the available casualty proceeds are at least sufficient to redeem all of the Outstanding 1998A Bonds,

at par plus accrued interest, then the proceeds shall be used for that purpose; in the event the proceeds are not so sufficient, the City may elect to budget and appropriate additional funds so that the available casualty proceeds and such additional funds are sufficient to redeem all of the Outstanding 1998A Bonds at par plus accrued interest, in which case the same shall be used for this purpose. Further, the Convention Center Facility Lease provides that if there are not sufficient Net Proceeds received from casualty insurance so as to redeem all of the Outstanding 1998A Bonds and the City elects not to budget and appropriate additional funds necessary to redeem all of the Outstanding 1998A Bonds, then such proceeds will be used to repair, reconstruct or replace the Leased Property. See **“SECURITY AND SOURCES OF PAYMENT FOR THE 1998A BONDS--Insurance”** and **APPENDIX C - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - Facility Lease.**

In the event Net Proceeds are received from an award in condemnation or payment under a title insurance policy will depend upon the extent of the condemnation of, or title defects relating to, the Leased Property. If any portion of the Leased Property has been affected by condemnation or a title defect which will result in an abatement of Base Rental Payments payable by the City under the Convention Center Facility Lease, then the Trustee shall use Net Proceeds available from condemnation or any policy of title insurance to redeem Outstanding 1998A Bonds.

Construction Risk

Completion Risk. After September 16, 2002, the Existing Center Expiry Date, the Existing Convention Center will no longer be subject to the Facility Lease and the Leased Property will then consist solely of the Expansion Project. The currently expected time of substantial completion for the Expansion Project is May 2001. If construction is delayed beyond September 16, 2002, the City will be under no obligation to make Base Rental Payments after such date until construction of the Expansion Project is substantially completed.

Construction Budget Risk. As described above under **“THE EXPANSION PROJECT – Prospective Environmental Remediation,”** a portion of the site for the Expansion Project was formerly a municipal solid waste incinerator site and the affected land has never been cleaned or treated. The construction budget for the Expansion Project includes \$2 million for environmental remediation and the City has received an analysis from Emcon Turner Environmental Corporation indicating that such amount is sufficient. However, inasmuch as ground has not been broken for the construction of the Expansion Project or the relocation of utilities, the extent of the needed environmental mitigation will not actually be known until after the securities offered hereby are sold and issued. Should the budgeted amount not be sufficient, there is no obligation on the part of the City or the Design/Construction Manager to advance any further funds, although if not needed for the purposes described under **“THE EXPANSION PROJECT – Budget; Design/Build Contract,”** any remaining part of the \$3.582 million “owner’s discretionary amount” within the budgeted contingency amount would be available.

Further, the financing contemplated hereby has been sized upon the basis of the Expansion Project budget and while the Design/Construction Manager is giving a not-to-exceed contract amount for the Expansion Project, construction bids will not be received until after the

closing of the financing contemplated hereby and, as indicated above under the **“THE EXPANSION PROJECT – Budget; Design/Build Contract,”** neither the City nor the Design/Construction Manager is obligated under all circumstances to continue with the Expansion Project if the construction bids come in too high.

Substitution and Removal of Leased Property

The City and the Authority may amend the Convention Center Facility Lease to substitute additional real property and/or improvements (the “Substituted Property”) for the existing Leased Property (a “Substitution”) or to remove real property (including undivided interests therein) or improvements from the definition of Leased Property (a “Removal”), upon compliance with all of the conditions set forth in the Convention Center Facility Lease and described below. (Since the Convention Center Facility Lease cannot be amended without Ambac Assurance’s consent, a Substitution or Removal would require Ambac Assurance’s consent.) After a Substitution or Removal, the portion of the Leased Property for which the Substitution or Removal has been effected shall be released from the leasehold encumbrance of the Convention Center Facility Lease.

No Substitution or Removal shall take place under the Convention Center Facility Lease until the City delivers to the Authority and the Trustee the following:

- (i) A Certificate of the City containing a description of all or part of the Leased Property to be released and, in the event of a Substitution, a description of the Substituted Property to be substituted in its place;
- (ii) A Certificate of the City stating that the annual fair rental value of the Leased Property after a Substitution or Removal, in each year during the remaining term of the Convention Center Facility Lease, is at least equal to the maximum annual Base Rental Payments attributable to the Leased Property prior to said Substitution or Removal, as determined by the City on the basis of an appraisal of the Leased Property after said Substitution or Removal conducted by a member of the American Institute of Real Estate Appraisers or the American Society of Appraisers designated by the City;
- (iii) An Opinion of Counsel to the effect that the amendments to the Convention Center Facility Lease contemplating Substitution or Removal have been duly authorized, executed and delivered and constitute the valid and binding obligations of the City and the Authority enforceable in accordance with their terms;
- (iv) In the event of a Substitution, a policy of title insurance in an amount equal to the same proportion of the principal amount as the principal portion of Base Rental Payments for the Substituted Property bears to the total principal portion of Base Rental Payments, insuring the Authority’s interest in the Substituted Property (except any portion thereof which is not real property) subject to Permitted Encumbrances (as defined in the

Convention Center Facility Lease), together with an endorsement thereto making said policy payable to the Trustee for the benefit of the Owners of the 1998A Bonds and any Additional Bonds;

- (v) In the event of a Substitution, an opinion of the City Attorney of the City to the effect that the exceptions, if any, contained in the title insurance policy referred to in (iv) above do not interfere with the beneficial use and occupancy of the Substituted Property described in such policy by the City for the purposes of leasing or using the Substituted Property;
- (vi) Evidence that the City has complied with the insurance covenants contained in the Convention Center Facility Lease with respect to the Substituted Property; and
- (vii) Evidence that the City has delivered to each of the Rating Agencies then rating the 1998A Bonds or any Additional Bonds copies of the certificates and appraisal described in clauses (i) and (ii) above, and evidence from each of the Rating Agencies then rating the 1998A Bonds or any Additional Bonds that such Substitution or Removal, in and of itself, will not result in a reduction of its rating on the 1998A Bonds or any Additional Bonds from the rating which then prevails.

Limited Recourse on Default; No Acceleration of Base Rental

Failure by the City to make Base Rental Payments or other payments required to be made under the Convention Center Facility Lease, or failure to observe and perform any other terms, covenants or conditions contained in the Convention Center Facility Lease or in the Indenture for a period of 30 days after written notice of such failure and request that it be remedied has been given to the City by the Authority or the Trustee, constitute events of default under the Convention Center Facility Lease and permit the Trustee or the Authority to pursue any and all remedies available. In the event of a default, notwithstanding anything in the Convention Center Facility Lease or in the Indenture to the contrary, THERE SHALL BE NO RIGHT UNDER ANY CIRCUMSTANCES TO ACCELERATE THE BASE RENTAL PAYMENTS OR OTHERWISE DECLARE ANY BASE RENTAL PAYMENTS NOT THEN IN DEFAULT TO BE IMMEDIATELY DUE AND PAYABLE, NOR SHALL THE AUTHORITY OR THE TRUSTEE HAVE ANY RIGHT TO REENTER OR RELET THE LEASED PROPERTY EXCEPT AS DESCRIBED IN THE CONVENTION CENTER FACILITY LEASE.

The enforcement of any remedies provided in the Convention Center Facility Lease and the Indenture could prove both expensive and time consuming. If the City defaults on its obligation to make Base Rental Payments with respect to the Leased Property, the Authority or the Trustee may retain the Convention Center Facility Lease and hold the City liable for all Base Rental Payments as each becomes due and enforce any other term or provision of the Convention Center Facility Lease to be kept or performed by the City. There is no remedy of acceleration of the total Base Rental Payments due over the term of the Convention Center

Facility Lease, and the Trustee would be required to seek a separate judgment each year for that year's defaulted Base Rental Payments.

Alternatively, the Authority or the Trustee may terminate the Convention Center Facility Lease, retake possession of the Leased Property and proceed against the City to recover damages pursuant to the Convention Center Facility Lease. Upon termination of the Convention Center Facility Lease, the Management Contract between the District and the City, under which the City operates the Existing Convention Center, and will operate the Expansion Project, terminates. Due to the specialized nature of the Leased Property or any property substituted therefor pursuant to the Convention Center Facility Lease, no assurance can be given that the Trustee will be able to re-let the Leased Property so as to provide rental income sufficient to make all payments of principal of and interest on the 1998A Bonds when due, and the Trustee is not empowered to sell the Leased Property for the benefit of the Owners of the 1998A Bonds. Further, since the Existing Convention Center will only be subject to the Convention Center Facility Lease through September 16, 2002, if it sought to re-let the Expansion Project after that date the Trustee would need to seek the cooperation of the District in order to promote conventions for both the Existing Convention Center and the Expansion Project. Any suit for money damages would be subject to limitations on legal remedies against cities in California, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest. See **"SECURITY AND SOURCES OF PAYMENT FOR THE 1998A BONDS"** and **"APPENDIX C--SUMMARY OF PRINCIPAL LEGAL DOCUMENTS."**

Possible Insufficiency of Insurance Proceeds

The Convention Center Facility Lease obligates the City to keep in force various forms of insurance, subject to deductibles, for repair or replacement of the Leased Property in the event of damage, destruction or title defects, subject to certain exceptions. The City and the Authority make no representation as to the ability of any insurer to fulfill its obligations under any insurance policy obtained pursuant to the Convention Center Facility Lease and no assurance can be given as to the adequacy of any such insurance to fund necessary repair or replacement or to pay principal of and interest on the 1998A Bonds when due. In addition, certain risks, such as earthquakes, may not always be covered by such insurance and in any event the required earthquake insurance amount is only \$50 million. See **"SECURITY AND SOURCES OF PAYMENT FOR THE 1998A BONDS--Insurance."**

Limitations on Remedies Available to Owners of the 1998A Bonds

The enforceability of the rights and remedies of the Owners of the 1998A Bonds and the obligations incurred by the City are subject to the following: the Federal Bankruptcy Code and applicable bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect; equity principles which may limit the specific enforcement under State law of certain remedies; the exercise by the United States of America of the powers delegated to it by the Federal Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police power inherent in the sovereignty of the State of California and its governmental bodies in the interest of serving a significant and legitimate public purpose. Bankruptcy proceedings, or the exercise of powers by the federal or State government, if initiated, could subject the Owners

of the 1998A Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently entail risks of delay, limitation, or modification of the principal legal documents or their rights.

The Santa Clara Decision

On September 28, 1995, the California Supreme Court filed its decision in *Santa Clara County Local Transportation Authority v. Guardino*, 11 Cal.4th 220; 45 Cal.Rptr. 207 (1995) (the "Santa Clara decision") which upheld a Court of Appeal decision invalidating a 1/2 cent countywide sales tax for transportation purposes levied by a local transportation authority. The California Supreme Court based its decision on the failure of the authority to obtain a two-thirds vote of the electorate for the levy of a "special tax" as required by Proposition 62 (codified at Sections 53720-53730 of the California Government Code). The Santa Clara decision did not address the question of whether or not it should be applied retroactively or whether it is applicable to charter cities like the City of San Diego.

Because the City's business license tax and certain increases in the City's transient occupancy tax were adopted after November 5, 1986 (the effective date of Proposition 62) and were not approved by the voters, it is arguable that such taxes have been imposed in violation of Proposition 62. For a discussion of the potential impact of the Santa Clara decision on the City's finances, see "**APPENDIX A--THE CITY OF SAN DIEGO--Municipal Government and Financial Information.**"

Proposition 218

On November 5, 1996, the voters of the State approved an initiative to amend the California Constitution known as the Right to Vote on Taxes Act ("Proposition 218"). Proposition 218 requires voter approval of general or special taxes imposed by the City, and subjects local taxes, assessments, fees and charges to the possibility of reduction or repeal through the initiative power. For a discussion of the potential impact of Proposition 218 on the City's finances, see "**APPENDIX A--THE CITY OF SAN DIEGO--Municipal Government and Financial Information.**"

Other Financial Matters

See **APPENDIX A – THE CITY OF SAN DIEGO – "Municipal Government and Financial Information – Fiscal Year 1998"** and "**Fiscal Year 1999,**" and "**Proposed Vehicle License Fee Reduction**" for information on (i) a ticket guarantee by the City to the San Diego Chargers football team, and (ii) the loss of vehicle license fee revenue by the City. See also **APPENDIX A - "Bonded And Other Indebtedness – Possible Additional General Fund Lease Obligations"** for information on the possible incurrence by the City of additional financial obligations payable from the General Fund on a parity with Base Rental Payments.

See also "**LEGAL MATTERS - Litigation Matters.**"

Pending Litigation Attacking a Source of City General Fund Revenue

On June 8, 1998, a complaint was filed in the San Diego Superior Court by Edward Teyssier, a resident of and property owner in the City of San Diego, alleging that the City's Rental Unit Business Tax is unlawful. The City's Rental Unit Business Tax has existed in various forms since 1942; it took its present form in 1990, and was last raised in 1993. It has never been submitted to the City's electorate for the City's approval. The original complaint alleged that the tax: (1) is a special tax, requiring a two-thirds voter approval under California Constitution Article XIII A section 4 Proposition 13), or alternatively (2) that it is a general tax which must be approved by a majority of the electorate pursuant to California Government Code section 53723 (Proposition 62). After the City filed its demurrer to this complaint, the plaintiff filed an amended complaint deleting the allegations based on Proposition 62, by adding allegations that the tax is a property tax requiring voter approval under California Constitution Article XIII, section 1. The City refiled its demurrer on September 4, 1998, and the court granted the demurrer, dismissing plaintiff's amended complaint. For the fiscal year ended June 30, 1998, the City received \$5,248,700 from this source for its General Fund, and has budgeted \$4,990,000 as coming from this source for the fiscal year ending June 30, 1999.

THE AUTHORITY

The Authority is a joint powers authority formed under and pursuant to Sections 6500 et seq. of the California Government Code and a Joint Exercise of Powers Agreement dated as of May 1, 1996, between the City and the District. The Authority was established to assist the City and the District with respect to the financing, acquisition and construction of convention facilities, including the Expansion Project.

LEGAL MATTERS

Tax Exemption

In the opinion of Orrick, Herrington & Sutcliffe LLP, Los Angeles, California and Alvarado, Smith, Villa & Sanchez, Irvine, California ("Co-Bond Counsel"), based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, compliance with certain covenants, interest on the 1998A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and is exempt from State of California personal income taxes. Co-Bond Counsel are of the further opinion that interest on the 1998A Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Co-Bond Counsel observe that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed opinion of Co-Bond Counsel is set forth in Appendix F hereto.

Certain of the 1998A Bonds were sold to the public at a premium (the "Premium Bonds"). No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excludable from gross income. However, a purchaser's basis in a Premium Bond will be reduced by the amount of the amortizable bond

premium properly allocable to such purchaser. Owners of the Premium Bonds should consult their own tax advisors with respect to the tax consequences of ownership thereof.

To the extent the issue price of any maturity of the 1998A Bonds is less than the amount to be paid at maturity of such 1998A Bonds (excluding amounts stated to be interest and payable at least annually over the term of such 1998A Bonds) the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each owner thereof, is treated as interest on the 1998A Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the 1998A Bonds is the first price at which a substantial amount of such maturity of the 1998A Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the 1998A Bonds accrues daily over the term to maturity of such 1998A Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such 1998A Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such 1998A Bonds. Owners of the 1998A Bonds should consult their own tax advisors with respect to the tax consequences of ownership of 1998A Bonds with original issue discount, including the treatment of purchasers who do not purchase such 1998A Bonds in the original offering to the public at the first price at which a substantial amount of such 1998A Bonds is sold to the public.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the 1998A Bonds. The City has covenanted to comply with certain restrictions designed to insure that interest on the 1998A Bonds will not be included in federal gross income. Failure to comply with these covenants may result in interest on the 1998A Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the 1998A Bonds. The opinion of Co-Bond Counsel assumes compliance with these covenants. Co-Bond Counsel have not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the 1998A Bonds may adversely affect the value of, or the tax status of interest on, the 1998A Bonds. Further, no assurance can be given that pending or future legislation or amendments to the Code, if enacted into law, or any proposed legislation or amendments to the Code, will not adversely affect the value of, or the tax status of interest on, the 1998A Bonds. Prospective holders of 1998A Bonds are urged to consult their own tax advisors with respect to proposals to restructure the federal income tax, including H.R. 3097, passed by the House of Representatives on June 17, 1998.

Certain requirements and procedures contained or referred to in the Indenture, the Tax Certificate and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the 1998A Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Co-Bond Counsel express no opinion as to any 1998A Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Co-Bond Counsel.

Although Co-Bond Counsel are of the opinion that interest on the 1998A Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the 1998A Bonds may otherwise affect a holder's federal or state tax liability. The nature and extent of these other tax consequences will depend upon the particular tax status of the holder or the holder's other items of income or deduction. Co-Bond Counsel express no opinion regarding any such other tax consequences.

Legal Opinions

Co-Bond Counsel will render an opinion with respect to the validity of the 1998A Bonds. A complete copy of the proposed opinion of Co-Bond Counsel is set forth in Appendix F hereto. Certain legal matters will be passed upon for the Authority and the City by the City Attorney.

Litigation Matters

(a) **No Pending Litigation.** There is no litigation against the Authority or the City pending or, to the knowledge of the officers of the Authority and the City, threatened, in any court or other tribunal of competent jurisdiction, state or federal, in any way (i) restraining or enjoining the issuance, sale or delivery of any of the 1998A Bonds, (ii) questioning or affecting the validity of the 1998A Bonds, (iii) questioning or affecting the validity of any of the proceedings for the authorization, sale, execution or delivery of the 1998A Bonds, or (iv) questioning or affecting the validity or enforceability of the Convention Center Facility Lease or the Indenture. To the knowledge of the Authority, the City and the City Attorney, there are pending against the City lawsuits and claims arising in the ordinary course of the City's activities which, taken individually or in the aggregate, could materially affect the City's finances. However, taking into account insurance and self-insurance reserves expected to be available to pay liabilities arising from such actions, the City does not expect any or all of such claims to have a material adverse effect on its ability to make Base Rental Payments when due.

(b) **Other.** There are pending against the City lawsuits and claims arising in the ordinary course of the City's activities which, taken individually or in the aggregate, could materially affect the City's finances. However and except as noted below, taking into account insurance and self-insurance reserves expected to be available to pay liabilities arising from such actions, the City does not expect any or all of such claims to have a material adverse effect on its ability to make Base Rental Payments when due.

Walker v. City of San Diego. In August 1997, an action entitled *Beverly Walker, et al. v. City of San Diego, et al.* was filed in the United States District Court for the Southern District of California, alleging that incident to the remodeling of Qualcomm Stadium (the "Stadium"), where the San Diego Chargers and San Diego Padres currently play their home games, the City and others failed to comply with the Americans with Disabilities Act (the "Act") by failing to provide sufficient handicap seating and access. Prior to construction, the City had discussed handicap seating and access with a variety of groups representing disabled persons and had complied with requests made by those groups. Should the City be required to make major modifications to the seating, the cost could run into the millions of dollars. The City expects that

the cost will be covered by the contractors' performance bonds, but to the extent the cost is not covered, it would have to be paid from the City's General Fund or the proceeds of an additional financing for further reconstruction or renovation. Further, the City has an agreement with the Chargers to guarantee that the average general admission ticket sales per game, including pre-season games, will be 60,400 (on average, per year). See **APPENDIX A – CITY OF SAN DIEGO – “Municipal Government Financial Information – Fiscal Year 1998.”** There are currently 61,750 general admission seats in the Stadium; if the City does not prevail, it expects that the number of general admission seats would not drop below 61,000. No discussions have been had by the City with the Chargers as to how a drop below 60,400 general admission seats might affect the ticket sales guarantee.

San Dieguito Partnership v. City of San Diego. This is a consolidated lawsuit involving a longstanding dispute between landowners and the City regarding their development rights in the San Dieguito Valley. The landowners are seeking either damages for their inability to develop their property, or an exchange of property whereby they will receive developable land from the City in exchange for their present property. There is no trial date currently set and the parties are in settlement discussions. If the matter does not settle, the City expects to prevail at trial; however, if the landowners prevail the award of damages could be as high as \$25 million. The City has no reserve set aside for this.

Legality for Investment in California

Under provisions of the California Financial Code, the 1998A Bonds are legal investments for commercial banks in California to the extent that the 1998A Bonds, in the informed opinion of the bank, are prudent for the investment of funds of depositors, and, under provisions of the California Government Code, the 1998A Bonds are eligible for security for deposits of public moneys in the State.

UNDERWRITING

The securities offered hereby are to be purchased by Merrill Lynch & Co., Prudential Securities Incorporated, George K. Baum & Company, Redwood Securities Group, Inc. and Alamo Capital (the “Underwriters”). The Underwriters have agreed, subject to certain terms and conditions set forth in the Contract of Purchase, dated September 1, 1998, by and between the Underwriters and the City, to purchase securities offered hereby at a discount of \$1,096,338 from the public offering prices shown on the cover of this Official Statement. The Underwriters will purchase all the securities offered hereby if any are purchased. These securities may be offered and sold to certain dealers (including dealers depositing these securities into investment trusts) and others at prices lower than the initial public offering price, and the public offering price may be changed from time to time by the Underwriters.

MISCELLANEOUS

Ratings

Fitch IBCA, Inc., Moody's Investors Service, Inc. and Standard & Poor's Ratings Services have assigned their municipal bond ratings of "AAA," "Aaa," and "AAA," respectively, to the 1998A Bonds with the understanding that, upon delivery of the 1998A Bonds, the Insurance Policy will be delivered by Ambac Assurance. These ratings reflect these rating agencies' views of the creditworthiness of Ambac Assurance. The underlying ratings of "AA-," "Aa3," and "A+ (prov.*)" reflect these rating agencies' views of the credit quality of the City with respect to its ability to pay Base Rental Payments, which in turn will be used to pay the principal of and interest on the 1998A Bonds. The ratings issued reflect only the views of such rating agencies, and any explanation of the significance of such ratings should be obtained from such rating agencies. There is no assurance that such ratings will be retained for any given period of time or that the same will not be revised downward or withdrawn entirely by such respective rating agencies if, in the judgment of such rating agencies, circumstances so warrant. Under its Continuing Disclosure Agreement (see **APPENDIX D**), the City has agreed to give notice of rating changes as an enumerated event, if material, in the manner described under **"CONTINUING DISCLOSURE."** Any downward revision or withdrawal of any rating obtained may have an adverse effect on the market price of the 1998A Bonds.

Co-Financial Advisors

Public Financial Management, Inc., San Francisco, California, and Municipal Capital Management, Inc., Los Angeles, California (the "Co-Financial Advisors"), have entered into a contract to serve as financial advisors to the City with respect to the sale of the 1998A Bonds. The Co-Financial Advisors have assisted the Authority and the City in various matters relating to the planning, structuring and issuance of the 1998A Bonds. The Co-Financial Advisors are not obligated to undertake, and have not undertaken to make, an independent verification or assumption of responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement. Each of the Co-Financial Advisors is an independent financial advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities. The Co-Financial Advisors will receive a fee for the above services payable from proceeds of the 1998A Bonds.

Additional Information

Copies of the Indenture, the Convention Center Facility Lease, the Existing Center Lease, the Expansion Project Lease, the Assignment Agreement and the Continuing Disclosure Agreement are available upon request with payment of copying, mailing and handling charges by contacting the City at the following address:

The City of San Diego
Financial and Technical Services Business Center
202 "C" Street, MS 9B
San Diego, California 92101
Attention: Deputy City Manager

TABLE OF CONTENTS

	Page
INTRODUCTION	1
THE 1998A BONDS	3
General Provisions	3
Debt Service Payment Schedule	3
Redemption Provisions	5
Additional Bonds	7
Continuing Disclosure	8
Judicial Proceedings Validating the Transaction	9
Voter Approval	9
SECURITY AND SOURCES OF PAYMENT FOR THE 1998A BONDS	10
Pledge of Revenues	10
Base Rental Payments	10
Reserve Account	11
Municipal Bond Insurance Policy	12
Insurance	13
AMBAC ASSURANCE CORPORATION	15
General	15
Available Information	16
Incorporation of Certain Documents by Reference	16
PLAN OF FINANCE AND SOURCES AND USES OF FUNDS	18
General	18
Sources and Uses of Bond Proceeds	19
SAN DIEGO CONVENTION CENTER	19
General	19
Booking Policy	21
Bookings	21
Operations	22
Staff of the Corporation	23
Budgeting and Funding	23
Material Agreements with the District	24
THE LEASED PROPERTY	27
THE EXPANSION PROJECT	28
General	28
Budget; Design/Build Contract	28
Prospective Environmental Remediation	29
THE DISTRICT	30
RISK FACTORS	30
1998A Bonds Not General Obligation Debt of City or State	30
Base Rental Payments	30
Abatement	31
Construction Risk	32
Substitution and Removal of Leased Property	33
Limited Recourse on Default; No Acceleration of Base Rental	34

APPENDIX A

THE CITY OF SAN DIEGO

The information and expressions of opinion set forth herein have been obtained from sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness. Statements contained herein which involve estimates, forecasts, or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of facts. The information and expressions of opinion herein are subject to change without notice, and neither delivery of this Official Statement nor any sale thereafter of the securities offered hereby shall under any circumstances create any implication that there has been no change in the affairs of the City or in any other information contained herein since the date of the Official Statement.

I. INTRODUCTION

With a total population of 1.2 million in 1998 and a land area of 330 square miles, the City of San Diego (the "City") is the sixth largest city in the nation and the second largest city in California. The City is the county seat for the County of San Diego (the "County") and is the County's business and financial center.

The City's population grew by 14% between 1989 and 1998 for an average increase of 16,800 annually. A major factor in the City's growth is its quality of life. In addition to having a favorable climate, the City offers a wide range of cultural and recreational services to both residents and visitors. With mild temperatures year round, the City's numerous beaches, parks, tennis courts, and golf courses are in constant use.

Another factor in the City's growth is an expanding diversified economy. Recent growth has been concentrated in four major areas: high tech manufacturing and research (including electronics, communications equipment, scientific instruments, drugs, and biomedical equipment); professional services; tourism; and international trade. In addition to these expanding industries, the City benefits from a stable economic foundation composed of basic manufacturing (ship building, industrial machinery, television & video equipment, and printing & publishing), public and private higher education, health services, military, and local government.

Expansion in the high tech manufacturing and research component of the City's economic base has been led by the rapid emergence of telecommunications. Major participants in the City's telecommunications industry include manufacturers of personal communications equipment, radio/TV communications equipment, network communications equipment/systems, satellite communications equipment, and military surveillance/guidance systems. The City is the primary location for telecommunications firms in the County, with the Sorrento Valley area emerging as a major center in the development and manufacturing of products using wireless and digital technology.

Another component of the City's high tech industry is the biotechnology sector, which includes companies involved in developing chemical and biological products for use in

the treatment and diagnosis of diseases and various medical conditions. As with telecommunications, the biotechnology industry is concentrated in the City, with the highest concentration in the area around the University of California, San Diego. Growth in both biotechnology and other high tech industries has been facilitated by the City's well established research organizations. Among the more important research facilities located in the City are the Scripps Research Institute, the Salk Institute for Biological Studies, and the San Diego Super Computer Center.

The City is also home to a growing software industry. Components within this industry include basic computer programming services, prepackaged software, systems integration services, and development of multimedia products.

II. ECONOMIC AND DEMOGRAPHIC INFORMATION

Data contained under this caption is intended to portray economic, demographic, and business trends within the City. While not constituting direct revenue sources as such, these trends help explain changes in revenue sources such as property taxes, sales taxes, and transient occupancy taxes, which could be impacted by economic conditions.

A. Population

As set forth in Table 1 below, between January 1, 1989 and January 1, 1998, the City's population has increased by 151,600 (or by approximately 16,800 new residents annually in the nine year period).

Table 1
POPULATION GROWTH
Calendar Years 1989 through 1998

Calendar Year ⁽¹⁾	City of San Diego	Annual Growth Rate	County of San Diego	Annual Growth Rate	State of California	Annual Growth Rate
1989	1,073,200	2.8%	2,388,700	3.8%	29,063,000	2.6%
1990	1,110,500	3.5%	2,498,000	3.3%	29,760,000	2.4%
1991	1,126,000	1.4%	2,539,600	1.7%	30,296,000	1.8%
1992	1,141,300	1.4%	2,583,500	1.7%	30,845,000	1.8%
1993	1,156,200	1.3%	2,614,200	1.2%	31,303,000	1.5%
1994	1,163,000	0.6%	2,638,500	0.9%	31,661,000	1.1%
1995	1,170,200	0.6%	2,658,600	0.8%	31,910,000	0.8%
1996	1,179,500	0.8%	2,682,100	0.9%	32,223,000	1.0%
1997	1,199,000	1.7%	2,729,100	1.8%	32,670,000	1.4%
1998	1,224,800	2.2%	2,794,800	2.4%	33,252,000	1.8%

(1) As of January 1 of the calendar year.

Source: State of California, Department of Finance

As indicated in the following table, enrollment in kindergarten through grade 12 in the San Diego Unified School District has continued to grow at a relatively moderate pace during the 1990's.

Table 2
SAN DIEGO UNIFIED SCHOOL DISTRICT
ENROLLMENT AND ATTENDANCE
School Year 1993-94 through 1997-98

School Year	Average Daily Attendance
1993-94	123,509
1994-95	124,992
1995-96	127,892
1996-97	130,284
1997-98	132,201

Source: San Diego Unified School District, Controller

B. Employment Summary

As seen in Table 3, the City's unemployment rate for calendar year 1997 averaged 4.3% which was down from a 5.4% rate during calendar year 1996. The City's 1997 unemployment rate was below both the national rate of 5.0% and the State rate of 6.3%.

Table 3
ESTIMATED AVERAGE ANNUAL EMPLOYMENT AND
UNEMPLOYMENT OF RESIDENT LABOR FORCE
Calendar Years 1993 through 1997

	1993	1994	1995	1996	1997
Civilian Labor Force City of San Diego					
Employed	518,200	525,800	525,600	536,500	562,400
Unemployed	44,100	40,500	36,500	30,600	25,400
Unemployment Rates					
City	7.8%	7.2%	6.6%	5.4%	4.3%
County	7.7	7.0	6.4	5.3	4.2
California	9.2	8.6	7.8	7.2	6.3
United States	6.8	6.1	5.6	5.4	5.0

Source: State of California Employment Development Department, Labor Market Information Division; U.S. Department of Labor, Bureau of Labor Statistics

Table 4 provides the Employment Development Department's estimates of total annual nonagricultural wage and salary employment by major industry in the County during the period 1993 to 1997. Annual employment information is not regularly compiled by sector for the City alone. As shown, total nonagricultural wage and salary employment in the County increased by 102,100 new jobs during this period.

Table 4
SAN DIEGO COUNTY
WAGE AND SALARY EMPLOYMENT
Calendar Years 1993 through 1997

	1993	1994	1995	1996	1997
Mining	400	400	300	400	400
Construction	39,500	40,600	43,600	45,500	52,500
Manufacturing	117,500	114,100	114,900	117,500	122,100
Nondurable Goods	32,300	32,300	31,600	32,200	33,600
Durable Goods	85,200	81,800	83,300	85,200	88,500
Transportation, Communications, Utilities ⁽¹⁾	35,700	36,400	37,400	38,300	41,100
Trade	225,500	227,000	229,500	235,900	241,100
Wholesale	39,700	42,000	42,900	42,700	44,500
Retail	185,800	185,100	186,600	193,200	196,600
Finance, Insurance, Real Estate	62,200	59,100	55,800	57,400	60,900
Services	287,300	296,100	310,900	321,200	338,800
Government	179,100	181,500	186,100	190,100	192,500
Federal	44,300	45,400	45,700	45,800	44,900
State and Local	134,700	136,100	140,400	144,300	147,600
TOTAL NONAGRICULTURAL ⁽²⁾	947,200	955,300	978,600	1,006,200	1,049,300

(1) Includes trucking and transit services, telephone and broadcast/cables services, and gas and electric services.

(2) Figures may not add to total due to independent rounding.

Source: State of California Employment Development Department

Since the industry employment data referenced above is organized by standard industrial classification codes, employment in the various high tech categories, such as Telecommunications, Biotechnology, and Software may not fall into a single employment sector alone. For example, some categories of firms in Telecommunications appear in Manufacturing, while certain other categories appear in Services.

The following is a discussion of the trends shown in the above Wage and Salary Employment table.

Manufacturing. During the early 1990's, manufacturing employment in the County recorded sharp declines, due primarily to the relocation of much of its aerospace industry. After bottoming out in 1994, manufacturing employment recorded consecutive annual increases of approximately 800 and 2,600 in 1995 and 1996, respectively. Manufacturing employment continued to grow in 1997, averaging 122,100 for the year, up by 4,600 jobs from 1996, with gains reported in most major categories, including electronics, industrial machinery and aerospace.

Construction. Construction employment in the County grew by approximately 7,000 during 1997, after increasing by approximately 1,900 during 1996.

Transportation, Communications and Utilities. The Transportation, Communications and Utilities industry classification recorded a net increase of 2,800 new jobs in the County during 1997. This included a gain of approximately 1,600 in Transportation and

1,300 in Communications, partially offset by a loss of approximately 100 jobs in the Electric and Gas Utilities category.

Wholesale and Retail Trade. Combined, the Retail and Wholesale Trade sectors account for 23% of total nonagricultural wage and salary employment during 1997. Wholesale trade added approximately 1,800 jobs in 1997, after a decline of approximately 200 during 1996. Retail trade employment increased by approximately 3,400 in 1997 after increasing by approximately 6,600 in 1996.

Finance, Insurance and Real Estate. Countywide employment in the Finance, Insurance and Real Estate sector increased by approximately 3,500 jobs during 1997, after adding approximately 1,600 jobs during 1996.

Services. Employment in the County's Services sector grew by approximately 17,600 jobs, or 5.5% in 1997, following a gain of 10,300 jobs the previous year. All of the major categories recorded year-to-year gains, led by Business Services (+6,400) and Engineering and Management (+3,100).

Much of the growth in the Engineering and Management category during 1996 and 1997 is related to gains in the Telecommunications and Biotechnology subcategories within this grouping. The strong growth in the Business Services category reflects increases in the Data Services and Software subcategories.

Government. The Government sector, which accounted for 18% of total 1997 nonagricultural wage and salary employment in the County, grew by approximately 2,400 jobs during 1997. This increase occurred in State and local government agencies, with almost all of the increase due to gains in public education. Federal employment was down by 900 jobs during the year.

Military Employment and Civilian Defense Spending. According to the San Diego Chamber of Commerce, the County, with a total military and civilian payroll of \$3.7 billion in the federal fiscal year 1997, continued to lead all counties in the nation in terms of combined military and civilian payrolls. Total civilian defense contracts awarded to County-based businesses totaled \$2.7 billion during the federal fiscal year 1997, down slightly from \$2.8 billion in the previous year. The Department of Defense also spent \$1.2 billion on base operation expenses, \$1.0 billion on retirement benefits, and another \$0.9 billion on various classified contracts, sub contracts, and other contracts of less than \$1,000 each. The total defense spending in 1997 was \$9.56 billion representing only a fractional increase over the \$9.48 billion reported in 1996. The San Diego Chamber of Commerce estimates that as of June 1, 1997, total active duty military personnel in the County totaled 113,100 and the total civilian employment was 23,200.

C. Taxable Sales

According to the California State Board of Equalization, taxable transactions at retail and other outlets in the City during calendar year 1996 totaled approximately \$11.3 billion, up 6.9% from 1995, and up 16.9% from 1992. Table 5 provides annual sales information by type of outlet for the period 1992 through 1996.

Table 5
CITY OF SAN DIEGO
TAXABLE TRANSACTIONS
Calendar Years 1992 through 1996
(in thousands)

	1992	1993	1994	1995	1996
Retail Stores					
Apparel	\$ 421,282	\$ 433,780	\$ 447,313	\$ 434,581	\$ 451,984
General Merchandise	1,024,472	1,043,784	1,054,734	1,074,910	1,120,672
Drug	181,573	175,783	178,139	173,447	183,977
Food	617,011	508,069	495,380	498,605	521,014
Packaged Liquor	76,271	68,333	61,625	61,532	62,141
Eating and Drinking	1,110,814	1,119,170	1,148,154	1,229,823	1,307,079
Home Furnishings and Appliances	329,786	346,672	405,446	447,654	492,104
Building Materials and Farm Implements	426,600	441,905	426,329	441,099	469,293
Auto Dealers & Supplies	839,980	902,145	958,513	1,042,689	1,089,331
Service Stations	608,878	610,907	607,873	604,944	672,559
Other	1,193,881	1,266,404	1,298,837	1,381,085	1,492,879
Total Retail Stores	6,830,548	6,916,952	7,082,343	7,390,369	7,863,033
All Other Outlets	2,823,557	2,760,162	2,975,794	3,167,820	3,426,610
Total All Outlets	\$ 9,654,105	\$ 9,677,114	\$ 10,058,137	\$ 10,558,189	\$ 11,289,643

Source: California State Board of Equalization

D. Tourism

According to the San Diego Chamber of Commerce, the visitor industry is the County's third largest industry in terms of income generation, behind manufacturing and the military.

As shown in Table 6, visitor spending in the County totaled \$4.37 billion in 1997, up 26.7% from 1993 and up 7.9% from 1996.

Table 6
SAN DIEGO COUNTY
TOTAL VISITOR SPENDING
Calendar Years 1993 through 1997
(in billions)

<u>Calendar Year</u>	<u>Amount</u>
1993	\$ 3.45
1994	\$ 3.64
1995	\$ 3.80
1996	\$ 4.05
1997	\$ 4.37

Source: San Diego Convention and Visitors Bureau

As shown in Table 7, the transient occupancy tax (TOT) revenues have been exhibiting a strong upward trend. The TOT revenues have grown substantially between Fiscal Year 1994 and Fiscal Year 1998. This was accounted for in part by a 16.7% rate increase early in the Fiscal Year ended June 30, 1995.

Table 7
CITY OF SAN DIEGO
TRANSIENT OCCUPANCY TAX⁽¹⁾
Fiscal Years 1994 through 1998⁽²⁾
(in thousands)

<u>Fiscal Year</u>	<u>Amount</u>
1994	\$ 49,998 ⁽³⁾
1995 ⁽⁴⁾	\$ 57,211
1996	\$ 64,427
1997	\$ 75,476
1998	\$ 84,046 ⁽⁵⁾

(1) Includes General Fund portion of TOT (5.5¢ of 10.5¢) and balance (5¢ of 10.5¢) allocated to Special Promotional Programs.

(2) Fiscal Year refers to the twelve month period from July 1 of the previous year to June 30 of the referenced year.

(3) In the fiscal year ended June 30, 1994, the City began accounting for transient occupancy tax revenues on an accrued basis, rather than on a cash basis, as allowable under the National Council on Governmental Accounting (NCGA) Statement No. 1. Since the amount in fiscal 1994 which would have been accounted for in fiscal 1993 had the City begun using the accrual method earlier, was not deducted from 1994 receipts, this had the effect of providing a one-time increase of \$3,801,000.

(4) Rate increase from 9% (9¢ per \$1) of hotel room rates to 10.5% (10.5¢ per \$1) on August 1, 1994.

(5) Unaudited.

Source: City Auditor & Comptroller for Fiscal 1994-1997, and City Budget and Management Services for Fiscal 1998.

The City is the focal point for tourism in the County. The Convention Center, approximately 75% of the County's hotel and motel rooms, and all of the County's major tourist attractions, including the world-renowned San Diego Zoo, the San Diego Wild Animal Park and Sea World, are located in the City. Other attractions located in the City include the Cabrillo National Monument on Point Loma, the historic Gaslamp Quarter in the downtown area, the Old Town State Park, and Balboa Park – home to the San Diego Zoo and a host of other cultural and recreational activities. According to the San Diego Convention and Visitors Bureau, total attendance at all of these attractions, including museums, totaled 20.5 million during 1997, up 1.7% from 1996.

In addition to the many permanent attractions available to visitors, the City has also been host to a number of major events. The City hosted the America's Cup in 1992 and 1995 and the Super Bowl in January 1998. In addition, the City was the site for the Republican National Convention held in August 1996.

Associated with the growth in tourism has been an increase in traffic through San Diego's Lindbergh Field International Airport. According to the San Diego Unified Port District, in 1997 there were 7.2 million arrivals, up 4.3% from 1996. In January 1998, the San Diego Unified Port District completed a \$238 million expansion to the airport. Features of this

expansion include an expanded terminal, a new pedestrian bridge, and improved roadways and parking lots.

E. International Trade

The table below is from the International Trade Administration's *Exporter Location Series*. This data is compiled on an f.a.s (free alongside ship) basis and includes domestic exports and re-exports. The total value of exports from the County during 1996 totaled \$6.7 billion, up 13.6% from 1995.

Table 8
VALUATION OF EXPORTS
ORIGINATING IN SAN DIEGO COUNTY
Calendar Years 1992 through 1996
(in billions)

<u>Calendar Year</u>	<u>Total Exports</u>
1992	\$ 4.4
1993	\$ 4.4
1994	\$ 4.9
1995	\$ 5.9
1996	\$ 6.7

Source: International Trade Administration

F. Major Employers

The City is host to a diverse mix of major employers representing industries ranging from education and health services, to diversified manufacturing, financial services, retail trade and amusement and recreation. Table 9 provides information published in the 1998-99 Business Referral Directory of the Greater San Diego Chamber of Commerce. All of the businesses listed in the following table have their main offices in the City, with many having branch offices and/or production facilities in other areas of the County. Accordingly, not all employees of these businesses work within the City.

Table 9
CITY OF SAN DIEGO
MAJOR EMPLOYERS⁽¹⁾
Calendar Year 1998⁽²⁾

<u>Employer</u>	<u>Product/Service</u>
10,000 or More Employees:	
San Diego Unified School District	Education
Sharp Health Care	Health Service
University of California, San Diego	Higher Education
5,000 - 9,999 Employees:	
National Steel & Shipbuilding Company	Shipbuilding, Repair
Qualcomm	Wireless Communications
San Diego Community College District	Higher Education
Scripps Health	Health Service
3,000 - 4,999 Employees:	
Kaiser Permanente	Health Service
Palomar Pomerado Health System	Health Service
San Diego Gas & Electric/Sempra Energy	Utility
Science Applications International Corporation	Research and Development
Seaworld of California	Entertainment
Solar Turbines	Gas Turbine Manufacturing
Sony Technology Center	Electronics
2,000 - 2,999 Employees:	
Ace Parking	Parking Stations and Garages
Bank of America	Banking
Cubic Corporation	Electronic Systems
Foodmaker	Restaurants
Hewlett Packard Company	Electronic Instruments
Home Depot	Building materials
Manpower Temporary Services	Employment Service
Nordstrom	Department Store
Pacific Bell	Utility
Samsung	Electronics
San Diego State University	Higher Education
Scripps Research Institute	Biomedical Research
Target Stores - San Diego	Retail
University of San Diego	Higher Education

(1) Does not include various major public employers, including the City, the County, and the federal government with a combined total employment of 176,800.

(2) As of January 1, 1998.

Source: Greater San Diego Chamber of Commerce

G. Effective Buying Income

Table 10 shows the per capita Effective Buying Income (EBI) for the City, the County, the State, and the United States for calendar years 1992 through 1996. The estimates for each calendar year are published in the September issue of the following calendar year (i.e., data for 1997 will be published in the September 1998 issue). The purpose of this table is to show the EBI within the City of San Diego as compared to other locations.

Table 10
PER CAPITA EFFECTIVE BUYING INCOME
Calendar Years 1992 through 1996

<u>Calendar Year</u>	<u>City of San Diego</u>	<u>County of San Diego</u>	<u>State of California</u>	<u>United States</u>
1992	\$16,181	\$15,947	\$16,124	\$15,255
1993	\$16,667	\$16,485	\$16,672	\$16,064
1994	\$17,220	\$17,034	\$17,275	\$16,918
1995 ⁽¹⁾	\$14,770	\$14,609	\$14,759	\$14,965
1996	\$15,139	\$14,975	\$15,068	\$15,555

(1) Prior to 1995, estimates of EBI were based on the Bureau of Economic Analysis definition of "personal income" less personal tax payments. Beginning in 1995, the estimates were based on the Census Bureau's definition of "money income" less personal tax payments. Since the Census definition excludes certain sources of income, such as interest and rents, employer contributions to private pension funds, and Medicaid and Medicare, the overall figures from 1995 onwards were lower compared to the prior years. (According to Sales & Marketing Management Magazine, "personal income" is greater than 'money income' by 11-14%.) In addition, because of geographic differences in sources of income, per capita EBI estimates based on "money income" for some areas, such as California and San Diego, were below the national average.

Source: Sales & Marketing Management Magazine "Survey of Buying Power"

H. Building Permits

Table 11 provides a summary of the building permit valuations, and the number of new dwelling units authorized in the City, for Fiscal Years 1994 through 1998. The valuation of non-residential permits includes both private commercial construction and publicly funded, non-tax generating projects.

Table 11
CITY OF SAN DIEGO
BUILDING PERMIT VALUATIONS
AND NUMBER OF DWELLING UNITS
Fiscal Years Ended June 30, 1994 through 1998

	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>
Valuation (in thousands)					
Residential	\$475,878	\$432,957	\$396,681	\$541,443	\$890,476
Nonresidential	<u>325,245</u>	<u>382,514</u>	<u>450,301</u>	<u>478,887</u>	<u>576,170</u>
Total	<u>\$801,123</u>	<u>\$815,471</u>	<u>\$846,982</u>	<u>\$1,020,330</u>	<u>\$1,466,646</u>
Number of New Dwelling Units:					
Single Family	1,860	1,440	1,468	2,197	3,032
Multiple Family	<u>992</u>	<u>1,212</u>	<u>774</u>	<u>1,014</u>	<u>3,018</u>
Total	<u>2,852</u>	<u>2,652</u>	<u>2,242</u>	<u>3,211</u>	<u>6,050</u>

Source: City of San Diego, Development Services Department

Business Development Program

The City recognizes the need to improve the local business climate and aggressively support economic development and job creation activities. To achieve this, the City has established a comprehensive Business Development Program. A key element of this program is the Business Expansion and Retention Program (BEAR Program) which represents a proactive effort on the part of the City to work directly with businesses to improve the retention rate among local firms and to expand the level of investment and job growth. This program was created in mid 1995 by integrating the City's existing business development activities to provide centralized coordination, data management, and to expand operational relationships with partnership agencies such as the Economic Development Corporation and San Diego Gas & Electric Corporation. Some of the BEAR Program components include Business Incentives, Targeted Assistance, Business Cooperation Program, Business Outreach, and Business Finance.

The primary focus of the City's overall business development effort has been on streamlining the current permitting process and, when feasible, eliminating or reducing existing fees and permits. A major component of this streamlining effort has been the creation of a "one-stop" permitting center to reduce the development permit processing time by as much as one-half. The center eliminates the need for permit applicants to seek approval from several City departments by consolidating the review and permit process into a "one-stop" process.

The City also operates the Business Resource Station, an interactive information center designed to provide aspiring entrepreneurs with everything they need to know about

starting a small business in the City. In 1994, the City Council reduced the Business License Tax for all businesses with 12 or fewer employees from \$125 and \$5 per employee to \$70 per business and \$3 per employee, and in 1995 reduced it even further, to a flat fee of \$34 per business with no per employee charge.

Transportation

San Diego has a well-developed and relatively uncongested highway system. Access in and out of the region is provided by five major freeways running north and south and three freeways running east and west.

Public transportation through the City and metropolitan surrounding communities is provided by the San Diego Metropolitan Transit Development Board ("MTDB"). The San Diego Trolley, Inc. operates a fleet of electric trolleys that provides transportation for commuters and tourists from downtown San Diego to San Ysidro (adjacent to Tijuana), and from downtown San Diego to the southern part of the County and East County. The East Line extension to Santee was completed in June 1996. This 3.6 mile extension connects El Cajon with Santee. The trolley also provides service from downtown San Diego to the waterfront area, including the Convention Center. Another extension that provides service from downtown to the historical Old Town section of the City was completed in June 1996. In addition, the Mission Valley extension, which connects Old Town with the Mission Valley shopping area, ending at the Mission San Diego, opened in December 1997. In May 1998, the U.S. Congress approved a transportation bill which earmarked \$325 million for a 6-mile trolley extension connecting the Mission Valley Line with the East Line in La Mesa.

A 43-mile Coaster Commuter rail line from Oceanside to downtown San Diego came into service in 1995. This line links communities along the coast from Oceanside to Del Mar with downtown San Diego and is operated by North County Transit District ("NCTD").

Proposition A, voter approved in November 1987, authorized a one-half cent increase to the local sales tax to fund transportation improvements for the San Diego region. Through Fiscal Year 1998, the City has been allocated \$157.7 million in Proposition A funds and expects to receive an additional \$38.2 million through Fiscal Year 2000.

State Propositions 108/111/116, voter approved in June 1990, increased the State gas tax and authorized the sale of rail bonds. The revenues generated from these measures are to be used to implement a comprehensive Statewide transportation funding program through the year 2000. Increased revenues to the City resulting from Proposition 111's increased gas tax subventions are estimated at \$66.7 million over the ten year period from 1991 through 2000. Through Fiscal Year 1997, the City has received approximately \$40.8 million in Proposition 111 funds. Revenues from this source supplement the City's street maintenance and resurfacing program, and other street related services, including traffic light and signal maintenance, median maintenance and traffic engineering to ensure efficient traffic flow.

MUNICIPAL GOVERNMENT AND FINANCIAL INFORMATION

Governmental Organization

The City is a charter city and operates under the Council-Manager form of government. The City Council is comprised of eight members elected by district to serve overlapping four-year terms. The Mayor, who presides over the City Council, is elected at large to serve a four-year term. The City Council, which acts as the City's legislative and policy-making body, selects the City Manager, who is the City's chief administrator and is responsible for implementing the policies and programs adopted by the City Council.

Accounting Practices

The City's accounting policies conform to generally accepted accounting principles applicable to governmental units. The City's Governmental Funds and Expendable Trust and Agency Funds use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when both available and measurable. Certain fines and forfeitures, however, are recorded when received as they are not susceptible to accrual. Expenditures are recognized when the related liability is incurred except for (1) principal of and interest on general long-term debt, which are recognized when due, and (2) employee annual leave and claims and judgments for litigation and self-insurance which are recorded in the period due and payable. Proprietary Fund, Pension Trust, and Nonexpendable Trust Funds use the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when incurred.

The City prepares financial statements annually in conformity with generally accepted accounting principles for governmental entities which are audited by an independent certified public accountant. The annual audit report is generally available about 285 days after the June 30 close of each fiscal year. The City's most recent general purpose financial statements for the Fiscal Year ended June 30, 1997 were audited by Calderon, Jaham & Osborn, CPAs.

Budgetary Process

The City's annual budget, which is adopted in July and published in November, is the culmination of the annual budget process which begins in the fall of the preceding year. Public input on service and program priorities is solicited. This input serves as part of the City Council's priority setting for the development of the budget.

Based upon City Council budget priorities, departments submit operating and capital improvement project requests to the City Manager for review by the Budget and Management Services Division. The City Manager evaluates and prioritizes the program requirements, determines funding availability, and develops a balanced budget as required by the City Charter. This proposed balanced budget is published and presented to the City Council during April/May.

City Council review of the proposed budget is conducted during May and June. The first two meetings are dedicated to public comment, while the balance of the meetings are conducted as Council workshops focusing on policy issues.

As required by the City Charter, the City Council adopts the Annual Budget and Appropriation Ordinance no earlier than the date of the first Council meeting in July and no later than the last meeting in July. The adoption of the Appropriation Ordinance requires two noticed public hearings which are usually held on consecutive days. The Annual Tax Rate Ordinance is adopted no later than the last Council meeting in August.

The Budget and Management Services Division works closely with the City Auditor and Comptroller to monitor fund balances, as well as revenue projections, throughout the fiscal year. Variations from budget or plans are alleviated in a number of ways, including expenditure reductions or deferrals. As another technique of accomplishing budgetary control, the City also maintains an encumbrance accounting system, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation.

Year 2000 Computer Modifications

Many computer systems and applications currently use two digits to define an applicable year. Consequently date-sensitive systems may recognize the year 2000 as 1900 or not at all which could cause miscalculations or system failures or both. In fiscal year ended June 30, 1997, the Financial and Technical Services Business Center undertook to identify which computer programs would have to be modified to extend beyond December 31, 1999, and entered into contracts with outside vendors for these services. The budget for this project, all of which is earmarked for software modifications, is approximately \$9.6 million for the General Fund and all enterprise funds, of which \$6.05 million relates to General Fund activities. No hardware modifications are expected. It is expected that modifications for all internal functions for systems will be complete by June, 1999.

Restructuring

A major Restructuring Plan was initiated by the City Manager in November 1994 and adopted by the City Council in May 1995. The Restructuring Plan, which included a combination of operational and accounting changes, was partially implemented in Fiscal Year 1996, and became fully operational in Fiscal Year 1998. The goals of the restructuring were to: provide better coordination of services; consolidate departments with like functions; flatten the organization to expand employee input and responsiveness to customer needs; and achieve budgetary savings.

Five Year Summary of Financial Results

Tables 12 and 13 present the Balance Sheet and the Revenue and Expenditure statements of the City's General Fund for Fiscal Years 1994 through 1998.

Table 12
CITY OF SAN DIEGO
BALANCE SHEET FOR THE GENERAL FUND
Fiscal Years Ended June 30, 1994 through 1998⁽¹⁾
(in thousands)

	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998⁽³⁾</u>
ASSETS					
Cash or Equity in Pooled Cash & Investments	\$21,384	\$16,394	\$12,229	\$13,327	\$23,120
Receivables:					
Taxes – Net	22,276	21,164	25,318	26,142	27,739
Accounts – Net	16,726	21,449	10,813	23,992	26,392
Claims – Net	29	31	51	30	41
Notes	--	182	182	182	--
Accrued Interest	2,139	2,411	1,668	1,915	2,451
From Other Funds	2,171	358	57,815 ⁽²⁾	76,808 ⁽²⁾	82,943 ⁽²⁾
From Other Agencies	70	70	70	67	594
Advances to Other Funds	15,719	10,980	9,337	8,346	4,571
Advances to Other Agencies	350	350	350	350	350
Prepaid and Reimbursable Items & Deposits	928	1,065	365	315	357
Total Assets	<u>\$81,792</u>	<u>\$74,454</u>	<u>\$118,198</u>	<u>\$151,474</u>	<u>\$168,557</u>
LIABILITIES					
Obligations under Reverse Repo Agreements	\$1,364	\$2,180	\$1,164	\$ --	\$ --
Accounts Payable	1,451	2,633	2,178	2,908	2,135
Accrued Wages and Benefits	18,697	8,722	10,133	11,807	14,793
Due to other Funds	--	--	--	768	--
Deferred Revenue	25,536	29,905	20,401	30,669	29,590
Contracts and Notes Payable	--	--	55,504 ⁽²⁾	76,808 ⁽²⁾	82,000 ⁽²⁾
Total Liabilities	<u>\$46,948</u>	<u>\$43,440</u>	<u>\$89,380</u>	<u>\$122,960</u>	<u>\$128,518</u>
FUND BALANCE					
Reserves:					
Reserved for Encumbrances	\$8,487	\$5,323	\$5,855	\$6,376	\$9,181
Reserved for Advances & Deposits	16,069	11,330	9,687	8,696	4,921
Unreserved:					
Designated for Subsequent Year's Expenditures	2,959	2,871	1,705	1,430	1,936
Undesignated	<u>7,329</u>	<u>11,490</u>	<u>11,571</u>	<u>12,012</u>	<u>24,001</u>
Total Fund Equity	<u>\$34,844</u>	<u>\$31,014</u>	<u>\$28,818</u>	<u>\$28,514</u>	<u>\$40,039</u>
Total Liabilities & Fund Balance	<u>\$81,792</u>	<u>\$74,454</u>	<u>\$118,198</u>	<u>\$151,474</u>	<u>\$168,557</u>

(1) "Fiscal Year" refers to the 12 month period beginning July 1 of the preceding calendar year and ending June 30 of the referenced calendar year (e.g., Fiscal Year 1997 refers to the period July 1, 1996 to June 30, 1997).

(2) Reflects maturity of Fiscal Years 1996, 1997 and 1998 Tax Anticipation Notes after the end of these Fiscal Years.

(3) Unaudited; preliminary figures.

Source: City of San Diego Comprehensive Annual Financial Report for Fiscal Years 1994 through 1997, and Auditor and Comptroller for Fiscal Year 1998

Table 13
CITY OF SAN DIEGO
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE FOR THE GENERAL FUND
Fiscal Years Ended June 30, 1994 through 1998
(in thousands)

	<u>1994</u>	<u>1995</u>	<u>1996⁽¹⁾</u>	<u>1997⁽¹⁾</u>	<u>1998⁽¹⁾⁽²⁾</u>
REVENUES:					
Property Taxes and Special Assessments	\$112,602	\$112,472	\$112,814	\$114,841	\$123,013
Other Local Taxes	145,269	148,591	160,821	173,492	201,792
Licenses and Permits	25,509	25,820	23,922	21,750	19,274
Fines, Forfeitures and Penalties	16,232	16,902	16,640	17,125	16,169
Revenues from Use of Money and Property	22,471	25,445	25,706	24,249	30,708 ⁽³⁾
Revenues from Federal Agencies	418	540	847	912	2,081
Revenues from Other Agencies	44,176	42,854	44,808	47,758	51,895
Charges for Current Services	62,032	68,435	71,521	71,884	68,891
Other Revenue	<u>1,987</u>	<u>3,136</u>	<u>2,138</u>	<u>2,299</u>	<u>1,997</u>
Total Revenues	<u>\$430,696</u>	<u>\$444,195</u>	<u>\$459,077</u>	<u>\$474,310</u>	<u>\$515,820</u>
EXPENDITURES:					
Current:					
General Government	\$73,925	\$78,547	\$61,286	\$62,017	\$65,032
Community and Economic Development	--	--	10,252	13,037	13,718
Public Safety	238,818	249,638	269,339	283,683	298,738
Libraries	16,469	17,052	17,451	18,911	19,814
Park, Recreation and Culture	40,093	42,574	37,541	40,469	42,677
General Services	58,762	60,135	--	--	--
Public Works	--	--	80,517	80,141	65,539
Employment and Social Services Programs	505	492	--	--	--
Employee Relations and Special Projects	--	--	395	802	508
Engineering and Development	21,899	22,365	--	--	--
Development Services	--	--	4,738	4,415	--
Interest Expenditure	--	--	--	--	3,683 ⁽³⁾
Miscellaneous and Unallocated	<u>2,003</u>	<u>1,985</u>	<u>1,964</u>	<u>1,835</u>	<u>2,032</u>
Total Expenditures	<u>\$452,474</u>	<u>\$472,788</u>	<u>\$483,483</u>	<u>\$505,310</u>	<u>\$511,741</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$(21,778)</u>	<u>\$(28,593)</u>	<u>\$(24,406)</u>	<u>\$(31,000)</u>	<u>\$4,079</u>
OTHER FINANCING SOURCES (USES)					
Transfers from Proprietary/ Fiduciary Funds	\$614	\$931	\$1,789	\$5,072	\$1,918
Transfers from Other Funds	30,200	30,119	33,271	32,333	37,715
Transfers to Proprietary Funds	(10,775)	(4,921)	(8,750)	(2,092)	(7,883)
Transfers to Other Funds	<u>(2,864)</u>	<u>(2,429)</u>	<u>(5,150)</u>	<u>(5,667)</u>	<u>(25,429)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$17,175</u>	<u>\$23,700</u>	<u>\$21,160</u>	<u>\$29,946</u>	<u>\$7,446</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(\$4,603)	(\$4,893)	(\$3,246)	(\$1,354)	\$11,525
FUND BALANCE AT JULY 1	<u>\$38,766</u>	<u>\$34,844</u>	<u>\$31,014</u>	<u>\$28,818</u>	<u>\$28,514</u>
Residual Equity Transfers from Other Funds	<u>681</u>	<u>1,063</u>	<u>1,050</u>	<u>1,050</u>	<u>1,125</u>
FUND BALANCE AT FOLLOWING JUNE 30	<u>\$34,844</u>	<u>\$31,014</u>	<u>\$28,818</u>	<u>\$28,514</u>	<u>\$40,039</u>

(1) Due to the City's Restructuring Plan described above, the expenditure categories in fiscal years 1996, 1997 and 1998 do not fully correspond to the prior years expenditures categories. Under the plan, various operational and accounting changes were implemented, including the consolidation of the General Fund's General Services and Engineering and Development departments into a more broadly defined Public Works category. Other operational changes implemented in Fiscal Year 1996 included the shifting of Lifeguard Services from Park and Recreation to Public Safety, and the shifting of certain planning functions previously included under the General Government category to the newly created Development Services category.

(2) Unaudited; preliminary figures.

(3) Fiscal Year 1998 is the first year in which interest payments on the City Tax Anticipation Notes ("TANS") for Fiscal Year 1998 appear as a line item. In prior years these interest payments were not reported as General Fund expenditures.

Source: City of San Diego Comprehensive Annual Financial Report for Fiscal Years 1994 through 1997 and City Auditor and Comptroller for Fiscal Year 1998

The following table sets forth the budgetary information for Fiscal Years 1997 through 1999.

Table 14
CITY OF SAN DIEGO
OPERATING BUDGET SUMMARY FOR FISCAL YEARS 1997, 1998 AND 1999⁽¹⁾
GENERAL FUND

	Actual Results on a Budgetary Basis Fiscal Year 1997	Actual Results on a Budgetary Basis Fiscal Year 1998 ⁽²⁾	Adopted Budget Fiscal Year 1999 ⁽³⁾
REVENUE SOURCES:			
Property Tax	\$114,585,363	\$122,730,458	\$128,892,443
Sales Tax	104,327,251	117,985,254	117,809,375
Transient Occupancy Tax	39,668,105	44,789,296	46,694,057
Property Transfer Tax	3,098,469	5,025,520	3,761,448
Licenses and Permits	21,698,046	19,227,216	17,865,075
Fines, Forfeitures and Penalties	17,171,212	16,194,933	22,286,346
Interest Earnings	4,669,816	5,804,386	2,900,000
Franchises	26,655,165	34,264,638	30,873,363
Other Rents and Concessions	21,313,100	23,688,964	22,780,215
State Motor Vehicle License Fees	46,588,698	50,109,550	50,916,678
Other Revenue from Agencies	3,415,107	4,457,205	5,971,000
Charges for Current Services	70,444,606	67,641,782	57,272,445
Transfers from Other Funds	38,746,237	44,961,841	67,474,074
Other Revenue and Balance	<u>1,446,544</u>	<u>2,093,145</u>	<u>581,232</u>
Total General Fund Revenues	<u>\$513,827,719</u>	<u>\$558,974,188</u>	<u>\$576,077,751</u>
EXPENDITURES:			
Public Safety	\$283,295,650	\$295,126,243	\$309,314,835
Parks and Recreation	40,804,868	43,717,349	49,471,539
Sanitation and Health	26,917,392	28,815,076	29,312,875
Other Public Services	93,078,159	76,943,009	93,386,800
Support Services ⁽⁴⁾	<u>72,394,134</u>	<u>102,824,335</u>	<u>94,591,702</u>
Total General Fund Expenditures	<u>\$516,490,203</u>	<u>\$547,426,012</u>	<u>\$576,077,751</u>

(1) The budget is prepared on the modified accrual basis of accounting except that (1) encumbrances outstanding at year-end are considered as expenditures and (2) the increase/decrease in reserve for advances and deposits to other funds and agencies are considered as additions/deductions of expenditures.

(2) Unaudited; preliminary figures.

(3) Preliminary figures.

(4) The Support Services category in Fiscal 1998 includes funds for Street Division previously budgeted in the Other Public Services Category.

Source: City of San Diego, Budget and Management Services

Use of Supplemental and One-time Revenues

The primary General Fund sources of revenue include taxes, licenses and permits, fees and charges, fines, rents and concessions and revenues from other agencies. These revenue sources are normally augmented to a limited extent by other supplemental revenue sources. Examples of supplemental revenues including transfers of surplus revenues from other City Funds, reimbursements and repayments to the General Fund for prior contributions to other Funds, and the return to the General Fund by other City Funds of unused monies due to postponed expenditures and/or expenditure savings. Although supplemental revenues are a permanent component of the overall General Fund revenue stream, the sources and amounts used vary from year to year.

In addition to the traditional and supplemental revenue sources, the City has, in the last few years, made increased use of various one-time revenues to continue to maintain and/or enhance service levels. One-time revenues are generally non-recurring or of limited duration in nature. The need for the increased usage of these revenues stemmed from a combination of external factors which severely impacted the availability of traditional revenue sources. These factors included the departure of a major portion of the City's aerospace industry, a protracted economic recession, negligible growth in the property tax base reflecting a depressed commercial and residential real estate market due to a combination of recession and past over building and a permanent shift by the State of local property tax revenue to fund public education. Because of these factors, the City's major revenue categories failed to register significant growth until Fiscal Year 1997.

Sources of the one-time revenues included the sale of surplus City owned land, savings from deferred equipment purchases, payment of disputed franchise fees due in prior years and various revenue enhancement strategies, such as the Parking Citation Amnesty program to recover uncollected fines.

The City is also making a renewed effort to steadily reduce the reliance on one-time revenues. The City Manager has been directed to develop a plan to reduce reliance on one-time revenues for on-going expenditures. The current projections for the City's major traditional revenue sources indicate strong growth through Fiscal Year 1999.

As part of a strategy to reduce reliance on one-time revenues, the City has undertaken efforts to streamline and improve organizational efficiency and cost effectiveness. These efforts include a proposed cost allocation study, performance based budgeting, privatization of services, and restructuring. While these cost-cutting activities have produced some immediate savings and productivity enhancements, there is still some reliance on one-time revenues, although the reliance is declining.

Fiscal Year 1997

The Fiscal Year 1997 Budget was adopted by the City Council on July 29, 1996. It was based on an assumption that most major revenue categories, including sales tax, transient occupancy tax, and motor vehicle license fees would continue to grow at rates comparable to those realized during Fiscal Year 1996. It included the addition of 21 police officers, \$1.5

million to fund street and sidewalk improvements, and a \$3 million Infrastructure Superfund to fund improvements in older areas of San Diego.

The actual General Fund revenues for Fiscal Year 1997 totaled \$513.8 million, \$6.3 million over the budgeted amount of \$507.5 million. The actual totals for major tax revenues, including property tax, sales tax, and transient occupancy tax exceeded budgeted projections. Property tax revenues totaled \$114.6 million, compared with \$111.9 million budgeted. Sales tax revenues were \$104.3 million, compared with \$102.9 million budgeted. The General Fund portion of the transient occupancy tax revenues totaled \$39.7 million, compared with a budgeted amount of \$33.9 million.

Total actual General Fund expenditures for Fiscal Year 1997 were \$516.5 million, \$9.0 million above the budgeted amount of \$507.5 million. Spending on public safety totaled \$283.3 million, up \$16.7 million from the prior year, with most of the increase attributable to the addition of 21 officers to the City's police force.

In Fiscal Year 1997, supplemental and one-time revenues were \$31.1 million. Transfers of surplus revenues from various City funds accounted for approximately one-fourth of total revenues in this category. Other sources included \$2 million in prior year expenditure savings, \$2.6 million in deferral of equipment purchases, \$1 million in federal grants, and \$1 million from the recovery of disputed franchise fees due in prior years.

Fiscal Year 1998

The City's Fiscal Year 1998 General Fund Budget was adopted by the City Council on July 29, 1997. This budget was based on the assumption that the San Diego economy would continue to grow at a steady rate. The total adopted Fiscal Year 1998 General Fund revenues were \$544.7 million, up by \$37.2 million, or 7.3% over the Fiscal Year 1997 Budget. This represented 42% of the total City budget of \$1.3 billion.

Based on unaudited year-end estimates, the total General Fund revenues for Fiscal Year 1998 aggregated \$559.0 million, or 2.6% above budget, and \$45.2 million above the actual results for Fiscal Year 1997. The following table shows growth in the major General Fund revenue sources for Fiscal Year 1998 (unaudited actuals) over Fiscal Year 1997:

Growth in Major General Fund Revenue Sources,
Fiscal Year 1998 over Fiscal Year 1997⁽¹⁾

• Property Tax	+ 7.1%
• Sales Tax	+ 5.7%
• Transient Occupancy Tax	+ 11.6%
• Motor Vehicle License Fees	+ 7.6% ⁽²⁾

(1) The above percentages reflect overall growth in these revenue sources, whether or not such revenues are allocated entirely to the General Fund.

(2) See "Proposed Vehicle License Fee Reduction" below.

The Fiscal Year 1998 budget included \$44.3 million in supplemental and one-time revenues. Of the \$44.3 million, \$23.8 million were categorized as one-time revenues: \$18.6 million in land sales, \$3 million in deferral of equipment purchases, and \$2.2 million in repayment to the General Fund for prior contributions. Approximately \$10 million of the one-time revenues were budgeted for one-time uses. These one-time uses included \$3.6 million for the Year 2000 project, \$2.2 million for Special Promotional Programs, and \$1 million for street rights-of-way improvements.

Also included in the actual results for Fiscal Year 1998 was the sum of \$1.358 million, in the form of a rent credit against approximately \$5.1 million in rental payments otherwise payable to the City by the San Diego Chargers National Football League football organization (the "Chargers"). Under its agreement with the Chargers, the City has guaranteed that the Chargers will have each season an average general admission attendance for home games of 60,400 per game (including pre-season games). Current general admission seating capacity is 61,750. For the 1997-98 football season for which the average general admission attendance was approximately 54,000 per game, the commitment was not fully effective for the entire season. The commitment runs through the 2007-2008 football season. See "**LEGAL MATTERS – Litigation Matters – Pending Litigation**" for information regarding litigation that could reduce the general admission seating. The City has had no discussion with the Chargers as to how this reduction might impact the ticket sales guarantee.

Most essential services in the City were maintained and slightly enhanced from prior years. The most significant change was in police services, due to the addition of 30 new police officers and 10 community service officers. Other service enhancements included the addition of one firefighter/paramedic at each of the City's 43 fire stations, and \$3.2 million in street resurfacing. Also increasing the Fiscal Year 1998 General Fund expenditures were the wage and salary increases in the range of 2-4% for almost all categories of City employees.

The Fiscal Year 1998 budget reflected expenditure savings in many areas due to the City's aggressive efforts to streamline municipal operations and make them more competitive. Examples of annual savings or avoided costs include: \$2.2 million due to staff reductions and improved efficiencies from automation of refuse collection; approximately \$1 million from privatization and automation of parking citation processing; and approximately \$1.1 million under the City's accident and injury prevention program.

Fiscal Year 1999

The City's Fiscal Year 1999 General Fund budget was adopted on July 28, 1998. The total Fiscal Year 1999 General Fund budget of \$576.1 million represents an increase of \$31.4 million, or 5.8% over the prior year's budget. The budget was based on an assumption of continued growth in major General Fund revenue sources throughout the entire Fiscal Year.

Public Safety continued to be a major priority in Fiscal Year 1999, with a budget allocation of \$309.3 million, or 54% of the total General Fund budget. Of the total Public Safety budget, approximately 70% would go to Police Services, including funds to add 15 Police Officers to enhance support for Juvenile Services.

The Fiscal Year 1999 budget includes \$14.7 million in one-time and supplemental revenues, including \$9.6 million in land sales. The budget also includes \$16.5 million in carryover from the prior year. (In the discussions above of Fiscal Years 1997 and 1998, the carryover amount was included as a one-time or supplemental revenue. In the future it will be noted separately.) Approximately \$3 million of the one-time revenues were budgeted for one-time uses, including \$2 million for the Year 2000 computer modifications.

The City has budgeted \$2.581 million, in the form of a rent credit against the estimated \$5.3 million in rental payments by the Chargers to the City, toward its ticket sales guarantee to the Chargers described above under Fiscal Year 1998. This budgeted amount is based upon an estimated average general admission attendance for the 1998-1999 football season of approximately 52,500 per game.

Proposed Vehicle License Fee Reduction

The 1998-1999 State of California Budget (the "Budget") includes a provision to reduce the State's vehicle license fee ("VLF"). The VLF is an annual fee on the ownership of a registered vehicle in California. Automobiles, motorcycles, pick-up trucks, commercial trucks and trailers, rental cars, and taxicabs are all subject to the VLF. The VLF revenues are distributed by the State to cities and counties. Approximately three-fourths of the VLF revenues (one-half to cities and one-half to counties) can be used for any lawful purpose, with the remaining funds allocated to counties to pay for "realignment" health and social services programs. In 1998-99, VLF revenues in the State are expected to total over \$3.9 billion. The Budget provides for a reduction from the current 2 percent VLF tax rate to 1.5% beginning January 1, 1999, a 25% reduction.

For the Fiscal Year ended June 30, 1998, the City received \$50.1 million in total vehicle license fees; \$50.9 million is anticipated in the City's Adopted Budget for the Fiscal Year ending June 30, 1999. VLF fees represented approximately nine percent of the total General Fund budget and is the third largest source of General Fund revenues (after sales taxes and property taxes). Under the Budget, the State's General Fund will pay local governments for lost VLF revenues on a dollar per dollar matching basis, from state general fund revenues. The repayment funds would be continuously appropriated, and would not need to be approved in the annual budget process. A statutory continuous appropriation, however, is not a firm guarantee of a continuing replacement. Thus in future years there could be a loss by local governments of state revenues to offset lost VLF fees.

Property Taxes

The County assesses property and collects secured and unsecured property taxes for the cities, school districts, and special districts within the County, including the City. Once the property taxes are collected, the County conducts its internal reconciliation for accounting purposes and distributes the City's share of such taxes to the City, generally within a couple of weeks. Prior to distribution, the moneys are deposited in an account established on behalf of the City in the County Treasurer's Investment Pool (the "Pool"). If the County and/or the Pool were at any time to become subject to bankruptcy proceedings, it is possible that City property taxes held in the Pool, if any, could be temporarily unavailable to the City. In the event of such an

occurrence, General Fund revenue requirements could be met through the use of other City funds. Ad valorem taxes are subject to constitutional limits as discussed under the section **“LIMITATIONS ON TAXES AND APPROPRIATIONS.”**

Taxes are levied for each fiscal year on taxable real and personal property which is situated in the City as of the preceding March 1. For assessment and collection purposes, property is classified either as “secured” or “unsecured” and is listed accordingly on separate parts of the assessment roll. The “secured roll” is that part of the assessment roll containing the taxes on which there is a lien on real property sufficient, in the opinion of the County Assessor, to secure payment of the taxes. Other property is assessed on the “unsecured roll.”

Property taxes on the secured roll are due in two installments, on November 1 and February 1 of the fiscal year. If unpaid, such taxes become delinquent on December 10 and April 10, respectively, and a 10% penalty attaches to any delinquent payment. If not paid, the property is subject to default. Such property may be redeemed by payment of the delinquent taxes and the delinquent penalty, plus a redemption penalty of 1.5% per month from July 1 of the following year to the time of redemption. If taxes are unpaid for a period of five years or more, the property is subject to sale by the County Tax Collector.

Property taxes on the unsecured roll are due as of the March 1 lien date and become delinquent, if unpaid, on August 31 of the fiscal year. A 10% penalty attaches to delinquent taxes on property on the unsecured roll, and an additional penalty of 1.5% per month begins to accrue beginning November 1 of the fiscal year. The taxing authority has four ways of collecting unsecured personal property taxes: (a) a civil action against the taxpayer; (b) filing a certificate in the office of the County Clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer; (c) filing a certificate of delinquency for record in the County Recorder’s Office, in order to obtain a lien on certain property of the taxpayer; and (d) seizure and sale of personal property, improvements or possessory interest belonging or assessed to the assessee.

A supplemental assessment occurs upon a change of ownership of existing property and for new construction upon completion. A supplemental tax bill is issued for the difference in property value resulting from the increase in assessed value which is prorated for the remainder of the year.

Effective July 1, 1988, Assembly Bill 454, Chapter 921, eliminated the reporting of the unitary valuations pertaining to public utilities such as San Diego Gas and Electric and Pacific Telephone. In lieu of the property tax on these previously included assessed valuations, the City now receives from the State (through the County) an amount of unitary revenue based upon the unitary property tax received in the prior year.

Table 15 presents assessed valuation within the City for each of the ten fiscal years ending June 30, 1999.

Table 15
ASSESSED VALUATION
Fiscal Years Ended June 30, 1990 through 1999
(in thousands except for percentages)⁽¹⁾⁽²⁾

<u>Fiscal Year</u> <u>Ending</u> <u>June 30</u>	<u>Secured</u> <u>Property</u>	<u>Unsecured</u> <u>Property</u>	<u>Gross Total</u>	<u>Less</u> <u>Exemptions⁽³⁾</u>	<u>Net Assessed</u> <u>Valuations⁽⁴⁾</u>	<u>Annual</u> <u>Assessed</u> <u>% Change</u>
1990	\$ 48,203,351	\$ 3,345,666	\$ 51,549,017	\$ 1,492,849	\$ 50,056,168	11.63%
1991	\$ 53,756,806	\$ 3,885,132	\$ 57,641,938	\$ 1,676,063	\$ 55,965,875	11.81%
1992	\$ 57,563,431	\$ 3,946,532	\$ 61,509,963	\$ 1,792,948	\$ 59,717,015	6.70%
1993	\$ 59,787,900	\$ 4,059,854	\$ 63,847,754	\$ 1,099,768	\$ 61,747,986	3.40%
1994	\$ 60,586,129	\$ 4,218,892	\$ 64,805,021	\$ 2,360,741	\$ 62,444,280	1.13%
1995	\$ 60,939,995	\$ 4,371,923	\$ 65,311,918	\$ 2,420,027	\$ 62,891,891	0.72%
1996	\$ 61,793,760	\$ 4,303,198	\$ 66,096,958	\$ 2,489,507	\$ 63,607,451	1.14%
1997	\$ 61,893,902	\$ 4,353,543	\$ 66,247,445	\$ 2,355,174	\$ 63,892,271	0.45%
1998	\$ 63,562,588	\$ 4,988,950	\$ 68,551,538	\$ 2,910,753	\$ 65,640,785	2.74%
1999	\$ 68,648,609	\$ 5,337,916	\$ 73,986,525	\$ 2,994,814	\$ 70,991,711	8.15%

(1) Assessed valuations are based on 100% of full market value.

(2) Includes both locally assessed and State assessed utility property.

(3) Excludes homeowners' and business inventory exemptions.

(4) Net assessed valuation for tax rate purposes. Includes both locally assessed and State assessed utility property.

Source: City of San Diego Comprehensive Annual Financial Report for Fiscal Years 1990 through 1998 and City Auditor and Comptroller for Fiscal Year 1999

Table 16 summarizes the City's secured tax collections for each of the ten fiscal years ended June 30, 1998.

Table 16
SECURED TAX LEVIES AND COLLECTIONS
Fiscal Years Ended June 30, 1989 through 1998
(in thousands except for percentages)

<u>Fiscal Year Ending June 30</u>	<u>Tax Levy⁽¹⁾</u>	<u>Current Year Collections</u>	<u>Current Year Collections as Percentage of Current Tax Levy</u>	<u>Total Tax Collections</u>	<u>Total Collections as Percentage of Tax Levy⁽²⁾</u>
1989	\$ 102,539	\$ 97,895	5.47%	\$ 101,852	99.33%
1990	\$ 115,361	\$ 109,990	95.34%	\$ 113,377	98.28%
1991	\$125,823	\$ 116,952	92.95%	\$ 120,510	95.78%
1992	\$ 127,143	\$ 121,308	95.41%	\$ 125,153	98.43%
1993	\$ 120,574	\$ 114,821	95.23%	\$ 119,867	99.41%
1994	\$ 109,881	\$ 105,911	96.39%	\$ 110,738	100.78%
1995	\$ 109,754	\$ 104,295	95.03%	\$ 108,192	98.58%
1996	\$ 111,281	\$ 108,137	97.18%	\$ 110,513	99.31%
1997	\$ 111,719	\$ 108,676	97.28%	\$ 110,563	98.96%
1998	\$ 116,912	\$ 114,311	97.78%	\$ 117,429	100.44%

(1) Commencing in Fiscal Year 1993, by action of the State Legislature, there was a permanent shift of some property taxes from cities to schools.

(2) Total Collections include unpaid taxes from previous years' tax levies collected in the current fiscal year.

Source: City of San Diego Comprehensive Annual Financial Report for Fiscal Years 1990 through 1997 and City Auditor and Comptroller for Fiscal Year 1998

Table 17 indicates the ten largest secured and unsecured property taxpayers in the City.

Table 17
PRINCIPAL PROPERTY TAXPAYERS IN CITY OF SAN DIEGO⁽¹⁾
As of June 30, 1997
(in thousands, except for percentages)

<u>Taxpayers</u>	<u>Type of Business</u>	<u>Assessed Valuation⁽²⁾⁽³⁾</u>	<u>Percentage of Net Assessed Valuation⁽³⁾</u>	<u>Approximate Tax Paid⁽⁴⁾</u>
Qualcomm Inc.	Telecommunications	\$ 332,016	0.51%	\$ 3,705
Pardee Construction	Real Estate	\$ 214,898	0.33%	\$ 3,436
Equitable Life Assurance	Investment	\$ 272,038	0.41%	\$ 3,043
Pacific Gateway	Hotel	\$ 227,049	0.35%	\$ 2,532
Sony Corporation of America	Electronics	\$ 228,425	0.35%	\$ 2,335
Hewlett-Packard	Manufacturing	\$ 218,492	0.33%	\$ 2,234
Sea World	Entertainment	\$ 205,556	0.31%	\$ 2,232
Solar Turbines	Manufacturing	\$ 170,157	0.26%	\$ 1,895
Miramar Ranch North	Real Estate	\$ 44,006	0.07%	\$ 1,873
Manchester Resorts	Hotel	\$ 123,181	0.19%	\$ 1,373
		\$2,035,818	3.10%	\$24,658

(1) This table excludes public utilities, including San Diego Gas & Electric Company, Pacific Bell, and American Telephone and Telegraph, because valuations within the City cannot be readily determined.

(2) Total assessed valuation includes both secured and unsecured property.

(3) Using total Net Assessed Valuation of \$65,640,785,000.

(4) The City receives approximately 17.2% of total taxes paid.

Source: County of San Diego Assessor's Office

LIMITATIONS ON TAXES AND APPROPRIATIONS

Article XIII A of the California Constitution

Section 1(a) of Article XIII A of the California Constitution limits the maximum ad valorem tax on real property to 1% of full cash value (as defined in Section 2 of Article XIII A), to be collected by each county and apportioned among the county and other public agencies

and funds according to law. Section 1(b) of Article XIII A provides that the 1% limitation does not apply to ad valorem taxes to pay interest or redemption charges on (a) indebtedness approved by the voters prior to July 1, 1978 or (b) any bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978, by two-thirds of the votes cast by the voters voting on the proposition. Section 2 of Article XIII A defines "full cash value" to mean "the County Assessor's valuation of real property as shown on the 1975/76 tax bill under full cash value or, thereafter, the appraised value of real property 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 2% per year or to reflect a reduction in the consumer price index or comparable data for the area under the taxing jurisdiction, or reduced in the event of declining property values caused by substantial damage, destruction, or other factors. Legislation enacted by the State Legislature to implement Article XIII A provides that notwithstanding any other law, local agencies may not levy any ad valorem property tax except to pay debt service on indebtedness approved by the voters as described above.

In the June 1990 election, the voters of the State approved amendments to Article XIII A permitting the State Legislature to extend the replacement dwelling provisions applicable to persons over 55 to severely disabled homeowners for a replacement dwelling purchase or newly constructed on or after June 5, 1990, and to exclude from the definition of "new construction" triggering reassessment improvements to certain dwellings for the purpose of making the dwelling more accessible to severely disabled persons. In the November 1990 election, the voters of the State approved an amendment of Article XIII A to permit the State Legislature to exclude from the definition of "new construction" seismic retrofitting improvements or improvements utilizing earthquake hazard mitigation technologies constructed or installed in existing buildings after November 6, 1990.

Court Challenges to Article XIII A

In early 1989, the United States Supreme Court struck down as a violation of equal protection certain property tax assessment practices in West Virginia which has resulted in vastly different assessments of similar properties. Since Article XIII A provides that property may only be reassessed up to 2% per year, except upon change of ownership or new construction, recent purchasers may pay substantially higher property taxes than long-time owners of comparable property in a community. The Supreme Court in the West Virginia case expressly declined to comment in any way on the constitutionality of Article XIII A. Based on this decision, however, property owners in California brought three suits challenging the acquisition value assessment provisions of Article XIII A. Two cases involved residential property, and one case involved commercial property. In all three cases, State trial and appellate courts upheld the constitutionality of Article XIII A's assessment rules and concluded that the West Virginia case did not apply to California's laws. On June 3, 1991 the United States Supreme Court agreed to hear the appeal in the challenge relating to commercial property, but the plaintiff subsequently decided to drop the case.

On June 18, 1992, the United States Supreme Court upheld the decision in *Nordlinger v. Hahn*, 225 Cal. App. 3d 1259, one of the cases involving residential property taxation decided by the State Court of Appeals. The 8 to 1 majority held that the Article XIII A

assessment method serves a rational state interest by providing certainty regarding property taxes to homeowners and therefore does not violate provisions of the Equal Protection Clause codified in the 14th Amendment of the U.S. Constitution.

The City cannot predict whether future challenges to the State's present system of property tax assessment will be made, when the ultimate resolution of any challenge will occur or the ultimate effect any decision holding the State's present system of property tax assessment unconstitutional would have on the City's revenues. One possible outcome of a decision to invalidate Article XIII A would be a decrease in the amount of property tax revenues paid to the City.

Article XIII B of the California Constitution

Article XIII B of the California Constitution limits the annual appropriations of the State and of 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 for changes in the cost of living, population, and services for which the fiscal responsibility is shifted to or from the governmental entity. The "base year" for establishing this appropriations limit is Fiscal Year 1979 and the limit is adjusted annually to reflect changes in population, consumer prices and certain increases or decreases in the cost of services provided by these public agencies.

Appropriations of an entity of local government subject to Article XIII B generally include any authorizations to expend during a fiscal year the proceeds of taxes levied by or for the entity, exclusive of certain State subventions, refunds of taxes and benefit payments from retirement, unemployment insurance and disability insurance funds. "Proceeds of taxes" include, but are not limited to, all tax revenues, most State subventions and the proceeds to the local government entity from (a) regulatory licenses, user charges, and user fees (to the extent that such proceeds exceed the cost reasonably borne by such entity) and (b) the investment of tax revenues. Article XIII B provides that if a governmental entity's revenues in any year exceed the amounts permitted to be spent, the excess must be returned by revising tax rates or fee schedules over the subsequent two years.

Article XIII B does not limit the appropriation of money to pay debt service on indebtedness existing or authorized as of January 1, 1979, or for bonded indebtedness approved thereafter by a vote of the electors of the issuing entity at an election held for that purpose.

In the June 1990 election, the voters of the State approved Proposition 111, which amended the method of calculating State and local appropriations limits. Proposition 111 made several changes to Article XIII B, three of which are reflected in the City's annual computation of its appropriation limit. First, the term "change in the cost of living" was redefined as the change in the California per capita personal income ("CPCPI") from the preceding year. Previously the lower of the CPCPI or the United States Consumer Price Index was used. Second, the appropriations limit for the fiscal year was recomputed by adjusting the Fiscal Year 1987 limit by the CPCPI for the three subsequent years. Third, Proposition 111 excluded appropriation for "all qualified capital outlay Expansion Projects, as defined by the Legislature" from the definition of "appropriations subject to limitation."

Article XIII B allows voters to approve a temporary waiver of a government's Article XIII B limit. Such a waiver is often referred to as a "Gann limit waiver." The length of any such waiver is limited to four years. In June 1990, San Diego voters approved a four year increase in the City's Article XIII B limit (for Fiscal Years 1992 through 1995). In the November 1994 election, San Diego voters approved another four year increase in the City's Article XIII B limit (for Fiscal Years 1996 through 1999). The Gann limit waiver does not provide any additional revenues to the City or allow the City to finance additional services. When preparing the fiscal 1999 Budget, the City calculated its appropriations limit at \$539,035,663, with appropriations subject to the limit estimated at \$421,341,468. The impact of the appropriations limit on the City's financial needs in the future is unknown.

Both Article XIII A and XIII B were adopted as measures that qualified for the ballot pursuant to California's constitutional initiative process. From time to time other initiative measures could be adopted, affecting the ability of the City to increase revenues and to increase appropriations.

Articles XIII C and XIII D of the California Constitution

On November 5, 1996, the voters of the State approved Proposition 218, known as the "Right to Vote on Taxes Act." Proposition 218 added Articles XIII C and XIII D to the California Constitution, which contain a number of provisions affecting the ability of the City to levy and collect both existing and future taxes, assessments, fees and charges. The interpretation and application of certain provisions of Proposition 218 will ultimately be determined by the courts with respect to some of the matters discussed below. It is not possible at this time to predict with certainty the future impact of such interpretations. The provisions of Proposition 218, as so interpreted and applied, may affect the City's ability to meet certain obligations.

Proposition 218 (Article XIII C) requires that all new local taxes be submitted to the electorate before they become effective. Taxes for general governmental purposes of the City require a majority vote and taxes for specific purposes, even if deposited in the City's General Fund, require a two-thirds vote. Further, any general purpose tax which the City imposed, extended or increased, without voter approval, after December 31, 1994 may continue to be imposed only if approved by a majority vote in an election which must be held within two years of November 5, 1996. The City has not so imposed, extended or increased any such taxes which are currently in effect. The voter approval requirements of Proposition 218 reduce the flexibility of the City to raise revenues for the General Fund, and no assurance can be given that the City will be able to impose, extend or increase such taxes in the future to meet increased expenditure needs.

Proposition 218 (Article XIII D) also added several new provisions relating to how local agencies may levy and maintain "assessments" for municipal services and programs. These provisions include, among other things, (i) a prohibition against assessments which exceed the reasonable cost of the proportional special benefit conferred on a parcel, (ii) a requirement that the assessment must confer a "special benefit," as defined in Article XIII D, over and above any general benefits conferred, and (iii) a majority protest procedure which involves the mailing of notice and a ballot to the record owner of each affected parcel, a public hearing and the tabulation of ballots weighted according to the proportional financial obligation of the affected

party. "Assessment" in Article XIII D is defined to mean any levy or charge upon real property for a special benefit conferred upon the real property. This definition applies to landscape and maintenance assessments for open space areas, street medians, street lights and parks. If the City is unable to continue to collect assessment revenues for, a particular program, the program might have to be curtailed and/or funded by the City's General Fund. Given the approval requirements imposed by Proposition 218, the City is unable to predict whether it will be able to continue to collect assessment revenues for these programs in light of Proposition 218. Since these programs represent additional services, to the extent such assessment revenues cannot be collected, the City Manager would recommend to the City Council that such programs be curtailed rather than supported with amounts in the General Fund. Based upon advice from the City Attorney, the City does not believe that it would be obligated to maintain such programs from the General Fund. Through May 15, 1998, the City has conducted 17 mail ballot assessment elections, of which all but one have been approved by the property owners.

The City currently has 17 Business Improvement Districts ("BIDs") located throughout the City for the purpose of providing improvements intended to encourage business growth within the boundaries of the BID. The BIDs are financed by assessments paid by businesses operating within the BID. The Howard Jarvis Taxpayers Association ("HJTA") has challenged the City's policy for BID formation, contending that the fees collected should be considered a "special tax" under Proposition 218 and that as such, should only be established after a two-thirds vote.

The City's position is that the fees collected are neither "special taxes" nor "property related assessments" since the BIDs were formed under the Parking and Business Improvement Act of 1989, and the assessments are collected from the businesses based on the fact that the businesses are located within and benefiting from the BID, and the ownership in the property on which the businesses are located is not a consideration. On March 27, 1998, the City's position was affirmed by a San Diego Superior Court. HJTA has appealed the Superior Court's ruling to the 4th District Court of Appeal.

In addition, Proposition 218 (Article XIII D) added several provisions affecting "fees" and "charges," defined for purposes of Article XIII D to mean "any levy other than an ad valorem tax, a special tax, or an assessment, imposed by a [local government] upon a parcel or upon a person as an incident of property ownership, including a user fee or charge for a property related service." All new and existing property related fees and charges must conform to requirements prohibiting, among other things, fees and charges which (i) generate revenues exceeding the funds required to provide the property related service, (ii) are used for any purpose other than those for which the fees and charges are imposed, (iii) are for a service not actually used by, or immediately available to, the owner of the property in question, or (iv) are used for general governmental services, including police, fire or library services, where the service is available to the public at large in substantially the same manner as it is to property owners. Depending on the interpretation of what constitutes a "property related fee" under Article XIII D, there could be future restrictions on the ability of the City's General Fund to charge its enterprise funds for various services provided. Further, before any property related fee or charge may be imposed or increased, written notice must be given to the record owner of each parcel of land affected by such fee or charge. The City must then hold a hearing upon the proposed imposition or increase, and if written protests against the proposal are presented by a majority of the owners

of the identified parcels, the City may not impose or increase the fee or charge. Moreover, except for fees or charges for sewer, water and refuse collection services, or fees for electrical and gas service, which are not treated as “property related” for purposes of Article XIII D, no property related fee or charge may be imposed or increased without majority approval by the property owners subject to the fee or charge or, at the option of the local agency, two-thirds voter approval by the electorate residing in the affected area. The City has a number of enterprise funds which are self supporting from fees and charges that may ultimately be determined to be property related for purposes of Article XIII D, e.g. the Sewer Enterprise Fund and the Water Enterprise Fund. The fees and charges of all City enterprise funds may be determined to be fees and charges subject to the initiative power referred to in Article XIII C, as described below. In the event that fees and charges cannot be appropriately increased or are reduced pursuant to exercise of the initiative power, the City may have to decide whether to support any deficiencies in these enterprise funds with moneys from the General Fund or to curtail service, or both.

Proposition 218 (Article XIII C) also removes many of the limitations on the initiative power in matters of reducing or repealing any local tax, assessment, fee or charge. No assurance can be given that the voters of the City will not, in the future, approve an initiative or initiatives which reduce or repeal local taxes, assessments, fees or charges currently comprising a substantial part of the City’s General Fund. “Assessments,” “fees” and “charges” are not defined in Article XIII C, and it is unclear whether these terms are intended to have the same meanings for purposes of Article XIII C as for Article XIII D described above. If not, the scope of the initiative power under Article XIII C potentially could include any General Fund local tax, assessment, or fee not received from or imposed by the federal or State government or derived from investment income.

On December 5, 1996, Standard & Poor’s Ratings Services (“Standard & Poor’s”) lowered its ratings on the City’s outstanding general obligation bonds from AA+ to AA, and lowered its ratings on certain of the City’s outstanding General Fund lease obligations from AA- to A+ and others from A+ to A. According to Standard & Poor’s, these ratings were lowered to reflect the City’s loss of financial flexibility due to the passage of Proposition 218. On August 28, 1998, Standard & Poor’s affirmed its ratings on the City’s outstanding bonds, but revised its outlook on the City from stable to negative, citing the possible issuance by the City of additional general fund supported bonds and noting that such issuance, if unaccompanied by a new revenue source or significant growth in the City’s existing revenue base, could strain general fund operations and lead to a lower rating. See **“BONDED AND OTHER INDEBTEDNESS--Proposed Additional General Fund Loan Commitments”** herein.

On December 6, 1996, Moody’s Investors Service, Inc. (“Moody’s”) lowered its ratings on the City’s outstanding general obligation bonds from Aaa to Aa1. It reaffirmed its Aa ratings on the City’s outstanding General Fund lease obligations, while noting that the credit quality of those obligations has also declined. Moody’s indicated that the reason for the ratings downgrade was a reduction in the financial flexibility resulting from a series of recent political and legal developments, most notably the passage of the Proposition 218.

On April 16, 1998, Fitch IBCA rated the City’s outstanding general obligation bonds AA+. In issuing the rating, Fitch IBCA referenced the City’s strong economy, low debt burden, and sound financial position.

Statutory Spending Limitations

A statutory initiative ("Proposition 62") was adopted by the voters of the State at the November 4, 1986 General Election which (a) requires that any tax for general governmental purposes imposed by local governmental entities be approved by resolution or ordinance adopted by two-thirds vote of the governmental agency's legislative body and by a majority of the electorate of the governmental entity, (b) requires that any special tax (defined as taxes levied for other than general governmental purposes) imposed by a local governmental entity be approved by a two-thirds vote of the voters within the jurisdiction, (c) restricts the use of revenues from a special tax to the purposes or for the service for which the special tax is imposed, (d) prohibits the imposition of ad valorem taxes on real property by local governmental entities except as permitted by Article XIII A, (e) prohibits the imposition of transaction taxes and sales taxes of the sale of real property by local governmental entities and (f) requires that any tax imposed by a local governmental entity on or after March 1, 1985 be ratified by a majority vote of the electorate within two years of the adoption of the initiative or be terminated by November 15, 1988. The requirements imposed by Proposition 62 were recently upheld by the *California Supreme Court in Santa Clara County Local Transportation Authority v. Guardino*, 11 Cal.4th 220; 45 Cal.Rptr.2d 207 (1995).

The City believes that, notwithstanding the *Guardino* decision, the provisions of Proposition 62 do not apply to charter cities. The extent of the application of the decision to taxes which were authorized prior to the date of the decision is also undecided.

The City has effected certain tax increases after the enactment of Proposition 62 in 1986 and pursuant to such increases has collected approximately \$139.9 million through June 30, 1997. The City did not increase existing taxes or impose new taxes during Fiscal Year 1998.

In the opinion of the City Attorney, the provisions of Proposition 62 do not apply to charter cities, although this position is being challenged by various groups, and may be the subject of future litigation. If ultimately found valid and applicable to charter cities, however, Proposition 62 could affect the ability of the City to continue the imposition of certain taxes, such as sales and transient occupancy taxes, and may further restrict the City's ability to raise revenue.

Rossi v. Brown

On March 6, 1995 in the case *Rossi v. Brown*, the California Supreme Court held that an initiative can repeal a tax ordinance and prohibit the imposition of further such taxes and that the exemption from the referendum requirements does not apply to initiatives. The City does not expect the *Rossi v. Brown* decision to have a material adverse effect on any of the City's significant revenue sources.

LABOR RELATIONS

Most City employees are represented by one of four labor organizations. Currently, the American Federation of State and County Municipal Employees (Local 127) represents approximately 2,220 employees; The Municipal Employees Association (the "MEA") and Unrepresented Employees represents approximately 4,290 employees; The Police Officers

Association (the "POA") represents approximately 1,960 employees; and the International Association of Firefighters (Local 145) represents approximately 920 employees.

In November 1997, the City Council approved an extension to the POA agreement through June 30, 2000. Under this extension, POA will receive a 2% increase effective July 1, 1998, a 4% increase effective July 1, 1999 and a 2% increase effective January 1, 2000. The agreements with the employees represented by MEA, Local 127, and Local 145 will expire on June 30, 1998. In May 1998, the City Council approved agreements with MEA, Local 127, and Local 145 providing for an 8% increase over a three year period: 2% in January 1999, 4% in January 2000, and 2% in July 2000.

PENSION PLAN

All full-time City employees participate with the full-time employees of the San Diego Unified Port District (the "District") in the City Employees' Retirement System ("CERS"). CERS is a multiple-employer public employee retirement system that acts as a common investment and administrative agent for the City and the District. Through various benefit plans, CERS provides retirement benefits to all general and safety (police and fire) members.

The CERS plans are structured as defined benefit plans in which benefits are based on salary, length of service, and age. City employees are required to contribute a percentage of their annual salary to CERS. State legislation requires the City to contribute to CERS at rates determined by actuarial valuations.

The City's last actuarial valuation dated June 30, 1997 stated the funding ratio (Valuation of Assets available for Benefits to Total Actuarial Accrued Liability), of the CERS fund to be 94.2%. The CERS fund has an Unfunded Actuarial Accrued Liability (UAAL) of \$105.6 million as of June 30, 1997. The UAAL is the difference between total actuarial accrued liabilities of \$1.822 billion and assets allocated to funding of \$1.717 billion. The UAAL is amortized over a 30 year period which started July 1, 1991, with each year's amortization payment reflected as a portion of the percentage of payroll representing the employer's contribution rate. As of June 30, 1997 there were 24 years remaining in the amortization period.

INSURANCE, CLAIMS, AND LITIGATION

The City is self-insured for its Workers' Compensation, Long Term Disability, and Health Indemnity employee group health coverage. Workers' Compensation, Long Term Disability, and Health Indemnity employee group health coverage are accounted for in the Self Insurance Fund, which is one of the City's Internal Service Funds. For Workers' Compensation, Long Term Disability, and health coverage, each participating fund contributes an amount equal to an actuarially determined rate multiplied by the gross salaries payable from that fund. The Internal Service Funds have a net fund equity of \$4,665,000 at June 30, 1997. This includes a fund equity deficit in the Self Insurance Fund of approximately \$28,305,925 which represents unfunded estimated claims and claim settlements related to Workers' Compensation, Long Term Disability, and Health Indemnity employee group health coverage. It is anticipated that

individual claims settlements will be funded through participating fund contributions subsequent to the filing of a claim and prior to its settlement.

The City carries excess insurance for its public liability claims. The first \$1,000,000 per claim is paid by the City. Losses in excess of \$1,000,000 per occurrence are paid for by the excess insurance. The City also maintains a reserve for liability claims within the Self Insurance Fund.

The City participates in the joint purchase of insurance with a number of counties in the "County Supervisors Association of California – Excess Insurance Authority (CSAC-EIA)." This joint purchase of the City's "all risk" property insurance, insuring approximately \$1.1 billion of City property, provides "occurrence form" coverage for any loss to City property up to \$400 million per loss, with a \$25,000 deductible.* There is no sharing of the limits among the City and member counties unless the loss is considered one occurrence for policy purposes.

Earthquake coverage is provided to the City Hall building and City lease financed locations in the amount of \$100 million effective March 31, 1998.* No other City structures share in this coverage and it is fully dedicated to the City Hall and such lease financed structures. This earthquake coverage of \$100 million is shared with the member counties in the CSAC-EIA pool, except for the County of San Diego which purchases its own earthquake insurance. Depending upon the availability and affordability of such earthquake insurance, the City may elect not to purchase such coverage in the future.

The City is a public agency which is subject to liability for the negligent acts or omissions of its officers and employees acting within the scope of their duty. The City has a self-insured liability of \$1 million. For liability between \$1 million and \$24 million, the City purchases commercial insurance in layers, for its public liability exposure. The City has incurred total annual claims payments as shown in Table 18.

* The Existing Convention Center and the Expansion Project are insured separately in accordance with the Convention Center Facility Lease. See "**SECURITY AND SOURCES OF PAYMENTS FOR THE 1998A BONDS – Insurance.**"

Table 18
CITY OF SAN DIEGO
ANNUAL LIABILITY CLAIMS EXPENSES AND SETTLEMENT COSTS⁽¹⁾
Fiscal Years ended June 30, 1994 through 1998

<u>Fiscal Year</u>	<u>Liability Claims Expenses and Settlement Costs</u>	<u>Liability Premium Payments</u>
1994	\$ 9,748,684	\$ 1,836,960
1995	\$ 10,612,520	\$ 937,000
1996	\$ 11,373,262	\$ 855,558
1997	\$ 7,228,465	\$ 1,575,162
1998	\$ 10,000,728	\$ 1,209,474

(1) Claims investigation expenses and settlement costs for property damage & bodily injury claims.
Source: City of San Diego, Risk Management

INVESTMENT OF FUNDS

The Treasurer of the City of San Diego, in accordance with the Charter of the City of San Diego, is responsible for investing the unexpended cash in the Treasurer's pooled operating investment fund (the "Investment Pool" or the "City Pool"). Responsibility for the daily investment of funds in the City Pool is delegated to the City's Investment Officer. The City is the only participant in the City Pool; there are no other City Pool participants either voluntary or involuntary. The investment objectives of the City Pool are preservation of capital, liquidity, and return. The Tax Anticipation Note proceeds and Repayment Fund are invested in the City Pool.

Oversight and Reporting Requirements

The City Treasurer provides an investment report on a monthly basis to the City Manager, the City Auditor and Comptroller, and the City Council and annually presents a statement of investment policy (the "Investment Guidelines") to the City Manager, the City Council, and the City Manager's Investment Advisory Committee. The Investment Advisory Committee was established in March 1990 and is comprised of the City Auditor and Comptroller, the Financial and Technical Services Manager, and three investment professionals from the private sector. The Committee is charged with oversight responsibility to review on an ongoing basis the Investment Guidelines and practices of the City Treasurer and recommend changes. Investments in the City Pool are audited by an independent firm of certified public accountants as part of the overall audit of the City's financial statements.

The City's investment section uses outside services to provide investment portfolio valuations and accounting and reporting services. The service provides monthly

portfolio valuation, investment performance statistics, and other statistical security reports which are distributed to the City Treasurer accounting section and the City Auditor and Comptroller's office for review and reconciliation. The City Treasury accounting section prepares a series of monthly reports, which includes portfolio market valuation, and distributes these to the Mayor, City Council, City Manager and other officials.

Authorized Investments

Investments in the City Pool are governed by State law and further restricted by the City's Investment Guidelines. The Guidelines have been written with safety of principal being the foremost objective. Permitted investments include U.S. Treasury securities, U.S. Agency securities, corporate medium term notes, money market instruments, and the Local Agency Investment Fund (California State Pool). Reverse repurchase agreements ("reverse repos") are restricted to 20% of the base value of the portfolio and are governed by various maturity restrictions as well. A reverse repo is a transaction in which the City Pool sells a security and concurrently agrees to buy it back from the same party at a later date for a price that includes an interest component for the City Pool's use of the money. There were no reverse repos outstanding as of June 30, 1998. The main operating funds of the City are being managed in two separate portfolios. In its management of the "Liquidity" portfolio, comprising about 50% of total funds, the City invests in a variety of debt securities with maturities ranging from one day to one year; it measures its performance against the Merrill Lynch 3 to 6 month U.S. Treasury Bill Index. The remaining 50% of funds are managed in a separate "Core" portfolio that consists of a variety of debt securities ranging from one day to five years; it measures its performance against the Merrill Lynch 1 to 3 year U.S. Treasury Index. Safety of principal and liquidity are the paramount considerations in the management of both portfolios.

The Pool does not engage in securities lending transactions.

Pool Liquidity and Other Characteristics

The Pool (including both the "Liquidity" and the "Core" portfolios) is highly liquid. As of June 30, 1998, approximately 21% of the pool investments mature within 60 days, 30% within 91 days and 36% within 184 days (on a cumulative basis). As of June 30, 1998, the Pool had a weighted average maturity of 1.13 years (412 days); its weighted yield was 5.92%. For purposes of calculating weighted average maturity, the City Treasurer treats investments in the State-wide Local Agency Investment Fund (California State Pool) as maturing within one day. The Liquidity portfolio has a duration of .33 years as of June 30, 1998 and the Core portfolio has a duration of 1.62 years as of June 30, 1998. Duration is a measure of the price volatility of the portfolio and reflects an estimate of the projected increase or decrease in the value of the portfolio based upon a decrease or increase in interest rates. Accordingly, the Liquidity portfolio should decrease in market value by .33% for every 1% increase in market interest rates while the Core portfolio should decrease in market value by 1.62% for every 1% increase in market interest rates. The Pool's composition is designed with a goal of having sufficient liquid funds available to meet disbursement requirements. In general, the composition and value of investments under management in the City's Investment Pool will vary from time to time depending on cash flow needs of the City, maturity or sale of investments, purchase of new securities and fluctuations in interest rates.

Table 19
CITY OF SAN DIEGO POOLED INVESTMENT FUND(1)
at June 30, 1998
(Unaudited)

	<u>Book Value</u>	<u>Market Value</u>	Percent of <u>Total⁽¹⁾</u>
U.S. Treasury Bills and Notes	\$ 338,466,412	\$ 340,362,500	32.76%
Federal Agency Securities	446,800,723	447,426,973	43.25
Medium Term Notes (Corporate) ⁽²⁾	111,418,808	110,872,229	10.79
Money Market Instruments ⁽³⁾	125,897,596	125,979,589	12.19
Local Agency Investment Fund	<u>10,450,169</u>	<u>10,450,169</u>	<u>1.01</u>
Net Assets	\$1,033,033,708	\$1,035,091,460	100.0%

(1) Based on Book Value.

(2) These notes consist of both fixed & floating interest rate securities. The notes with floating interest rates are reset at intervals ranging from one day to three months.

(3) These securities consist of commercial paper, negotiable certificates of deposit, term and overnight repurchase agreements, banker's acceptances, bank notes and/or thrift notes.

Source: City of San Diego, Investment Division

Derivatives

As of June 30, 1998 and since October 14, 1997, the City's Investment Pool has had no assets invested in structured notes or derivatives. The City Treasurer defines a derivative as a financial instrument whose value is derived from an underlying asset, price, index or rate, e.g., options, futures or interest rate swaps. A structured note is an investment instrument that can contain within its structure various combinations of derivatives such as imbedded calls and interest rate swaps that will offer returns to an investor within a defined set of parameters and interest rate scenarios, e.g., step-ups, multiple-indexed notes, inverse floaters or leveraged constant maturity notes. The City Treasurer does not define fixed rate notes, debentures with call features, or single index non-leveraged floating rate notes, e.g. monthly LIBOR plus or minus a spread, as structured notes. The City Treasurer limits structured notes eligible for purchase to those investments, which at the time of purchase, have no risk of principal loss if held to maturity and offer an estimated return at purchase that exceeds the return on a comparable fixed term investment in the judgment of the City's Investment Officer. The City Treasurer does not allow the purchase of securities that have a negative amortization of principal. In addition, recently enacted California law prohibits the purchase of inverse floaters, range notes, or interest only strips derived from pools of mortgages.

Reverse Repurchase Agreements

Although the City from time to time uses reverse repos, as of June 30, 1998 and since September 18, 1996, the City has had no reverse repos in the City Pool. The Investment Guidelines require that all proceeds of a reverse repo be reinvested in securities whose maturity date or coupon reset date match the maturity of the reverse repo. The Investment Guidelines limit the use of reverse repos to 20% of the base value of the City Pool. The City's reverse repo

program is monitored daily and reported monthly, as described above under “Oversight and Reporting Requirements”.

BONDED AND OTHER INDEBTEDNESS

General

The City has never failed to pay principal of or interest on any of its debts or lease obligations when due. The City has issued bonds or entered into installment purchase contracts secured by and payable out of loans and installment sale contracts, in order to provide conduit financing for single and multi-family housing, industrial development, and 501(c)(3) non-profit corporations. These bonds and certificates of participation are not secured by City general funds or revenues.

Long-Term Obligations

As of June 30, 1998, the City had \$78,600,000 aggregate principal amount of long-term general obligation bonded indebtedness outstanding and \$213,800,000 aggregate principal amount of long-term general fund lease obligations outstanding. The following table is a schedule, by years, of payments required to be made by the City or its oversight entities with respect to future obligations, as of June 30, 1998. The City has not incurred any long-term General Fund obligations since June 30, 1998.

Table 20
CITY OF SAN DIEGO
GENERAL OBLIGATION AND GENERAL FUND LEASE OBLIGATIONS
As of June 30, 1998
(in thousands)

Fiscal Year Ending June 30	General Obligation Bonds	General Fund Lease Obligations	Total Principal Outstanding
1999	\$ 8,910	\$ 22,514	\$ 31,424
2000	9,894	20,968	30,862
2001	9,149	22,653	31,802
2002	9,268	23,537	32,805
2003	9,395	21,546	30,941
Thereafter	<u>65,205</u>	<u>269,150</u>	<u>334,355</u>
Subtotal	111,821	380,368	492,189
Less Interest	<u>(33,221)</u>	<u>(166,568)</u>	<u>(199,789)</u>
Total Principal	<u>\$ 78,600</u>	<u>\$ 213,800</u>	<u>\$ 292,400</u>

The following provides a summary list of outstanding general obligation bonds and General Fund lease commitments as of June 30, 1998.

<u>General Obligation Bonds</u>	<u>Principal Outstanding</u> <i>(in thousands)</i>
1994 - Open Space Park Facility District Refunding	\$57,425
1991 - Public Safety Communications	<u>21,175</u>
Total Principal of General Obligation Bonds	<u>\$78,600</u>
<u>General Fund Lease Commitments</u>	
<i>Certificates of Participation</i>	
1993 - Balboa Park/Mission Bay Park Capital Improvements	\$24,440
1996A - Balboa Park/Mission Bay Park Capital Improvements	32,010
1996B - Balboa Park/Mission Bay Park Capital Improvements Refunding	11,485
1991 - Misdemeanor Pre-arraignment Detention Facility/Wackenhut	4,500
<i>Lease Revenue Bonds</i>	
1989 - City/MTDB Authority for Bayside Trolley Extension	1,440
1993 - City/MTDB Authority for Old Town Trolley Extension	17,600
1994 - City/MTDB Authority Refunding - Police CIP and Bayside Extension	53,900
1996 - Stadium Improvements	<u>68,425</u>
Total Principal of General Fund Lease Commitments	<u>\$213,800</u>

Source: City of San Diego, Auditor and Comptroller

Prior Years' Defeasance of Debt

In prior years, the City, the San Diego Stadium Authority, the Redevelopment Agency, and the Facilities and Equipment Leasing Corporation defeased certain General Fund obligations by placing the proceeds of refunding bonds in an irrevocable trust to provide for all future debt service payments on the old bonds, through the applicable redemption dates or maturity. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. As of June 30, 1998, \$24,270,000 of defeased bonds including those defeased in prior years are still outstanding.

Proposed Additional General Fund Lease Commitments

In the November 1998 election, City voters will be asked to approve the adoption of an ordinance to authorize the City to enter into agreements with the owners of the San Diego Padres Major League Baseball team (the "Team") to redevelop an area of downtown and construct a multiple use ballpark. The total cost of the project, including land and infrastructure improvements, is estimated at approximately \$411 million, and the cost of the ballpark is estimated at approximately \$267.5 million. It is contemplated that the City will provide approximately \$225 million to fund a portion of the construction costs and would finance this by the issuance of approximately \$273 million in long-term General Fund lease obligations.

Financing the balance of the overall costs will be the responsibility of others, including the Team and the Redevelopment Agency within the City. If approved by a majority of the City voters voting on the matter, this financing by the City would occur during the fiscal year ending June 30, 2000. Litigation has recently been commenced against the City to prevent voters from voting on the measure in November 1998. A delay in voter approval could delay the financing.

In addition, the City may issue up to an additional \$92 million in long-term General Fund lease obligations for the purpose of financing a portion of the construction costs of a new Main Library. The total cost of the project is estimated at approximately \$103.5 million, and amounts over and above the City's commitment are expected to come from Redevelopment Agency funds and private donations. The City Council has committed to placing this project on a ballot sometime in 1999, and if approved by a majority of the City voters voting on the matter, this financing by the City would occur during the fiscal year ending June 30, 2000 or 2001.

Short-Term Borrowings

The City has issued tax anticipation notes since the mid-1960's (except for Fiscal Year 1979) in anticipation of receipt of taxes and other General Fund revenues. The following table presents a 10-year history of the City's short-term borrowings:

Table 21
CITY OF SAN DIEGO
SHORT-TERM BORROWINGS
Fiscal Years Ended June 30, 1990 through 1999

Fiscal Year Ended <u>June 30</u>	<u>Amount</u>
1990	\$ 40,000,000
1991	\$ 49,000,000
1992	\$ 57,000,000
1993	\$ 102,000,000
1994	\$ 100,500,000
1995	\$ 68,000,000
1996	\$ 53,000,000
1997	\$ 73,500,000
1998	\$ 82,000,000
1999	\$ 88,500,000

Source: City of San Diego, Auditor and Comptroller

Operating Lease Commitments

The City has entered into various lease arrangements under which the City must make annual payments to occupy buildings necessary for City operations. The table below is a schedule by years of future minimum rental payments required under such leases entered into by the City that have initial or remaining noncancelable lease terms in excess of one year, as of June 30, 1998.

Table 22
CITY OF SAN DIEGO
FUTURE MINIMUM RENTAL PAYMENTS
GENERAL FUND OPERATING LEASE COMMITMENTS

<u>Fiscal Year Ending June 30</u>	<u>Principal Amount</u>
1999	\$4,781,121
2000	4,757,278
2001	4,700,165
2002	4,668,766
2003	3,919,354
Thereafter	<u>1,339,813</u>
Total Minimum Payments	\$24,166,497

Source: City of San Diego, Auditor and Comptroller and Real Estate Assets Department

Overlapping Debt and Debt Ratios

The table below presents a statement of direct and overlapping bonded debt of the City as of August 18, 1998. Revenue bonds, tax allocation bonds and special assessment bonds are not included in the tabulation; lease revenue obligations payable from the City's General Fund or equivalent sources are included.

The City contains numerous school districts and special purpose districts, such as for water and sanitation, many of which have issued general obligation bonds. Some of the issues may be payable from self-supporting enterprises or revenue sources other than property taxation.

The City periodically issues special assessment or community facilities district bonds on behalf of petitioning developers or citizens when the City determines that the public facilities to be financed are of a defined extraordinary benefit to the City. These bonds are secured by property owner assessments or special taxes. As of August 18, 1998, there were thirteen 1915 Act District bond issues with aggregate outstanding principal of \$60,150,000 and one Community Facility District (Mello-Roos) bond issue with outstanding principal of \$59,465,000. The reserve funds for each of the City's outstanding 1915 Act District and Community Facilities District bond issuances were fully funded as of August 18, 1998. Although the City is not in any way obligated to make debt services payments for either 1915 Act or Community Facilities District bond issuances, the City has in the past taken proactive measures to protect bond holders.

Table 23
CITY OF SAN DIEGO
STATEMENT OF DIRECT AND OVERLAPPING BONDED DEBT
as of August 18, 1998

1997-98 Assessed Valuation:	\$67,419,006,279
Redevelopment Incremental Valuation:	1,778,220,883
Adjusted Assessed Valuation:	\$65,640,785,396

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 8/18/98</u>
San Diego County Water Authority	48.877%	\$4,332,946
Metropolitan Water District	7.954	44,153,052
San Ysidro School District	73.667	8,026,020
South Bay Union School District	61.237	5,203,258
Other High School and School Districts	Various	70,802
San Diego Unified School District Lease Tax Obligations	95.543	325,237,926
City of San Diego	100.00	20,200,000 ⁽¹⁾
City of San Diego 1915 Act Bonds	100.00	60,050,000
San Diego Open Space Park Facilities District No. 1	100.00	57,425,000
San Diego Community Facilities District No. 1	100.00	59,465,000
North City West School District Community Facilities District No. 1	100.00	77,160,000
Poway Unified School District Community Facilities District No. 1	100.00	80,000,000
TOTAL GROSS DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$741,324,004
Less: San Diego Open Space Park Facilities District No. 1 (100% self-supporting)		(57,425,000)
TOTAL NET DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$683,899,004
 <u>DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT:</u>		
San Diego County General Fund Obligations	46.954%	\$249,310,715
San Diego County Pension Obligations	46.954	175,241,719
San Diego Superintendent of Schools Certificates of Participation	46.954	1,064,682
San Diego Community College District General Fund Obligations	95.543	23,207,395
San Diego Unified School District General Fund Obligations	95.543	64,658,725
Palomar Community College District Certificates of Participation	25.576	1,654,767
Sweetwater Union High School District Certificates of Participation	19.578	2,182,847
South Bay Union School District Certificates of Participation	61.237	3,812,003
Other School, High School and Community College District Certificates of Participation	Various	3,577,472
City of San Diego Stadium Authority	100.00	4,350,000
City of San Diego Certificates of Participation and MTDB Authority	100.00	213,800,000
Otay Municipal Water District Certificates of Participation	6.790	1,952,804
TOTAL GROSS OVERLAPPING GENERAL FUND OBLIGATION DEBT		\$744,813,129
Less: City of San Diego Stadium Authority (100% self-supporting)		(4,350,000)
Otay Municipal Water District Certificates of Participation		(1,952,804)
Grossmont Union High School District Certificates of Participation (100% self-supporting from tax increment revenues)		(43,522)
TOTAL NET OVERLAPPING GENERAL FUND OBLIGATION DEBT		\$738,466,803
 GROSS COMBINED TOTAL DEBT		 \$1,486,137,133⁽²⁾
NET COMBINED TOTAL DEBT		\$1,422,365,807

(1) Excludes 1998A Bonds to be sold.

(2) Excludes tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 1997-98 Assessed Valuation:

Direct Debt	0.03%
Total Gross Direct and Overlapping Tax and Assessment Debt.....	1.10%
Total Net Direct and Overlapping Tax and Assessment Debt	1.01%

Ratios to Adjusted Assessed Valuation:

Gross Combined Direct Debt (\$295,775,000) ⁽¹⁾	0.45%
Net Combined Direct Debt (\$234,000,000).....	0.36%
Gross Combined Total Debt	2.26%
Net Combined Total Debt.....	2.17%

(1) City	\$ 20,200,000
City Authorities and Certificates of Participation	218,150,000
San Diego Open Space Park Facilities District No. 1	<u>57,425,000</u>
	\$295,775,000
<u>STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/98:</u>	\$5,078,041

Source: California Municipal Statistics, Inc.

APPENDIX B

**EXCERPTS FROM THE CITY'S COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 1997**

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CALDERON, JAHAM & OSBORN

AN ACCOUNTANCY CORPORATION

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

San Diego • El Centro • Brawley

INDEPENDENT AUDITORS' REPORT

The Honorable Mayor, Members of the
City Council and City Manager of the
City of San Diego, California

We have audited the accompanying general-purpose financial statements and the combining and individual fund and account group financial statements of the City of San Diego, California, as of and for the year ended June 30, 1997, as listed in the foregoing table of contents. These financial statements are the responsibility of the City of San Diego, California management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of San Diego, California, as of June 30, 1997, and the results of its operations and cash flows of its proprietary fund types and nonexpendable trust funds for the year then ended in conformity with generally accepted accounting principles. Also, in our opinion, the combining and individual fund and account group financial statements referred to above present fairly, in all material respects, the financial position of each of the individual funds and account groups of the City of San Diego, California, as of June 30, 1997, and the results of operations of such funds and cash flows of its individual proprietary fund types and nonexpendable trust funds for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 2 and Note 21 to the general-purpose financial statements, as of July 1, 1996 the City adopted Governmental Accounting Standards Board Statement Nos. 25, 27, and 28.

In accordance with *Government Auditing Standards*, we have also issued a separate report dated November 7, 1997, on our consideration of the City of San Diego's internal control over financial reporting and our tests of its compliance with certain provisions of laws regulations, contracts and grants.

Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements of the City of San Diego, California, taken as a whole and on the combining and individual fund and account group financial statements. The information listed as supporting schedules and statistical data in the table of contents is presented for purposes of additional analysis and is not a required part of the general-purpose financial statements of the City of San Diego, California. Such information, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the general-purpose, combining and individual fund and account group financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements of each of the respective individual funds and account groups, taken as a whole.

November 7, 1997

A handwritten signature in cursive script, appearing to read "Cah, Sh + Ch", written in black ink.

GENERAL PURPOSE FINANCIAL STATEMENTS

IN ACCORDANCE WITH THE RECOMMENDATIONS OF THE GOVERNMENTAL ACCOUNTING STANDARDS BOARD, THE FOLLOWING COMBINED STATEMENTS ARE PRESENTED:

Combined Balance Sheet - All Fund Types, Account Groups and Discretely Presented Component Unit.

Combined Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Fund Types, Expendable Trust Funds and Discretely Presented Component Unit.

Combined Statement of Revenue, Expenditures and Changes in Fund Balances - Budget and Actual (Budgetary Basis) - Budgeted Governmental Fund Types.

Combined Statement of Revenues, Expenses and Changes in Retained Earnings/Fund Balances - All Proprietary Fund Types and Similar Trust Funds.

Combined Statement of Cash Flows - Increase (Decrease) in Cash and Cash Equivalents - All Proprietary Fund Types and Nonexpendable Trust Fund.

Notes to Financial Statements.

Required Supplementary Information - Pension Trust Funds Analysis of Funding Progress - Last Six Years

COMBINED BALANCE SHEET - ALL FUND TYPES, ACCOUNT GROUPS AND DISCRETELY PRESENTED COMPONENT UNIT
 June 30, 1997
 (In Thousands)

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
ASSETS AND OTHER DEBITS				
Cash or Equity in Pooled Cash and Investments	\$ 13,327	\$ 183,587	\$ 13,796	\$ 326,537
Cash or Equity in Pooled Cash and Investments - Nonexpendable Trust ..	—	—	—	—
Cash With Custodian/Fiscal Agent	—	1,778	11,246	10
Cash With Custodian/Fiscal Agent - Nonexpendable Trust	—	—	—	—
Investments at Cost	—	24,539	108,541	44,817
Investments at Fair Value	—	—	—	—
Receivables:				
Taxes - Net	26,142	3,651	1	—
Accounts - Net	23,992	4,509	—	115
Claims - Net	30	—	—	—
Special Assessments - Net	—	658	1,197	—
Notes	182	40,194	—	2,001
Contributions	—	—	—	—
Accrued Interest	1,915	4,710	165	5,510
Grants	—	9,872	—	8,957
Loans	—	—	—	—
Loans to Redevelopment Agency	—	455	—	—
From Other Funds	76,808	829	—	27,517
Due from Primary Government	—	—	—	—
From Other Agencies	67	35,732	902,050	—
Advances to Other Funds	8,346	4,159	—	484
Advances to Other Agencies	350	1,137	—	—
Inventories of Water in Storage	—	—	—	—
Inventories	—	—	—	—
Land Held for Resale	—	1,342	—	25,907
Prepaid and Reimbursable Items and Deposits	315	66	27	—
Restricted Assets:				
Cash or Equity in Pooled Cash and Investments -				
Interest and Redemption Funds	—	569	—	—
Cash with Custodian/Fiscal Agent	—	—	—	—
Deferred Charges	—	—	—	—
Fixed Assets - Net	—	—	—	—
Amount Available for Payment of				
General Long-Term Debt	—	—	—	—
Amount to be Provided for Retirement of				
General Long-Term Debt	—	—	—	—
TOTAL ASSETS AND OTHER DEBITS	\$ 151,474	\$ 317,787	\$ 1,037,023	\$ 441,855

The accompanying notes are an integral part of the financial statements.

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Totals Primary Government	Component Unit	Totals Reporting Entity
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Debt	(Memorandum Only)	San Diego Convention Center Corporation	(Memorandum Only)
\$ 460,917	\$ 47,629	\$ 108,285	\$ —	\$ —	\$ 1,154,078	\$ 2,042	\$ 1,156,120
—	—	170	—	—	170	—	170
24	—	85	—	—	13,143	—	13,143
—	—	1,076	—	—	1,076	—	1,076
111	—	377,277	—	—	555,285	668	555,953
—	—	1,840,790	—	—	1,840,790	—	1,840,790
—	—	—	—	—	29,794	—	29,794
70,684	308	4,469	—	—	104,077	1,655	105,732
—	10	—	—	—	40	—	40
11	—	—	—	—	1,866	—	1,866
—	—	—	—	—	42,377	—	42,377
—	—	2,204	—	—	2,204	—	2,204
6,328	69	10,122	—	—	28,819	—	28,819
9,898	—	—	—	—	28,727	—	28,727
—	—	19,917	—	—	19,917	—	19,917
—	—	—	—	—	455	—	455
4,496	268	—	—	—	109,918	—	109,918
—	—	—	—	—	—	352	352
—	—	—	—	—	937,849	31	937,880
25,839	58	—	—	—	38,886	—	38,886
—	—	—	—	—	1,487	—	1,487
4,206	—	—	—	—	4,206	—	4,206
1,190	3,327	—	—	—	4,517	—	4,517
—	—	—	—	—	27,249	—	27,249
192,297	116	31	—	—	192,852	348	193,200
16,320	—	—	—	—	16,889	220	17,109
47	—	—	—	—	47	—	47
21,674	—	—	—	—	21,674	—	21,674
2,476,303	35,195	108	1,245,138	—	3,756,744	6,022	3,762,766
—	—	—	—	166,915	166,915	—	166,915
—	—	—	—	1,404,468	1,404,468	565	1,405,033
<u>\$ 3,290,345</u>	<u>\$ 86,980</u>	<u>\$ 2,364,534</u>	<u>\$ 1,245,138</u>	<u>\$ 1,571,383</u>	<u>\$ 10,506,519</u>	<u>\$ 11,903</u>	<u>\$ 10,518,422</u>

Continued on next page

COMBINED BALANCE SHEET - ALL FUND TYPES, ACCOUNT GROUPS AND DISCRETELY PRESENTED COMPONENT UNIT
 June 30, 1997
 (In Thousands)

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
LIABILITIES				
Accounts Payable	\$ 2,908	\$ 6,322	\$ —	\$ 918
Accrued Wages and Benefits	11,807	1,806	—	—
Other Accrued Liabilities	—	35,775	—	—
Employees' Deferred Compensation				
/401(k) Plans	—	—	—	—
Liability Claims	—	—	—	—
Matured Bonds, Notes and Interest Payable	—	—	3	—
Interest Accrued on Long-Term Debt	—	—	—	—
Long-Term Debt Due Within One Year	—	—	—	—
Due to Other Funds	768	27,846	—	2,154
Due to Component Unit	—	352	—	—
Due to Other Agencies	—	7,681	—	117
Deferred Revenue	30,669	50,499	903,228	2,909
Advances from Other Funds	—	745	—	561
Advances from Other Agencies	—	5,753	—	—
Deposits/Advances from Others	—	716	—	—
Sundry Trust Liabilities	—	265	—	585
Estimated Landfill Closure and Postclosure Care	—	—	—	—
Capital Lease Obligations	—	—	—	—
Contracts and Notes Payable	76,808	—	—	—
Bonds Payable	—	—	—	—
TOTAL LIABILITIES	122,960	137,760	903,231	7,244
FUND EQUITY AND OTHER CREDITS				
Investment in General Fixed Assets	—	—	—	—
Contributed Capital	—	—	—	—
Retained Earnings (Deficit):				
Reserved for Claims and Contingencies	—	—	—	—
Reserved for General Long-Term Claims	—	—	—	—
Unreserved	—	—	—	—
Fund Balances:				
Reserved for Land Held for Resale	—	1,342	—	25,907
Reserved for Encumbrances	6,376	26,533	—	142,442
Reserved for Advances and Deposits	8,696	3,366	—	—
Reserved for Nonexpendable Trust	—	—	—	—
Reserved for Pension Benefits	—	—	—	—
Reserved for Debt Service	—	33,123	133,792	—
Reserved for Project Equity/Operations.....	—	9,494	—	—
Unreserved:				
Designated for Subsequent Years'				
Expenditures	1,430	57,025	—	223,611
Undesignated	12,012	49,144	—	42,651
TOTAL FUND EQUITY AND OTHER CREDITS	28,514	180,027	133,792	434,611
TOTAL LIABILITIES AND FUND EQUITY AND OTHER CREDITS	\$ 151,474	\$ 317,787	\$ 1,037,023	\$ 441,855

The accompanying notes are an integral part of the financial statements.

THE CITY OF SAN DIEGO

ANNUAL FINANCIAL REPORT

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Totals Primary Government	Component Unit	Totals Reporting Entity
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Debt	(Memorandum Only)	San Diego Convention Center Corporation	(Memorandum Only)
\$ 70,043	\$ 3,193	\$ 2,410	\$ —	\$ —	\$ 85,794	\$ 1,556	\$ 87,350
14,352	5,798	176	—	42,768	76,707	774	77,481
743	—	—	—	—	36,518	907	37,425
—	—	128,960	—	—	128,960	668	129,628
9,241	30,872	—	—	31,113	71,226	—	71,226
47	—	—	—	—	50	—	50
5,217	65	—	—	—	5,282	—	5,282
16,807	923	—	—	—	17,730	—	17,730
2,342	—	76,808	—	—	109,918	—	109,918
—	—	—	—	—	352	—	352
957	—	—	—	—	8,755	—	8,755
14,413	576	325	—	—	1,002,619	—	1,002,619
—	37,250	330	—	—	38,886	—	38,886
—	—	—	—	—	5,753	—	5,753
861	—	7,240	—	—	8,817	1,756	10,573
2	—	14,991	—	—	15,843	—	15,843
6,837	—	—	—	—	6,837	—	6,837
477	3,638	—	—	14,534	18,649	—	18,649
821,813	—	553	—	107,178	1,006,352	—	1,006,352
—	—	—	—	1,375,790	1,375,790	—	1,375,790
<u>964,152</u>	<u>82,315</u>	<u>231,793</u>	<u>—</u>	<u>1,571,383</u>	<u>4,020,838</u>	<u>5,661</u>	<u>4,026,499</u>
—	—	108	1,245,138	—	1,245,246	6,022	1,251,268
1,313,594	226	—	—	—	1,313,820	—	1,313,820
—	9,967	—	—	—	9,967	—	9,967
—	(27,109)	—	—	—	(27,109)	—	(27,109)
1,012,599	21,581	—	—	—	1,034,180	—	1,034,180
—	—	—	—	—	27,249	—	27,249
—	—	3,444	—	—	178,795	—	178,795
—	—	—	—	—	12,062	—	12,062
—	—	7,840	—	—	7,840	—	7,840
—	—	2,118,898	—	—	2,118,898	—	2,118,898
—	—	—	—	—	166,915	—	166,915
—	—	—	—	—	9,494	—	9,494
—	—	876	—	—	282,942	—	282,942
—	—	1,575	—	—	105,382	220	105,602
<u>2,326,193</u>	<u>4,665</u>	<u>2,132,741</u>	<u>1,245,138</u>	<u>—</u>	<u>6,485,681</u>	<u>6,242</u>	<u>6,491,923</u>
<u>\$ 3,290,345</u>	<u>\$ 86,980</u>	<u>\$ 2,364,534</u>	<u>\$ 1,245,138</u>	<u>\$ 1,571,383</u>	<u>\$ 10,506,519</u>	<u>\$ 11,903</u>	<u>\$ 10,518,422</u>

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES, EXPENDABLE TRUST FUNDS AND DISCRETELY PRESENTED COMPONENT UNIT
Year Ended June 30, 1997
(In Thousands)**

	<u>General</u>
REVENUES	
Property Taxes and Special Assessments	\$ 114,841
Other Local Taxes	173,492
Licenses and Permits	21,750
Fines, Forfeitures and Penalties	17,125
Revenue from Use of Money and Property	24,249
Revenue from Federal Agencies	912
Revenue from Other Agencies	47,758
Revenue from Private Sources	—
Charges for Current Services	71,884
Other Revenue	2,299
TOTAL REVENUES	474,310
EXPENDITURES	
Current:	
General Government	62,017
Community and Economic Development	13,037
Public Safety	283,683
Libraries	18,911
Parks, Recreation and Culture	40,469
Public Works	80,141
Housing and Community Development	—
Public Transportation	—
Employee Relations and Special Projects	802
Development Services	4,415
Miscellaneous and Unallocated	1,835
Cost of Issuance, Bonds and Notes	—
Capital Projects	—
Debt Service:	
Principal Retirement	—
Interest	—
TOTAL EXPENDITURES	505,310
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(31,000)
OTHER FINANCING SOURCES (USES)	
Long-Term Debt Proceeds	—
Transfers from Proprietary/Fiduciary Funds	5,072
Transfers from Other Funds	32,333
Transfers from Primary Government	—
Transfers to Escrow Agent	—
Transfers to Proprietary Funds	(2,092)
Transfers to Other Funds	(5,667)
Transfers to Component Unit	—
TOTAL OTHER FINANCING SOURCES (USES)	29,646
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(1,354)
Fund Balances at Beginning of Year as Restated	28,818
Residual Equity Transfers from (to) Other Funds	1,050
FUND BALANCES AT END OF YEAR	\$ 28,514

The accompanying notes are an integral part of the financial statements.

Governmental Fund Types			Fiduciary Fund Type	Totals Primary Government	Component Unit	Totals Reporting Entity
Special Revenue	Debt Service	Capital Projects	Expendable Trust	(Memorandum Only)	San Diego Convention Center Corporation	(Memorandum Only)
\$ 14,977	\$ 28,418	\$ 4,082	\$ —	\$ 162,318	\$ —	\$ 162,318
88,338	—	27,725	—	289,555	—	289,555
2,817	—	1,986	—	26,553	—	26,553
1,242	—	2	1	18,370	—	18,370
37,586	6,049	20,114	241	88,239	4,780	93,019
97,892	—	4,571	—	103,375	—	103,375
3,125	33,462	15,071	—	99,416	—	99,416
10,992	136	35,677	1,515	48,320	—	48,320
8,391	—	—	—	80,275	9,940	90,215
6,043	—	11,064	—	19,406	285	19,691
<u>271,403</u>	<u>68,065</u>	<u>120,292</u>	<u>1,757</u>	<u>935,827</u>	<u>15,005</u>	<u>950,832</u>
6,508	36	2,612	206	71,379	—	71,379
—	—	—	—	13,037	—	13,037
9,252	—	5	41	292,981	—	292,981
2,525	—	—	132	21,568	—	21,568
42,971	—	181	33	83,654	20,913	104,567
27,770	—	3,050	—	110,961	—	110,961
101,544	—	10	—	101,554	—	101,554
12	—	—	9	21	—	21
5,510	—	—	—	6,312	—	6,312
—	—	—	—	4,415	—	4,415
934	—	—	4	2,773	—	2,773
—	2,325	7,861	—	10,186	—	10,186
15,323	—	364,941	1,727	381,991	—	381,991
—	29,311	—	—	29,311	—	29,311
—	62,849	—	—	62,849	—	62,849
<u>212,349</u>	<u>94,521</u>	<u>378,660</u>	<u>2,152</u>	<u>1,192,992</u>	<u>20,913</u>	<u>1,213,905</u>
<u>59,054</u>	<u>(26,456)</u>	<u>(258,368)</u>	<u>(395)</u>	<u>(257,165)</u>	<u>(5,908)</u>	<u>(263,073)</u>
—	42,498	321,077	—	363,575	—	363,575
159	—	—	—	5,231	—	5,231
44,065	23,686	26,735	—	126,819	—	126,819
—	—	—	—	—	5,920	5,920
—	(11,617)	—	—	(11,617)	—	(11,617)
(591)	—	(2,078)	—	(4,761)	—	(4,761)
(78,280)	(226)	(42,646)	—	(126,819)	—	(126,819)
(5,920)	—	—	—	(5,920)	—	(5,920)
<u>(40,567)</u>	<u>54,341</u>	<u>303,088</u>	<u>—</u>	<u>346,508</u>	<u>5,920</u>	<u>352,428</u>
18,487	27,885	44,720	(395)	89,343	12	89,355
161,540	105,907	389,891	3,167	689,323	208	689,531
—	—	—	—	1,050	—	1,050
<u>\$ 180,027</u>	<u>\$ 133,792</u>	<u>\$ 434,611</u>	<u>\$ 2,772</u>	<u>\$ 779,716</u>	<u>\$ 220</u>	<u>\$ 779,936</u>

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN UNDESIGNATED FUND BALANCES
 BUDGET AND ACTUAL (BUDGETARY BASIS) - BUDGETED GOVERNMENTAL FUND TYPES
 Year Ended June 30, 1997
 (In Thousands)

	General Fund	
	Actual on Budgetary Basis	Budget
REVENUES		
Property Taxes and Special Assessments	\$ 114,841	\$ 111,881
Other Local Taxes	173,492	168,236
Licenses and Permits	21,750	16,755
Fines, Forfeitures and Penalties	17,125	17,409
Revenue from Use of Money and Property	24,249	24,856
Revenue from Federal Agencies	912	1,120
Revenue from Other Agencies	47,758	48,094
Revenue from Private Sources	—	—
Charges for Current Services	71,884	69,538
Other Revenue	2,299	3,690
Excess Revenue Appropriated	—	5,070
TOTAL REVENUES	474,310	466,649
EXPENDITURES		
Current:		
General Government	63,463	66,335
Community and Economic Development	13,167	13,237
Public Safety	285,800	286,001
Libraries	19,029	19,100
Parks, Recreation and Culture	42,345	42,706
Public Works	82,823	83,642
Housing and Community Development	—	—
Public Transportation	—	—
Employee Relations and Special Projects	802	802
Development Services	4,482	4,490
Miscellaneous and Unallocated	1,883	1,998
Capital Projects	—	—
Debt Service:		
Principal Retirement	—	—
Interest	—	—
TOTAL EXPENDITURES	513,794	518,311
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(39,484)	(51,662)
OTHER FINANCING SOURCES (USES)		
Transfers from Proprietary/Fiduciary Funds	7,672	11,149
Transfers from Other Funds	32,333	33,141
Transfers to Proprietary Funds	(2,092)	(2,092)
Transfers to Other Funds	(5,168)	(5,168)
Transfers to Component Unit	—	—
TOTAL OTHER FINANCING SOURCES (USES)	32,745	37,030
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(6,739)	(14,632)
Fund Balances Undesignated at July 1, 1996 as Restated	11,571	11,571
Residual Equity Transfers from (to) Other Funds	1,050	1,050
Reserved for Encumbrances at July 1, 1996	5,855	5,855
Reserved for Debt Service at July 1, 1996	—	—
Reserved for Debt Service at June 30, 1997	—	—
Designated for Subsequent Years' Expenditures at July 1, 1996	1,705	1,705
Designated for Subsequent Years' Expenditures at June 30, 1997	(1,430)	—
FUND BALANCES UNDESIGNATED AT JUNE 30, 1997	\$ 12,012	\$ 5,549

The accompanying notes are an integral part of the financial statements.

Budgeted Special Revenue Funds		Budgeted Debt Service Funds		Budgeted Capital Projects Funds		Total (Memorandum Only)		
Actual on Budgetary Basis	Budget	Actual on Budgetary Basis	Budget	Actual on Budgetary Basis	Budget	Actual on Budgetary Basis	Budget	Variance Favorable (Unfavorable)
\$ 9,861	\$ 9,611	\$ 2,293	\$ 2,313	\$ —	\$ —	\$ 126,995	\$ 123,805	\$ 3,190
88,338	86,892	—	—	125	125	261,955	255,253	6,702
804	1,061	—	—	—	—	22,554	17,816	4,738
1	—	—	—	—	—	17,126	17,409	(283)
13,560	12,982	154	97	518	76	38,481	38,011	470
35	—	—	—	3,705	12,937	4,652	14,057	(9,405)
231	189	—	—	2,447	21,029	50,436	69,312	(18,876)
9	—	—	—	—	—	9	—	9
453	326	—	—	—	—	72,337	69,864	2,473
301	876	—	—	8,218	5,150	10,818	9,716	1,102
—	2,934	—	—	—	—	—	8,004	(8,004)
<u>113,593</u>	<u>114,871</u>	<u>2,447</u>	<u>2,410</u>	<u>15,013</u>	<u>39,317</u>	<u>605,363</u>	<u>623,247</u>	<u>(17,884)</u>
744	846	—	—	—	—	64,207	67,181	2,974
—	—	—	—	—	—	13,167	13,237	70
404	654	—	—	—	—	286,204	286,655	451
—	—	—	—	—	—	19,029	19,100	71
43,976	44,938	—	—	—	—	86,321	87,644	1,323
31,462	33,256	—	—	—	—	114,285	116,898	2,613
4,902	5,582	—	—	—	—	4,902	5,582	680
15	15	—	—	—	—	15	15	—
—	—	—	—	—	—	802	802	—
—	—	—	—	—	—	4,482	4,490	8
—	320	—	—	—	—	1,883	2,318	435
5,437	23,467	—	—	11,928	43,773	17,365	67,240	49,875
—	—	1,580	1,580	—	—	1,580	1,580	—
—	—	1,969	1,969	—	—	1,969	1,969	—
<u>86,940</u>	<u>109,078</u>	<u>3,549</u>	<u>3,549</u>	<u>11,928</u>	<u>43,773</u>	<u>616,211</u>	<u>674,711</u>	<u>58,500</u>
<u>26,653</u>	<u>5,793</u>	<u>(1,102)</u>	<u>(1,139)</u>	<u>3,085</u>	<u>(4,456)</u>	<u>(10,848)</u>	<u>(51,464)</u>	<u>40,616</u>
22	8	—	—	—	—	7,694	11,157	(3,463)
17,582	15,456	1,075	1,069	184	184	51,174	49,850	1,324
(15)	(10)	—	—	—	—	(2,107)	(2,102)	(5)
(52,614)	(56,215)	—	—	(5,636)	(5,659)	(63,418)	(67,042)	3,624
(5,920)	(9,049)	—	—	—	—	(5,920)	(9,049)	3,129
<u>(40,945)</u>	<u>(49,810)</u>	<u>1,075</u>	<u>1,069</u>	<u>(5,452)</u>	<u>(5,475)</u>	<u>(12,577)</u>	<u>(17,186)</u>	<u>4,609</u>
(14,292)	(44,017)	(27)	(70)	(2,367)	(9,931)	(23,425)	(68,650)	45,225
24,881	24,902	—	—	1,	1,294	37,746	37,767	(21)
—	—	—	—	—	—	1,050	1,050	—
18,306	18,306	—	—	2,708	2,708	26,869	26,869	—
—	—	2,800	2,800	—	—	2,800	2,800	—
—	—	(2,773)	(2,730)	—	—	(2,773)	(2,730)	(43)
12,082	12,082	—	—	6,654	6,654	20,441	20,441	—
(13,364)	—	—	—	(4,025)	—	(18,819)	—	(18,819)
<u>\$ 27,613</u>	<u>\$ 11,273</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 4,264</u>	<u>\$ 725</u>	<u>\$ 43,889</u>	<u>\$ 17,547</u>	<u>\$ 26,342</u>

COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
 RETAINED EARNINGS/FUND BALANCES - ALL PROPRIETARY FUND TYPES AND SIMILAR TRUST FUNDS
 Year Ended June 30, 1997
 (In Thousands)

	Proprietary Fund Types	
	Enterprise	Internal Service
OPERATING REVENUES		
Earnings on Investments	\$ —	\$ —
Sale of Water	152,530	—
Charges for Services	287,624	32,539
Contributions	3,202	33,577
Revenue from Use of Property	2,366	—
Usage Fees	48,021	20,996
Other	10,254	1,537
TOTAL OPERATING REVENUES	503,997	88,649
OPERATING EXPENSES		
Benefit and Claim Payments	—	40,986
Maintenance and Operations	202,388	27,386
Cost of Materials Issued	186	14,898
Cost of Water Purchased	69,546	—
Taxes	4,947	—
Administration	90,488	15,396
Depreciation and Amortization	32,960	6,074
TOTAL OPERATING EXPENSES	400,515	104,740
OPERATING INCOME (LOSS)	103,482	(16,091)
NONOPERATING REVENUES (EXPENSES)		
Earnings on Investments	29,875	336
Federal Grant Assistance	42,678	—
Other Agency Grant Assistance	1,903	—
Bond Interest Payments	(31,413)	(131)
Cost of Issuance of Long - Term Debt	(1,208)	—
Gain (Loss) on Sale/Retirement of Fixed Assets	(1,682)	487
Other	(41,447)	3,441
TOTAL NONOPERATING REVENUES (EXPENSES)	(1,294)	4,133
INCOME BEFORE OPERATING TRANSFERS (LOSS)	102,188	(11,958)
Operating Transfers In	294	3,895
Transfers from Governmental Funds	—	4,761
Operating Transfers Out	(3,249)	(940)
Transfers to Governmental Funds	(7)	(4,778)
NET INCOME (LOSS)	99,226	(9,020)
Retained Earnings (Deficit)/Fund Balances at Beginning of Year as Restated	913,373	13,459
RETAINED EARNINGS (DEFICIT)/FUND BALANCES AT END OF YEAR	\$ 1,012,599	\$ 4,439

The accompanying notes are an integral part of the financial statements.

Fiduciary Fund Types		Total
Pension Trust	Nonexpendable Trust	(Memorandum Only)
\$ 261,798	\$ 828	\$ 262,626
—	—	152,530
188	40	320,391
98,722	—	135,501
—	—	2,366
—	—	69,017
—	—	11,791
<u>360,708</u>	<u>868</u>	<u>954,222</u>
84,815	—	125,801
—	—	229,774
—	—	15,084
—	—	69,546
—	—	4,947
4,733	13	110,630
44	—	39,078
<u>89,592</u>	<u>13</u>	<u>594,860</u>
<u>271,116</u>	<u>855</u>	<u>359,362</u>
—	—	30,211
—	—	42,678
—	—	1,903
—	—	(31,544)
—	—	(1,208)
137	—	(1,058)
—	—	(38,006)
<u>137</u>	<u>—</u>	<u>2,976</u>
<u>271,253</u>	<u>855</u>	<u>362,338</u>
—	—	4,189
—	—	4,761
—	—	(4,189)
—	(446)	(5,231)
<u>271,253</u>	<u>409</u>	<u>361,868</u>
<u>1,850,876</u>	<u>7,431</u>	<u>2,785,139</u>
<u>\$ 2,122,129</u>	<u>\$ 7,840</u>	<u>\$ 3,147,007</u>

**COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUND
Year Ended June 30, 1997
(In Thousands)**

	Proprietary Fund Types	
	Enterprise	Internal Service
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating Income (Loss)	\$ 103,482	\$ (16,091)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:		
Earnings on Investments Included		
in Operating Income	—	—
Depreciation and Amortization	32,960	6,074
Changes in Assets and Liabilities:		
(Increase) Decrease in Receivables:		
Accounts and Special Assessments - Net	(12,351)	7
Claims - Net	—	4
From Other Funds	(843)	—
(Increase) Decrease in Inventories	(1,641)	(109)
(Increase) Decrease in Prepaid and Reimbursable Items and Deposits	499	(65)
Increase (Decrease) in Accounts Payable	(2,022)	110
Increase (Decrease) in Advances	—	—
Increase (Decrease) in Accrued Wages and Benefits	226	1,364
Increase (Decrease) in Other Accrued Liabilities	(958)	—
Increase (Decrease) in Liability Claims	4,533	3,942
Increase (Decrease) in Due to Other Funds	2,342	(268)
Increase (Decrease) in Due to Other Agencies	785	—
Increase (Decrease) in Deferred Revenue	(36,526)	52
Increase (Decrease) in Sundry Trust Liabilities	1	—
Increase (Decrease) in Estimated Landfill Closure and Postclosure Care	540	—
Other Nonoperating Revenue (Expenses)	(41,447)	3,441
NET CASH PROVIDED BY (USED FOR)		
OPERATING ACTIVITIES	49,580	(1,539)
 CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating Transfers In	294	3,895
Transfers from Governmental Funds	—	4,761
Operating Transfers Out	(3,249)	(940)
Transfers to Governmental Funds	(7)	(4,778)
Federal Grants Received	48	—
Operating Grants Received	49,259	—
Proceeds from Advances and Deposits	85	3,049
Payments for Advances and Deposits	(2,870)	(32)
NET CASH PROVIDED BY (USED FOR)		
NONCAPITAL FINANCING ACTIVITIES	43,560	5,955

The accompanying notes are an integral part of the financial statements.

Fiduciary Fund Type	Totals
Nonexpendable Trust	(Memorandum Only)
\$ 855	\$ 88,246
(828)	(828)
—	39,034
(3)	(12,347)
—	4
—	(843)
—	(1,750)
—	434
3	(1,909)
—	—
—	1,590
—	(958)
—	8,475
—	2,074
—	785
3	(36,471)
—	1
—	540
—	(38,006)
<u>30</u>	<u>48,071</u>
—	4,189
—	4,761
—	(4,189)
(446)	(5,231)
—	48
—	49,259
—	3,134
—	(2,902)
<u>(446)</u>	<u>49,069</u>

Continued on next page

COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUND
 Year Ended June 30, 1997
 (In Thousands)

	Proprietary Fund Types	
	Enterprise	Internal Service
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from Issuance of Long-Term Debt	\$ 245,099	\$ 3,100
Proceeds from Contributed Capital	37,548	—
Return of Contributed Capital	(1,180)	—
Acquisition of Fixed Assets	(382,998)	(10,421)
Proceeds from the Sale of Fixed Assets	1,790	1,259
Principal Payment on Capital Lease	(119)	(378)
Principal Paid on Long-Term Debt	(6,617)	—
Interest Paid on Long-Term Debt	(29,861)	(90)
NET CASH PROVIDED BY (USED FOR)		
CAPITAL AND RELATED FINANCING ACTIVITIES	(136,338)	(6,530)
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase(Decrease) in Obligations Under		
Reverse Repurchase Agreements	(10,066)	(696)
(Purchase)Sale of Investments	483	—
Interest and Dividends Received on Investments	29,466	314
NET CASH PROVIDED BY (USED FOR)		
INVESTING ACTIVITIES	19,883	(382)
Net Increase (Decrease) in Cash and Cash Equivalents	(23,315)	(2,496)
Cash and Cash Equivalents at Beginning of Year	500,623	50,125
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 477,308	\$ 47,629

The accompanying notes are an integral part of the financial statements.

Fiduciary Fund Type	Totals
Nonexpendable Trust	(Memorandum Only)
\$ —	\$ 248,199
—	37,548
—	(1,180)
—	(393,419)
—	3,049
—	(497)
—	(6,617)
—	(29,951)
—	(142,868)
(93)	(10,855)
(628)	(145)
828	30,608
107	19,608
(309)	(26,120)
1,555	552,303
<u>\$ 1,246</u>	<u>\$ 526,183</u>

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NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 1997

1. SUMMARY OF SIGNIFICANT POLICIES

The City of San Diego (the "City") adopted its charter on April 7, 1931 and operates as a municipality in accordance with State laws. The City is governed by an elected nine member City Council, including the Mayor. Residents of the City are provided with a wide range of services including parks, recreation, police, fire, water and sewer services.

The accounting policies of the City conform to generally accepted accounting principles ("GAAP") as applicable to governmental units. The following is a summary of the more significant of such policies:

a. Scope of Financial Reporting Entity

As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable.

Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. Component units should be included in the reporting entity financial statements using the blending method if either of the following criteria are met:

- i. The component unit's governing body is substantively the same as the governing body of the primary government (the City).
- ii. The component unit provides services entirely, or almost entirely, to the primary government or otherwise exclusively, or almost exclusively, benefits the primary government even though it does not provide services directly to it.

Included within the reporting entity as blended component units:

- City of San Diego Metropolitan Transit Development Board Authority (a joint-powers agency)
- Public Facilities Financing Authority
- San Diego Data Processing Corporation
- San Diego Facilities and Equipment Leasing Corporation
- San Diego Housing Authority
- San Diego Industrial Development Authority
- San Diego Open Space Park Facilities District #1
- San Diego Planetarium Authority (a joint-powers agency)
- San Diego Stadium Authority (a joint-powers agency)
- Redevelopment Agency of the City of San Diego
- Centre City Development Corporation
- Mid-City Development Corporation
- Southeastern Economic Development Corporation

1. SUMMARY OF SIGNIFICANT POLICIES (Continued)

A brief description of each blended component unit follows:

- City of San Diego Metropolitan Transit Development Board Authority was established in 1988 by a joint exercise of powers agreement between the City and the San Diego Metropolitan Development Board. The City of San Diego Metropolitan Transit Development Board Authority was created to acquire, construct, maintain, repair, manage, operate and control facilities, to provide public capital improvements including public mass transit guideways, public transit systems and related transportation facilities primarily benefiting the City. The City appoints two Councilmembers to the Governing Board and the San Diego Metropolitan Development Board appoints one. The Authority provides services almost entirely to the City.
- The Public Facilities Financing Authority was established in 1988 by a joint exercise of powers agreement between the City and the Redevelopment Agency of the City of San Diego to acquire, construct, maintain, repair, manage, operate and control facilities for public capital improvements. The Authority provides services exclusively to the City.
- San Diego Data Processing Corporation was formed in 1979 as a not-for-profit public benefit corporation for the purpose of providing data processing services to public agencies, primarily the City, which is the sole member. The San Diego Data Processing Corporation's budget and Governing Board are approved by the City Council and it provides services almost exclusively to the City.
- The San Diego Facilities and Equipment Leasing Corporation is a not-for-profit public benefit corporation established in 1987 by the City for the purpose of acquiring and leasing to the City real and personal property to be used in the municipal operations of the City. The City Council is the Governing Board and the benefit is exclusively to the City.
- The San Diego Housing Authority is a public entity primarily serving low income families by providing rental assistance payments, rental housing loans and other housing services. The City Council is the Governing Board of the Housing Authority. The Housing Authority has established a not-for-profit corporation (the San Diego Housing Commission) to administer the operation of the Housing Authority's functions. The San Diego Housing Commission stand-alone financial statements are prepared on a HUD prescribed "Other Comprehensive Basis of Accounting" and are converted to a GAAP basis for inclusion in the City's Comprehensive Annual Financial Report.
- The San Diego Industrial Development Authority was established in 1983 by the City for the purpose of providing an alternate method of financing to participating parties for economic development purposes. The City Council is the Governing Board and benefit is exclusively to the City.
- The San Diego Open Space Park Facilities District #1 was established in 1978 by the City for the purpose of acquiring open space properties to implement the Open Space Element of the City's General Plan. The boundaries are contiguous with the City's. The City Council is the Governing Board and the benefit is exclusively to the City.
- The San Diego Planetarium Authority was established in 1971 by a joint exercise of powers agreement between the City and the County of San Diego. The San Diego Planetarium Authority was created to construct a planetarium through the issue of revenue bonds. Ownership of all

1. SUMMARY OF SIGNIFICANT POLICIES (Continued)

assets will revert to the City when the bonds are paid in full. Operation, management and funding of the planetarium is provided by the City. The Governing Board is appointed by the City Council. The San Diego Planetarium Authority almost exclusively benefits the City.

During the fiscal year ended June 30, 1997, the Planetarium Authority retired the remaining unmatured portion of the revenue bonds issued in 1971. Because the debt obligation is satisfied, the lease contract is complete and ownership of the Planetarium facilities has reverted to the City. As a result, the Planetarium Authority was dissolved this year on August 31, 1996 by City Council action per Ordinance O-18324 adopted July 29, 1996, effectively ceasing operations.

- The San Diego Stadium Authority was established by a joint exercise of powers agreement between the City and the County of San Diego to construct Qualcomm Stadium through the issuance of revenue bonds. Ownership of all assets will revert to the City when the bonds are paid in full. Operation, management and funding of the stadium is provided by the City. The Governing Board is appointed by the City Council. The San Diego Stadium Authority almost exclusively benefits the City.
- The Redevelopment Agency of the City of San Diego was established by the City in 1958 in order to provide a method for revitalizing deteriorating and blighted areas of the City and began functioning in 1969 under the authority granted by the community redevelopment law. The City Council is the Governing Board and the Redevelopment Agency of the City of San Diego provides services exclusively to the City.
- Centre City Development Corporation, Inc. is a not-for-profit public benefit corporation organized in 1975 by the City to administer certain redevelopment projects in downtown San Diego and to provide redevelopment advisory services to the Redevelopment Agency of the City of San Diego. Centre City Development Corporation's budget and Governing Board are approved by the City Council and services are provided exclusively to the City.
- Mid-City Development Corporation ("MCDC") is a not-for-profit public benefit corporation organized in 1992 by the City to administer certain redevelopment projects in the mid-city area of San Diego and to provide redevelopment advisory services to the Redevelopment Agency of the City of San Diego. The MCDC's budget and Governing Board are approved by the City Council and services are provided exclusively to the City.

MCDC signs a yearly agreement with the City for ongoing support from receipt of Redevelopment Agency of the City of San Diego funds. As of May 31, 1996, the City has terminated the agreement to provide funding. MCDC's final close-out operating activity is reflected in the accompanying financial statements. The Corporation, however, will continue to exist and the Board will continue to meet annually.

- Southeastern Economic Development Corporation, Inc. is a not-for-profit public benefit corporation organized in 1980 by the City to administer certain redevelopment projects in southeast San Diego and to provide redevelopment advisory services to the Redevelopment Agency of the City of San Diego. Southeastern Economic Development Corporation's budget and Governing Board are approved by the City Council and services are provided exclusively to the City.

1. SUMMARY OF SIGNIFICANT POLICIES (Continued)

Discretely presented component units, also legally separate entities, have financial data reported in a separate column from the financial data of the primary government to demonstrate it is financially and legally separate from the primary government. Component units should be discretely presented in the reporting entity financial statements when neither of the above two criteria are met.

Included within the reporting entity as discretely presented component units:

- San Diego Convention Center Corporation ("SDCCC")

SDCCC is a non-profit public benefit corporation originally organized to market, operate and maintain the San Diego Convention Center. On July 1, 1993, SDCCC assumed similar responsibility for the San Diego Concourse as well. It is managed by a nine member board, none of whom are members of the City Council. The City is liable for any operating deficits and would be secondarily liable for any debt issuances of SDCCC (currently, there is no debt outstanding). SDCCC is discretely presented because it provides services direct to the citizenry.

Complete financial statements for each of the individual component units may be obtained from the City Auditor and Comptroller's office.

Each blended and discretely presented component unit has a June 30 year end.

b. Basis of Presentation

The accounts of the City are organized on the basis of funds or account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance/retained earnings, revenues and expenditures/expenses. The various funds are summarized by type in the financial statements. The following fund types and account groups are used by the City:

GOVERNMENTAL FUND TYPES

Governmental Fund Types are those through which most governmental functions of the City are financed. The acquisition, use, and balances of the City's expendable financial resources and the related liabilities (except those accounted for in Proprietary Fund Types) are accounted for through Governmental Fund Types. The measurement focus is upon determination of financial position and changes in financial position, rather than upon net income determination. The following are the City's Governmental Fund Types:

General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources, except those required to be accounted for in another fund.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than those for expendable trusts or for major capital projects) that are legally restricted to expenditures for specific purposes.

Debt Service Funds - Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Capital Projects Funds - Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Fund Types and certain trust funds).

1. SUMMARY OF SIGNIFICANT POLICIES (Continued)PROPRIETARY FUND TYPES

Proprietary Fund Types are used to account for the City's ongoing organizations and activities which are similar to those often found in the private sector and are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The City adopts all applicable FASB Statements and Interpretations issued on or before November 30, 1989, in accounting and reporting for its proprietary operations unless those pronouncements conflict with or contradict GASB pronouncements. The measurement focus is upon determination of net income, financial position and changes in cash flows. The following are the City's Proprietary Fund Types:

Enterprise Funds - Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Internal Service Funds - Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governmental units, on a cost-reimbursement basis.

FIDUCIARY FUND TYPES

Fiduciary Fund Types are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds:

Trust and Agency Funds - Trust and Agency Funds include Expendable, Nonexpendable, Pension Trust and Agency Funds. Nonexpendable and Pension Trust Funds are accounted for and reported in the same manner as Proprietary Fund Types since capital maintenance is critical. Expendable Trust and Agency Funds are accounted for and reported similar to Governmental Fund Types.

ACCOUNT GROUPS

Account Groups are used to establish accounting control and accountability for the City's general fixed assets and general long-term debt. The following are the City's account groups:

General Fixed Assets Account Group - This account group is established to account for all fixed assets of the City, other than those accounted for in the Proprietary Fund Types.

General Long-Term Debt Account Group - This account group is established to account for all long-term debt of the City, except for that accounted for in the Proprietary Fund Types.

1. SUMMARY OF SIGNIFICANT POLICIES (Continued)**c. Basis of Accounting**

Governmental Fund Types, Expendable Trust and Agency Funds:

The modified accrual basis of accounting is followed in the Governmental Fund Types, Expendable Trust and Agency Funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

Revenues which are considered susceptible to accrual include real and personal property taxes, other local taxes, refuse collection franchise fees, fines, forfeitures and penalties, motor vehicle license fees, interest and state and federal grants and subventures. In applying the susceptible to accrual concept to state and federal revenues, the legal and contractual requirements of the numerous individual programs are used as guidance.

Licenses and permits, charges for services, and miscellaneous revenues are recorded as revenues when received in cash because they are generally not measurable until actually received.

Expenditures are recognized when the related fund liability is incurred except for (1) principal and interest of general long-term debt which are recognized when due; and (2) employee annual leave and claims and judgments from litigation and self-insurance which are recorded in the period due and payable since such amounts will not currently be liquidated with expendable available financial resources. The total future liability is reflected in the General Long-term Debt Account Group.

SDCCC, a discretely presented component unit, is accounted for under the modified accrual basis of accounting.

Proprietary Fund Types, Pension Trust and Nonexpendable Trust Funds:

The accrual basis of accounting is used in all Proprietary Fund Types, Pension Trust and Nonexpendable Trust Funds. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when incurred. Estimated unbilled revenues from the Water and Sewer Utility (Enterprise) Funds are recognized at the end of each fiscal year. This estimated amount is based on billings during the month following the close of the fiscal year.

The City reports deferred revenue on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the City before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods when both revenue recognition criteria are met, or when the City has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

d. Property Taxes

The County of San Diego (the "County") bills and collects property taxes on behalf of numerous special districts and incorporated cities, including the City. The City's collection of current year's taxes are received through periodic apportionments from the County.

1. SUMMARY OF SIGNIFICANT POLICIES (Continued)

The County's tax calendar is from July 1 to June 30. Property taxes attach as a lien on property on March 1. Taxes are levied on July 1 and are payable in two equal installments on November 1 and February 1, and become delinquent after December 10 and April 10, respectively.

Since the passage of California's Proposition 13, beginning with Fiscal Year 1978-79 general property taxes are based either on a flat 1% rate applied to the 1975-76 full value of the property or on 1% of the sales price of any property sold or of the cost of any new construction after the 1975-76 valuation. Taxable values on properties (exclusive of increases related to sales and new construction) can rise at a maximum of 2% per year.

This Proposition 13 limitation on general property taxes does not apply to taxes levied to pay the debt service on any indebtedness approved by the voters prior to June 6, 1978 (the date of passage of Proposition 13).

Property tax revenue is recognized in the fiscal year for which the taxes have been levied, provided the taxes are received within 60 days of the end of the fiscal year. Property taxes received after this date are not considered available as a resource that can be used to finance the current year operations of the City and, therefore, are not recorded as revenue until collected.

The City provides an allowance for uncollected property taxes of 3% of the outstanding balance which is reflective of historical collections.

e. Budgetary Data**General Budget Policies**

On or before the first meeting in May of each year the City Manager submits to the City Council a proposed operating and capital improvements budget for the fiscal year commencing July 1. Such budget includes annual budgets for the following funds:

General Fund**Special Revenue Funds:**

- City of San Diego Reporting Entity:
 - Acquisition, Improvement and Operation
- Environmental Growth Funds:
 - Two-Thirds Requirement
 - One-Third Requirement
- Police Decentralization
- Public Transportation
- Qualcomm Stadium Acquisition
- Qualcomm Stadium Operations
- Special Gas Tax Street Improvement
- Transient Occupancy Tax
- Zoological Exhibits

- Centre City Development Corporation
- Southeastern Economic Development Corporation

1. SUMMARY OF SIGNIFICANT POLICIES (Continued)

Debt Service Funds:

- City of San Diego Reporting Entity:
 - Pre-Arrestment Detention Facility
 - Public Safety Communications Project

Capital Projects Funds:

- City of San Diego Reporting Entity:
 - Capital Outlay

Public hearings are then conducted to obtain citizen comments on the proposed budget. During the month of July the budget is legally adopted through passage of an appropriation ordinance by the City Council.

The City budget is prepared on the modified accrual basis of accounting except that (1) encumbrances outstanding at year-end are considered as expenditures and (2) the increase/decrease in reserve for advances and deposits to other funds and agencies are considered as additions/deductions of expenditures. Budgets for entities over which the City exercises oversight responsibility (component units) are prepared on the modified accrual basis of accounting plus the recognition of encumbrances outstanding at year-end as expenditures.

The City budget is prepared net of obligations under reverse repurchase agreement interest expense. For budgetary purposes, obligations under reverse repurchase agreement interest expense is considered a reduction of interest earnings.

Budgetary control for the City's General Fund is exercised at the payroll and other expenditures level. Budgetary control for the other budgeted funds, including those of certain component units, is maintained at the total fund appropriation level. All amendments to the adopted budget require City Council approval. However, the City Auditor and Comptroller, as directed by the Financial Management Department, is authorized during the year to transfer amounts not exceeding \$100,000 between departments within the General Fund.

Reported budget figures are as originally adopted or subsequently amended by the City Council plus prior year continuing appropriations. Such budget amendments during the year, including those related to supplemental appropriations, did not cause these reported budget amounts to be significantly different than the originally adopted budget amounts. Appropriations lapse at year-end to the extent that they have not been expended or encumbered.

The following is a reconciliation of the excess (deficiency) of revenues over expenditures prepared on the GAAP basis to that prepared on the budgetary basis (in thousands):

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Debt Service Funds</u>	<u>Capital Projects Funds</u>
Excess (Deficiency) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses - GAAP Basis	(\$1,354)	\$18,487	\$27,885	\$44,720
Add (Deduct) - (Excess) Deficiency of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses - GAAP Basis for Non-Budgeted Funds	0	(14,192)	(27,912)	(45,552)

1. SUMMARY OF SIGNIFICANT POLICIES (Continued)

The following is a reconciliation of the excess (deficiency) of revenues over expenditures prepared on the GAAP basis to that prepared on the budgetary basis (in thousands):

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Debt Service Funds</u>	<u>Capital Projects Funds</u>
Budgeted Funds:				
Deduct:				
Encumbrances Outstanding, June 30, 1997	\$(6,376)	\$(18,035)	\$0	\$(1,535)
Reserved for Advances and Deposits, June 30, 1997	(8,696)	(3,307)	0	0
Add - Reserved for Advances and Deposits, June 30, 1996	<u>9,687</u>	<u>2,755</u>	<u>0</u>	<u>0</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses - Budgetary Basis	<u>\$(6,739)</u>	<u>\$(14,292)</u>	<u>\$(27)</u>	<u>\$(2,367)</u>

f. Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary control in the budgeted Governmental Fund Types.

Encumbrances outstanding at year-end are reported as reservations of fund balances since the commitments will be honored through subsequent years' continuing appropriations. Encumbrances do not constitute expenditures or liabilities for GAAP reporting purposes.

g. Investments

Investments are stated at cost or amortized cost which approximates market. Gains or losses on investments are recognized upon sale of the investments. Investments in the City Employees Retirement System Pension Trust Fund are recorded at fair value. Investments are written down when required as a result of permanent impairments.

h. Inventories

Inventories, which consist of both water in storage and operating supplies, are valued at the lower of cost or market. Such inventories are expensed when consumed.

i. Restricted Assets

Proceeds from debt issuances, funds set aside for payment of Enterprise Fund revenue bonds and San Diego Housing Authority deposits servicing low interest construction and rehabilitation loans made by various banks are classified as restricted assets since their use is limited by applicable bond indentures.

The City is required by state and federal laws and regulations to make annual contributions to finance the closure and postclosure care of its Miramar landfill. Such contributions are presented in the Enterprise Fund financial statements as restricted cash or equity in pooled cash and investments.

1. SUMMARY OF SIGNIFICANT POLICIES (Continued)

j. Land Held for Resale

All property purchases by the Redevelopment Agency are charged to Capital Outlay Expenditures. Land held for resale is capitalized in the Special Revenue and Capital Projects Funds on the lower of acquisition cost or estimated resale value. Fund balances and reserved amounts are equal to the carrying value of land held for resale because such assets are not available to finance the Agency's current operations.

k. Fixed Assets

General Fixed Assets:

General fixed assets are those acquired for general governmental purposes. Assets purchased are recorded as expenditures in the Governmental Fund Types and capitalized at cost in the General Fixed Assets Account Group. Donated fixed assets are recorded in general fixed assets at estimated fair market value at the date of donation. Certain assets for which actual costs are not practically determined have been valued on the basis of a professional valuation which determined their estimated historical cost.

Fixed assets comprising the infrastructure of the City, including roads, bridges, pools, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems, have not been capitalized. Such infrastructure assets normally are immovable and of value only to the City. Therefore, the purpose of stewardship and cumulative accountability for capital expenditures is satisfied without recording these assets.

No depreciation has been provided on general fixed assets.

Proprietary Fund Type Fixed Assets:

Fixed assets owned by the Proprietary Fund Types are stated at cost if purchased or constructed, or at estimated fair market value if received as a donation. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Structures and improvements	30-40 years
Plants, dams, canals, laterals and equipment	5-150 years

l. Interagency Current Receivables, Payables and Long-Term Debt

For reporting purposes, the City considers interagency long-term loans to be operating transfers. Accordingly, "loans receivable" are classified as "transfers out" while "loans payable" are classified as "transfers in". Interest on loans are recorded only when due. Loan amounts, including interest, are noted in the footnotes to this report. When loans are repaid, such transactions are also recorded as "transfers out" (typically from the Debt Service Fund) and "transfers in," and the loan balance is reduced in the footnotes. Interagency current receivables and payables are classified as accounts "receivable from" and "due to" other funds (See Note 6).

m. Long-term Liabilities

Long-term liabilities expected to be financed in future years from Governmental Fund Types are accounted for in the General Long-Term Debt Account Group. Long-term liabilities of all Proprietary Fund Types are accounted for in their respective funds.

1. SUMMARY OF SIGNIFICANT POLICIES (Continued)**n. Employee Annual Leave**

The City provides combined annual leave to cover both vacation and sick leave. It is the City's policy to permit employees to accumulate between 6.25 weeks and 17.5 weeks, depending on hire date, of earned but unused annual leave. Accumulation of these earnings will be paid to employees upon separation from service.

In addition, sick leave earned through August 1981 by employees hired prior to July 1, 1975 is payable upon separation under the following conditions: (1) 50% of the employee's accrued amount upon retirement or death, or (2) 25% of the employee's accrued amount upon resignation.

In Governmental Fund Types and Expendable Trust Funds, the costs for annual leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts not expected to be liquidated with expendable available financial resources are reported in the General Long-Term Debt Account Group. No expenditure is reported for these amounts. In Proprietary Fund Types, annual leave benefits are recorded as a liability in the period earned.

o. Claims and Judgments

In Governmental Fund Types, the costs of claims and judgments are recorded as expenditures when payments are made. The liability for anticipated future claims is recorded in the General Long-Term Debt Account Group in recognition of the City's obligation to fund such costs from future operations. In Proprietary Fund Types, the costs of claims and judgments are recorded when the liability is incurred and measurable.

p. Fund Equity

Portions of fund equity have been reserved for specific purposes. Reservations were created to either (1) satisfy legal covenants that require a portion of the fund balance to be segregated or (2) identify the portion of the fund balance that is not appropriate for future expenditures.

Designated fund balance indicates that portion of fund equity for which the City has made tentative plans.

Undesignated fund balance indicates that portion of fund equity which is available for appropriation in future periods.

q. Statement of Cash Flows

All of the related City's restricted and unrestricted "Cash or Equity in Pooled Cash and Investments" and "Cash with Custodian/Fiscal Agent" are classified as cash and cash equivalents, since they are readily convertible to known amounts of cash or so near to their maturity that they present insignificant risk of changes in value because of changes in interest rates.

r. Memorandum Only - Total Columns on Combined Statements

Amounts in the "Total - Memorandum Only" columns in the combined financial statements are presented to aggregate financial data. The total includes fund types and account groups that use different bases of accounting and the captions "Amount Available for Payment of General Long-Term Debt" and "Amount to be Provided for Retirement of Long-Term Debt" which are not assets in the usual

1. SUMMARY OF SIGNIFICANT POLICIES (Continued)

sense. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles, nor is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

s. Comparative Data

Comparative total data for the prior year have been presented in the accompanying combining financial statements in order to provide an understanding of changes in the City's financial position and operations. However, comparative data have not been presented in the combined statements because their inclusion would make certain statements unduly complex and difficult to understand.

t. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of certain assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the related reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Management believes that the estimates are reasonable.

u. Reclassification

Certain prior year amounts have been reclassified to conform with current year presentation.

2. CASH AND INVESTMENTS

As provided for by the Government Code, the cash balance of substantially all funds are pooled and invested by the City Treasurer for the purpose of increasing interest earnings through investment activities. The respective funds' shares of the total pooled cash and investments are included in the accompanying combined balance sheet under the caption "Cash or Equity in Pooled Cash and Investments." Interest earned on pooled investments is deposited to certain of the participating funds based upon each fund's average daily deposit balance during the allocation period with all remaining interest deposited to the General Fund.

"Cash With Custodian/Fiscal Agent" represents funds held by bank trustees on behalf of the City and its component units. For several component units, the purpose of these accounts is to invest cash related to certain outstanding long-term debts and to distribute principal and interest payments to debtholders. For other component units and the City, the purpose of these accounts is solely to distribute principal and interest payments to debtholders.

"Investments at Cost" represent investments of various pension trust funds (except the San Diego City Employees Retirement System which is presented at fair value, deferred compensation fund, employee 401(k) fund, and various special revenue, debt service, capital projects and miscellaneous trust fund investments.

"Investments at Fair Value" represent investments of the San Diego City Employees Retirement System (SDCERS). Current year reporting of investments at fair value is in accordance with GASB's 25 and 27, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans" and "Accounting for Pensions by State and Local Governmental Employers," respectively.

2. CASH AND INVESTMENTS (Continued)

SDCERS has agreed with a fiscal agent to lend U.S. government obligations and domestic and international interest bearing securities to various borrowers for collateral that will be returned in the future for the same securities plus a fee. The fiscal agent manages the securities lending program and receives cash and securities as collateral. Collateral securities are pledged at no less than 102% of the market value of the collateral marked to market on a daily basis. As with other extensions of credit, SDCERS may encounter various risks related to securities lending agreements. However, the fiscal agent is required to maintain its securities lending program in compliance with applicable laws of the United States and all rules, regulations and exemptions from time to time promulgated and issued under the authority of those laws.

Aggregate cash and investments are as follows at June 30, 1997 (in thousands):

	<u>Total</u>
Cash or equity in pooled cash and investments	\$1,154,248
Cash with custodian/fiscal agent, including restricted cash with custodian	14,266
Investments at cost	555,285
Investments at fair value	1,840,790
Restricted pooled cash and investments	<u>16,889</u>
Total	<u>\$3,581,478</u>

Deposits

At June 30, 1997, the carrying amount of the City's cash or equity in pooled cash deposits (cash, non-negotiable certificates of deposit and money market funds) was approximately \$48,084,000 and the net balance per various financial institutions was approximately \$71,771,000 the difference of which is substantially due to deposits in transit and outstanding checks. Of the balance in financial institutions, approximately \$683,000 was covered by federal depository insurance and approximately \$71,088,000 was uninsured. Such uninsured deposits are with financial institutions which are individually legally required to have government deposits collateralized with government securities held by the pledging financial institution's trust departments in the government's name. The market value of such pledged securities must equal at least 110% of the government's deposits.

At June 30, 1997, "Cash with Custodian/Fiscal Agent" (approximately \$14,266,000) was held by the trust departments of various banks and was not covered by federal depository insurance or collateralized by securities owned by the bank.

Deposits - SDCCC

On June 30, 1997, the carrying amount of SDCCC's cash deposits was approximately \$2,042,000 and the bank balance was approximately \$2,936,000. Of the bank balance, \$100,000 was covered by federal depository insurance. The remainder was covered by collateral held by financial institutions which are individually required by state law to have governmental deposits collateralized at a rate of 110% of the deposit. The collateral is considered to be held in the name of SDCCC.

At the end of each business day, all balances over a target balance are automatically transferred and invested in a taxable money market mutual fund which invests in a portfolio of high-quality, short-term securities consistent with SDCCC's investment policy. These invested funds are not insured or guaranteed by the FDIC or the U.S. Government, are not obligations of the bank, and are not guaranteed by the bank.

2. CASH AND INVESTMENTS (Continued)

Investments

In accordance with the charter of the City of San Diego and under authority granted by the City Council, the City Treasurer is responsible for investing the unexpended cash in the City treasury. This investment policy applies to all of the investment activities of the City, except for the Pension Trust Funds (for which policies are noted below), the proceeds of certain debt issues which are managed and invested by trustees appointed under indenture agreements and the assets of trust funds which are placed in the custody of the Funds Commission by Council ordinance. All financial assets of all other funds are administered in accordance with the provisions noted here.

The City may transact business only with banks, savings and loans, and investment securities dealers who are primary dealers regularly reporting to the New York Federal Reserve Bank. Exceptions to this rule can be made only upon written authorization of the City Treasurer. Authorized cash deposits and investments are governed by state law, as well as by the City's own written investment policy. Within the context of these limitations, permissible investments include (1) obligations of the U.S. government and federal agencies, (2) commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record, (3) bankers' acceptances, (4) negotiable and/or non-negotiable certificates of deposit and non-negotiable time deposits issued by a nationally or state chartered bank or a state or federal savings and loan association, (5) repurchase and reverse repurchase agreements, (6) the local agency investment fund established by the state treasurer, (7) financial futures contracts in any of the other authorized investments which are used to offset an existing financial position and not for outright speculation, (8) mortgage securities purchased under an agreement to resell, (9) medium-term corporate notes of a maximum of five years maturity issued by corporations operating within the United States and (10) shares of beneficial interest issued by diversified management companies, as defined in Section 23701m of the Revenue and Taxation Code.

All non-negotiable time certificates of deposit are to be fully collateralized with mortgages or eligible securities in accordance with state law.

The California Government Code authorizes local government agencies to invest with the California State Treasurer investment pool. The City's investment in the State Treasurer's pool at June 30, 1997 is approximately \$21,728,000. A certain portion of the State Treasurer's pool is invested in derivatives. Information necessary to determine the City's exposure in such financial products are not available at year end.

The City, through its Investment Policy, has identified the safety of principal as the foremost objective of the City. Each investment transaction shall seek to ensure that capital losses are avoided, whether from securities default, broker-dealer default, or erosion of market value. The City shall seek to preserve principal by mitigating the two types of risk, credit risk and market risk.

Credit Risk shall be mitigated by investing in only very safe securities and by diversifying the investment portfolio so that failure of any one issuer would not unduly harm the City's cash flow.

Market Risk shall be mitigated by limiting the average maturity of the City's portfolio to three years and the maximum maturity of any one security in the portfolio to five years, and by structuring the portfolio with an adequate mix of highly liquid securities and maturities to meet major cash outflow requirements. Trading is prohibited when cash or securities are not available to pay for the securities being purchased. The taking of short positions, that is, selling securities which the City does not own, is also prohibited. It is explicitly recognized herein, however, that in a diversified portfolio, occasional measured losses are inevitable, and must be considered within the context of the overall investment return.

2. CASH AND INVESTMENTS (Continued)

The following investments below are additionally restricted as to percentage of the cost value of the portfolio in any one issuer name up to a maximum of 5%. The total cost value invested in any one issuer name will not exceed 5% of an issuer's net worth. An additional 5%, or a total of 10%, of the cost value of the portfolio in any one issuer name can be authorized upon written approval of the City Treasurer.

- Bankers Acceptances
- Commercial Paper
- Negotiable Certificates of Deposit
- Repurchase Agreements
- Reverse Repurchase Agreements
- Local Agency Investment Fund

Ineligible Investments not described in the City's Investment Policy, including, but not limited to, common stocks and long-term corporate notes/bonds are prohibited from use in the portfolio. A copy of the City's Investment Policy may be obtained from the City Treasurer's office.

Investments for the Pension Trust Fund are authorized to be made by the Board of Administration of the City Employees' Retirement System in accordance with the charter of the City. The Board is authorized to invest in any bonds or securities which are allowed by general law for savings banks. The Board has further restricted the authorized investments to those believed by independent investment counsel to be appropriate for investment by trust funds operating under the "prudent man" rule as set forth in state law.

These investments include, but are not limited to, bonds, notes or other obligations, real estate investments, common stocks, preferred stocks and pooled vehicles. Investments can also be made in financial futures contracts in any of the other authorized investments which are used to offset an existing financial position and not for outright speculation.

Investment policies permit the Pension Trust Fund to invest in financial futures contracts. Financial futures contracts, which are recorded at market value, are not hedges of existing assets, and changes in the market value of the contract result in recognition of a gain or loss.

A copy of the Pension Trust Fund's investment policy may be obtained from the Retirement office.

Reverse Repurchase Agreements

Investment policies permit the City to enter into reverse repurchase agreements which is a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The market value of the securities underlying reverse repurchase agreements normally exceeds the cash received providing the dealers a margin against a decline in the market value of the securities. If the dealers default on their obligations to resell these securities to the City or provide securities of cash or equal value, the City could suffer an economic loss equal to the difference between the market value plus accrued interest of the underlying securities and the reverse repurchase agreement obligation, including accrued interest payable. In Fiscal Year 1997, however, the City did not enter into any reverse repurchase agreements. As such, there was no such credit exposure at year-end.

2. CASH AND INVESTMENTS (Continued)

The City's investments at June 30, 1997, that can be specifically identified as to credit risk are categorized as described below including required disclosures for securities lending (in thousands):

Category 1: Insured or registered, or securities held by the City or its agent in the City's name.

Category 2: Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.

Category 3: Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the City's name.

Investments that are not subject to credit risk categorization, but that require carrying amount and market value disclosure are also presented below (in thousands).

	Category			Carrying Amount	Market Value
	1	2	3		
U.S. government and agency securities:					
- Not on securities loan	\$1,132,878	\$87,578	\$2,161	\$1,222,617	\$1,223,278
- On securities loan for securities collateral	15,895	0	0	15,895	15,895
Negotiable certificates of deposit	153,346	0	0	153,346	152,919
Commercial paper	155,652	0	0	155,652	156,544
Corporate notes/bonds:					
- Not on securities loan	246,289	0	0	246,289	246,306
- On securities loan for securities collateral	357	0	0	357	357
Common/preferred stocks	1,059,440	0	0	1,059,440	1,062,187
Mortgage notes	6,552	0	0	6,552	6,552
	<u>\$2,770,409</u>	<u>\$87,578</u>	<u>\$2,161</u>	2,860,148	2,864,038
Investments not subject to categorization:					
U.S. government securities on securities loan for cash collateral				79,670	79,670
Corporate notes/bonds on securities loan for cash collateral				34,562	34,562
Common/preferred stocks on securities loan for cash collateral				4,474	4,474
Investment with California Local Agency Investment Fund				21,728	21,728
Mutual funds				292,563	292,563
Real estate/mineral interest funds				140,116	140,116
Deferred compensation				85,867	85,867
Total investments				<u>\$3,519,128</u>	<u>\$3,523,018</u>

2. CASH AND INVESTMENTS (Continued)

Included in the preceding table are investments under the Pension Trust Fund - City Employees Retirement System (SDCERS) with required disclosures for securities lending (in thousands). Following below are those investments specifically attributable to SDCERS:

	Category			Carrying Amount	Fair Value
	1	2	3		
U.S. government and agency securities:					
- Not on securities loan	\$192,201	\$0	\$0	\$192,201	\$192,201
- On securities loan for securities collateral	15,895	0	0	15,895	15,895
Corporate notes/bonds:					
- Not on securities loan	245,016	0	0	245,016	245,016
- On securities loan for securities collateral	357	0	0	357	357
Common/preferred stocks	1,055,217	0	0	1,055,217	1,055,217
Mortgage notes	<u>6,552</u>	<u>0</u>	<u>0</u>	<u>6,552</u>	<u>6,552</u>
	<u>\$1,515,238</u>	<u>\$0</u>	<u>\$0</u>	1,515,238	1,515,238
Investments not subject to categorization:					
U.S. government and agency securities on securities loan for cash collateral				79,670	79,670
Corporate notes/bonds on securities loan for cash collateral				34,562	34,562
Common/preferred stocks on securities loan for cash collateral				4,474	4,474
Real estate/mineral interest funds				<u>140,116</u>	<u>140,116</u>
Total investments				<u>\$1,774,060</u>	<u>\$1,774,060</u>

Summary of Deposits and Investments

Following is a summary of the carrying amount of cash deposits and investments at June 30, 1997 (in thousands):

Cash and pooled cash deposits	\$ 48,084
Cash with custodian/fiscal agent	14,266
Investments	<u>3,519,128</u>
Total	<u>\$3,581,478</u>

Investments - SDCCC

SDCCC has approximately \$668,000 invested in deferred compensation which is not subject to categorization.

3. FIXED ASSETS

General Fixed Assets

A summary of changes in general fixed assets for the year ended June 30, 1997 is as follows (in thousands):

	<u>Balance July 1, 1996</u>	<u>Additions</u>	<u>Adjustments and Transfers</u>	<u>Deletions</u>	<u>Balance June 30, 1997</u>
Land	\$ 344,552	\$ 27,405	\$ (114)	\$ 1,857	\$ 369,986
Structures and Improvements	416,354	34,588	(17)	6,787	444,138
Equipment	<u>137,513</u>	<u>36,991</u>	<u>2,315</u>	<u>18,021</u>	<u>158,798</u>
Subtotal	898,419	98,984	2,184	26,665	972,922
Construction in Progress	<u>235,550</u>	<u>73,473</u>	<u>(26,194)</u>	<u>10,613</u>	<u>272,216</u>
Total	<u>\$1,133,969</u>	<u>\$172,457</u>	<u>\$(24,010)</u>	<u>\$37,278</u>	<u>\$1,245,138</u>

The following is a summary of general fixed assets for SDCCC at June 30, 1997 (in thousands):

	<u>Balance July 1, 1996</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 1997</u>
Furniture, Fixtures and Equipment	\$2,322	\$ 634	\$158	\$2,798
Leasehold Improvements	<u>1,860</u>	<u>1,368</u>	<u>4</u>	<u>3,224</u>
Total	<u>\$4,182</u>	<u>\$2,002</u>	<u>\$162</u>	<u>\$6,022</u>

Proprietary Fund Type Fixed Assets

A summary of Proprietary Fund Type Fixed Assets at June 30, 1997 is as follows (in thousands):

	<u>Enterprise Funds</u>	<u>Internal Service Funds</u>
Land	\$28,039	\$ 0
Structures and improvements	5,620	0
Plants, dams, canals, laterals and equipment	980,603	82,576
Other	266,197	0
Construction in progress	<u>1,633,565</u>	<u>1,720</u>
Total	2,914,024	84,296
Less - Accumulated depreciation	<u>(437,721)</u>	<u>(49,101)</u>
Total, net	<u>\$2,476,303</u>	<u>\$35,195</u>

3. FIXED ASSETS (Continued)Construction In Progress

A summary of construction in progress (CIP) at June 30, 1997 is as follows (in thousands):

General Fixed Asset Account Group:	
City	\$ 126,674
Housing Authority	68,957
MTDB Authority	<u>76,585</u>
Total General Fixed Assets Account Group	<u>272,216</u>
Enterprise Funds:	
Airports	4,878
Environmental Services	50,049
Golf Course	4,907
Sewer Utility	1,330,715
Water Utility	<u>243,016</u>
Total Enterprise Funds	<u>1,633,565</u>
Internal Service Funds:	
Central Garage and Machine Shop	<u>1,720</u>
Total Construction in Progress	<u>\$1,907,501</u>

The Sewer Utility Fund and Water Utility Fund CIP of \$1,330,715,000 and \$243,016,000 respectively, represent 82.5% of total CIP for the year ended June 30, 1997.

The Sewer Utility's construction plans for various projects are estimated to cost approximately \$238,419,000. As of June 30, 1997, the Sewer Utility's contractual commitments for the projects totaled approximately \$91,104,000. It is intended that the contractual commitments be financed with approved State and Federal grants and service charges.

The Water Utility's construction plans for various projects are estimated to cost approximately \$62,691,000. As of June 30, 1997, the Water Utility's contractual commitments for the projects totaled approximately \$35,702,000. It is intended that the contractual commitments be financed with reserves and service charges.

Construction commitments are authorized by City Council and have various completion dates. It is not anticipated that additional future financing will be required for projects currently in progress.

4. GENERAL LONG-TERM DEBT

General long-term debt consists of general obligation bonds, revenue bonds/certificates of participation ("COP"), special assessment bonds, tax allocation bonds, contracts payable, notes payable, capital lease obligations, liability claims (also see Note 17 and Note 18 for more information on contingencies and third party debt) and accrued annual leave. A summary of these obligations as recorded in the General Long-Term Debt Account Group as of June 30, 1997 is as follows (in thousands):

<u>Type of Obligation</u>	<u>Interest Rates</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Balance Outstanding June 30, 1997</u>
<u>General Obligation Bonds:</u>				
Open Space Park Refunding Bonds of 1994	5.0-6.0%	2009	\$ 64,260	\$ 60,525
Municipal Improvement Bonds of 1991, issued March 1991	5.0-8.0	2012	25,500	<u>22,100</u>
Total General Obligation Bonds				<u>82,625</u>
<u>Revenue Bonds/COPs:</u>				
Public Facilities Financing Authority Sewer Revenue Bonds of 1997	3.7-5.61	2027	250,000	250,000
Public Facilities Financing Authority Sewer Revenue Bonds of 1996	3.7-5.1	2027	68,425	68,425
Public Facilities Financing Authority Sewer Revenue Bonds of 1995	3.9-6.0	2025	350,000	350,000
Public Facilities Financing Authority Sewer Revenue Bonds of 1993	2.8-5.25	2023	250,000	233,625
San Diego Stadium Authority - 1994 Refunding Bonds	4.0-4.75	1998	6,220	2,090
Metropolitan Transit Development Board Authority Lease Revenue Bonds of 1989, issued June 1989	6.4-6.9	2009	31,240	2,790
Metropolitan Transit Development Board Authority Lease Revenue Refunding Bonds of 1994	4.25-5.625	2009	66,570	57,515
Metropolitan Transit Development Board Authority Lease Revenue Bonds of 1993	2.6-5.375	2023	19,515	17,960
San Diego Facilities Equipment Leasing Certificates of Participation, Series 1996B	4.0-5.7	2011	11,720	11,720
San Diego Facilities Equipment Leasing Certificates of Participation, Series 1996A	4.0-5.6	2010	33,430	33,430
San Diego Facilities Equipment Leasing Certificates of Participation of 1993, issued November 1993	3.9-5.6	2023	27,985	25,485
Certificates of Participation of 1991, issued August 1991	8.0	2002	8,500	<u>5,300</u>
Total Revenue Bonds/COPs				<u>\$1,058,340</u>

4. GENERAL LONG-TERM DEBT (Continued)

<u>Type of Obligation</u>	<u>Interest Rates</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Balance Outstanding June 30, 1997</u>
<u>Special Assessment Bonds:</u>				
1915 Act Via De La Valle Improvement Bonds, issued October 1986	6.0-6.8%	2003	\$ 2,115	\$ 855
1915 Act Alta Vista Annexation Sewer & Water Maintenance 1987 Reassessment & Refunding Bonds, issued April 1987	6.0-7.8	1999	220	10
1915 Act Lopez Canyon Sewer & Retention Basin 1987 Reassessment & Refunding Bonds, issued April 1987	6.5-7.9	2000	1,750	430
1915 Act Sunset Cliffs Stabilization 1987 Reassessment & Refunding Bonds, issued April 1987	6.5-7.7	1998	560	70
1915 Act First San Diego River Improvement Project Bonds, issued July 1987	6.5-7.8	2008	24,082	8,265
1915 Act Otay International Center Improvement Bonds, issued September 1988	6.0-8.0	2014	6,995	5,470
1915 Act De La Fuente Business Park Improvement Bonds, issued April 1989	7.0-7.7	2014	4,867	4,155
1915 Act Sorrento Valley Road Improvement Bonds, issued June 1989	6.0-7.0	2010	1,632	1,065
1915 Act Calle Cristobal Improvement Bonds, issued July 1989	6.8-7.0	2015	19,195	14,140
1915 Act Otay International Center-Phase II Improvement Bonds, issued Sept. 1989	6.0-7	2015	12,212	9,845
1915 Act International Business Center Project, issued September 1990	6.1-7.4	2016	4,172	3,270
1915 Act Mission Valley Heights, issued September 1990	6.5-7.9	2016	8,570	7,095
1915 Act Otay Mesa Industrial Park, issued May 1992	5.5-7.95	2013	2,235	1,725
Special Tax Bonds, 1991 Series A, Miramar Ranch North, issued July 1991	6.0-8.5	2017	35,340	32,905
1915 Act De La Fuente Business Park Phase II, issued July 1992	4.0-7.1	2018	5,987	5,580
1915 Act Black Mountain Improvement Bonds, issued December 1992	6.2-7.0	2018	5,500	5,155
Special Tax Bonds, 1995 Series B Miramar Ranch North, issued December 1995	4.7-5.85	2020	20,865	<u>20,865</u>
Total Special Assessment Bonds				<u>\$ 120,900</u>

4. GENERAL LONG-TERM DEBT (Continued)

<u>Type of Obligation</u>	<u>Interest Rates</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Balance Outstanding June 30, 1997</u>
<u>Tax Allocation Bonds:</u>				
Centre City Redevelopment Project Tax Allocation Refunding Bonds Series 1992, issued October 1992	3.0-6.0%	2008	\$ 36,935	\$ 30,045
Centre City Redevelopment Project Tax Allocation Bonds, Series 1993A & B, issued November 1993	4.875-6.5	2018	54,350	50,905
Gateway Center West Redevelopment Project Tax Allocation Bonds, Series 1995, issued June 1995	7.8-9.75	2013	1,400	1,370
Mount Hope Redevelopment Project Tax Allocation Bonds, Series 1995A & B, issued June 1995	4.4-8.2	2020	5,155	5,090
Southcrest Redevelopment Project Tax Allocation Bonds, Series 1995, issued June 1995	4.75-6.5	2011	3,750	3,715
Horton Plaza Tax Allocation Bonds, 1996 Series A	3.8-6.0	2015	12,970	12,970
Horton Plaza Tax Allocation Bonds, 1996 Series B	4.3-6.625	2017	9,830	<u>9,830</u>
Total Tax Allocation Bonds				<u>113,925</u>
Total Bonds Payable				<u>1,375,790</u>
<u>Contracts Payable:</u>				
Contract Payable to City of National City, dated March 1987	7.5	2002	2,171	971
Contract Payable to County of San Diego, dated June 1987	11.0	2013	423	97
Contract Payable to DP Partnership, dated May 1988	11.0	2024	389	<u>114</u>
Total Contracts Payable				<u>1,182</u>
<u>Notes Payable:</u>				
Notes payable to HUD, various dates	Various	Various	48,351	51,028
Note payable to HCD, dated July 1981	0.0	2013	1,405	1,405
Note payable to HCD, dated April 1983	0.0	2015	3,149	3,149
Mortgage note payable to Bank of America, dated February 1985	10.2	2025	3,656	3,496
Notes payable to San Diego Association of Governments, various dates	Various	Various	45,797	35,994

4. GENERAL LONG-TERM DEBT (Continued)

<u>Type of Obligation</u>	<u>Interest Rates</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Balance Outstanding June 30, 1997</u>
<u>Notes Payable:</u> (continued)				
Notes payable to HCD, dated November 1986	3.0%	Various	\$ 155	\$ 155
Notes payable to HCD, dated March 1981	3.0	Various	20	20
Notes payable to HCD, dated October 1980	3.0	Various	30	30
Notes payable to HCD, dated May 1980	3.0	Various	6	6
Notes payable to the Redevelopment Agency, various dates	0.0	2022	209	696
Note payable to Valley Mortgage, dated February 1995	11.0	2002	225	223
Note payable to Lorren Daro, dated March 1995	8.0	2005	257	217
Note payable to David Engel, dated December 1994	6.0	2004	4,800	4,800
Note payable to Home Savings, dated June 1995			4,725	4,651
Note payable to Wells Fargo, dated March 1993				<u>126</u>
Total Notes Payable				<u>105,996</u>
Capital Lease Obligations				14,534
Liability Claims				31,113
Accrued Annual Leave				<u>42,768</u>
Total General Long-Term Debt				<u>\$1,571,383</u>

4. GENERAL LONG-TERM DEBT (Continued)

The following is a summary of changes in general long-term debt for the year ended June 30, 1997 (in thousands):

	<u>Balance</u> <u>July 1, 1996</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 1997</u>
General Obligation Bonds	\$ 87,240	\$ 0	\$ 4,615	\$ 82,625
Revenue Bonds/COPs	722,555	363,575	27,790	1,058,340
Special Assessment Bonds	125,650	0	4,750	120,900
Tax Allocation Bonds	116,945	0	3,020	113,925
Contracts Payable	1,349	0	167	1,182
Notes Payable	98,730	11,430	4,164	105,996
Capital Lease Obligations	0	14,534	0	14,534
Liability Claims	39,645	0	8,532	31,113
Accrued Annual Leave	<u>41,427</u>	<u>1,898</u>	<u>557</u>	<u>42,768</u>
Total	<u>\$1,233,541</u>	<u>\$391,437</u>	<u>\$53,595</u>	<u>\$1,571,383</u>

The following is a summary of changes in general long-term debt for SDCCC at June 30, 1997 (in thousands):

	<u>Balance</u> <u>July 1, 1996</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 1997</u>
Accrued Annual Leave	<u>\$476</u>	<u>\$842</u>	<u>\$753</u>	<u>\$565</u>
Total Long-term Debt	<u>\$476</u>	<u>\$842</u>	<u>\$753</u>	<u>\$565</u>

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.

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.

COPs 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 bonds are issued by the City to provide funds to make certain public improvements in special assessment districts created by the City. These bonds are secured by property owner assessments.

4. GENERAL LONG-TERM DEBT (Continued)

The annual requirements to amortize such long-term debt outstanding as of June 30, 1997, including interest payments to maturity, are as follows (in thousands):

Year Ending June 30,	General Obligation Bonds	Revenue Bonds/ COPs	Special Assessment Bonds	Tax Allocation Bonds	Contracts Payable	Notes Payable	Capital Lease Obligations
1998	\$ 8,799	\$ 81,250	\$ 12,163	\$ 10,459	\$ 401	\$ 4,949	\$ 3,237
1999	8,910	79,053	12,059	10,515	252	3,455	3,276
2000	9,894	77,513	12,064	10,512	252	3,458	3,040
2001	9,149	79,193	11,924	10,500	252	3,464	2,549
2002	9,268	80,081	11,932	10,476	252	3,471	2,233
Thereafter	<u>74,603</u>	<u>1,591,718</u>	<u>177,744</u>	<u>138,978</u>	<u>152</u>	<u>98,146</u>	<u>2,784</u>
Subtotal	120,623	1,988,808	237,886	191,440	1,561	116,943	17,119
Less Interest	<u>(37,998)</u>	<u>(930,468)</u>	<u>(116,986)</u>	<u>(77,515)</u>	<u>(379)</u>	<u>(10,947)</u>	<u>(2,585)</u>
Total	<u>\$ 82,625</u>	<u>\$1,058,340</u>	<u>\$120,900</u>	<u>\$113,925</u>	<u>\$1,182</u>	<u>\$105,996</u>	<u>\$14,534</u>

Installment Purchase Agreement

The City and the Public Facilities Financing Authority ("PFFA") entered into an installment purchase agreement for the acquisition, construction, installation, and improvement of its wastewater system. PFFA obtained financing for the project through an issuance of bonds secured by installment payments to be made by the City. The City has pledged revenues from its wastewater system to finance these installment payments in an amount equal to the principal and interest requirements for the associated bonds.

Defeasance of Debt

In August 1996, the City of San Diego on behalf of the Facilities and Equipment Leasing Corporation, issued \$11,720,000 in Refunding Certificates of Participation, Series 1996B. The proceeds of the bonds were used to refund the remaining Balboa Park and Mission Bay Park Capital Improvements Program Certificates of Participation, Series 1991. As a result \$11,080,000 of the 1991 Certificates of Participation are considered defeased and the corresponding liability has been removed from the General Long-Term Debt Account Group. The refunding transaction resulted in total economic gain or present value savings of \$685,839 over the refunded indebtedness. In addition, the refunding resulted in a cash flow difference of approximately \$1,042,000.

At June 30, 1997, \$55,395,000 of defeased bonds including those defeased in prior years are still outstanding.

5. PROPRIETARY FUND TYPE LONG-TERM DEBT

Proprietary Fund Type long-term debt as of June 30, 1997 is comprised of the following (in thousands):

<u>Type of Obligation</u>	<u>Interest Rates</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Balance Outstanding June 30, 1997</u>
<u>Notes Payable:</u>				
Installment Purchase Agreement, 1993	2.8-5.25%	2023	\$250,000	\$ 233,625
Installment Purchase Agreement, 1995	3.9-5.0	2025	350,000	350,000
Installment Purchase Agreement, 1997	3.7-5.61	2027	250,000	250,000
Note Payable to Bank	Varies	2001	267	267
Note Payable to Bank	4.59-6.87	1999	1,944	1,944
Note Payable to Bank	Varies	1999	1,000	1,000
Note Payable to Bank	Varies	2002	1,475	<u>1,475</u>
Total Notes Payable				838,311
Loan Payable to County of San Diego	0	N/A	100	100
Capital Lease Obligations for Various Equipment, Various Dates	Various	Various	Various	5,247
Liability Claims				40,113
Accrued Annual Leave				<u>11,524</u>
Total Proprietary Fund Type Debt				<u>\$895,295</u>

Annual requirements to amortize such long-term debt as of June 30, 1997, including interest payments to maturity, are as follows (in thousands):

<u>Year Ending June 30,</u>	<u>Notes Payable</u>	<u>Contracts Payable</u>	<u>Capital Lease Obligations</u>
1998	\$ 58,271	\$100	\$1,420
1999	58,380	0	1,320
2000	56,988	0	1,296
2001	56,973	0	1,197
2002	56,779	0	814
Thereafter	<u>1,301,026</u>	<u>0</u>	<u>0</u>
Total	1,588,417	100	6,047
Less-Amounts Representing Interest	<u>(750,106)</u>	<u>0</u>	<u>(800)</u>
Total	<u>\$838,311</u>	<u>\$100</u>	<u>\$5,247</u>

6. INTERAGENCY LONG-TERM DEBT

Long-term debt between the City and its component units has been eliminated in this report. During the year, the Redevelopment Agency of the City of San Diego has repaid \$1,575,925 of principal and \$2,058,325 of interest to the City and the City has advanced \$4,836,356 to the Agency. Interest between 8% and 12% totaling \$12,231,467 was added to the amount owing for the year. At June 30, 1997, interagency loans (including interest) were as follows (in thousands):

	Loans and Note Receivable	Loans and Note Payable
City of San Diego	\$ 205,095	\$ 0
Redevelopment Agency of the City of San Diego	<u>0</u>	<u>205,095</u>
Total	<u>\$ 205,095</u>	<u>\$ 205,095</u>

7. LEASE COMMITMENTSOperating Leases

The following is a schedule of future minimum rental payments required under operating leases entered into by the City for property that has initial or remaining non-cancelable lease terms in excess of one year as of June 30, 1997 (in thousands):

<u>Year Ending June 30,</u>	
1998	\$ 8,230
1999	8,148
2000	8,071
2001	7,899
2002	7,839
Thereafter	<u>6,733</u>
Total	<u>\$46,920</u>

Rent expense as related to operating leases was approximately \$9,859,000 for the year ended June 30, 1997.

Capital Leases

The City has entered into various capital leases for equipment, vehicles and property. A schedule of future minimum lease payments under capital leases as of June 30, 1997 is provided in Notes 4 and 5.

7. LEASE COMMITMENTS (Continued)Lease Revenues

The City has operating leases for certain land, buildings and facilities with tenants and concessionaires who will provide the following minimum annual lease payments (in thousands):

<u>Year Ending June 30,</u>	
1998	\$ 18,470
1999	17,678
2000	17,460
2001	16,997
2002	16,779
Thereafter	<u>423,989</u>
Total	<u>\$511,373</u>

This amount does not include contingent rentals which may be received under certain leases of property on the basis of percentage returns. Contingent rentals amounted to approximately \$24,955,000 in the year ended June 30, 1997.

8. DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all full-time City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, disability or an unforeseeable emergency.

The City funds all amounts of compensation deferred under the plan through investments in various mutual funds administered by an insurance company. Such investments and all related earnings thereon are (until paid or made available to employee or other beneficiary) solely the property and right of the City (without being restricted to the provisions of benefits under the plan), subject only to the claims of the City's general creditors. Participants under the plan have only the right to receive benefits in an amount equal to the balance of the participant's book account balance.

The City is of the opinion that it has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. The City believes that it is unlikely that it will use the plan's assets to satisfy the claims of general creditors in the future.

The City accounts for the plan as an Agency Fund. The assets are stated at the market value which is represented by the contract value provided by the City's third party administrator.

In August of 1996, the Small Business Job Protection Act (the "Act") became effective and, among other provisions, the Act provides that for a Section 457 Plan to be an eligible plan under the Act, all assets and income of the plan are to be held in trust for the exclusive benefit of plan participants and their beneficiaries. Amounts deferred under plans in existence, however, do not have to be placed in trust until January 1, 1999. As of June 30, 1997, the trusts have not yet been established. As of June 30, 1997, the assets of the plan, recorded in an agency fund at their market value, amounted to \$80,121,000.

9. PENSION PLANS

The City has a defined benefit plan and various defined contribution pension plans covering substantially all of its employees.

DEFINED BENEFIT PLAN

a. Plan Description

All of the City and the San Diego Unified Port District (the "District") full-time employees participate in the San Diego City Employees' Retirement System ("SDCERS").

SDCERS is a public employee retirement system established in 1927 by the City and administered by a Board of Administration (the "Board") to provide retirement, disability, death and survivor benefits for its members.

In 1963, through an agreement between the City and the District, employees of the District became members of SDCERS.

The Plan is a defined benefit plan which covers all eligible employees of the City and the District. The Plan is a multiple-employer public employee retirement system that acts as a common investment and administrative agent for the City and the District. As a defined benefit plan, retirement benefits are determined primarily by a member's age at retirement, the length of membership service and the member's final compensation earnable based on the highest one-year period.

The Plan provisions applicable to general members are generally applicable to the District's general members and those applicable to lifeguard members are generally applicable to the District's safety members.

All full-time City and District employees are eligible to participate in the Plan. Salaried classified employees become members of the system upon employment. Salaried unclassified employees hired on or after August 11, 1995 become members upon employment.

SDCERS is considered part of the City of San Diego's financial reporting entity and is included in the City's financial reports as a pension trust fund.

SDCERS issues a stand-alone financial report which is available at its office located at 401 B Street, Suite 400, San Diego, California 92101.

b. Funding Policy

SDCERS' funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and actuarial accrued liability are determined using the projected unit credit actuarial funding method. Unfunded actuarial accrued liabilities are being amortized as a level percent of payroll over a period of 30 years (25 years remaining).

Employees are required to contribute a percentage of their annual salary to the Plan. Contributions vary according to age at entry into the plan and salary. The City and the District contribute a portion of the employees' share and the remaining amount necessary to fund the system based on an actuarial valuation at the end of the preceding year under the projected unit credit method of actuarial valuation. Prior to June 30, 1993, contributions were based on the entry age normal cost method of valuation.

9. PENSION PLANS (Continued)

During the period July 1, 1996 to June 30, 1997 contributions totaling \$66,147,529 (\$29,165,584 employer, \$15,770,286 employee and \$21,211,659 in employer offset contributions) were made. Of the employer contributions, \$23,235,875 was applied to normal cost and \$5,929,709 was applied to unfunded accrued liability. All of the employer offset contributions were applied to normal cost.

Significant actuarial assumptions used to compute contribution requirements were the same as those used to compute the standardized measure of the pension benefit obligation.

The following table shows the City and the District's required contributions and the percentage contributed for the current year and each of the two preceding years (in thousands):

Year Ended June 30.	Actuarially Required Contributions (ARC)	Contributions Made	Percentage Contributed
1995	\$18,474	\$18,474	100%
1996	26,122	26,122	100
1997	29,166	29,166	100

There is no Net Pension Obligation at year end as Actuarially Required Contributions and Contributions Made have always been identical during the three-year period.

DEFINED CONTRIBUTION PLANS

- a. Pursuant to the City's withdrawal from the Federal Social Security System effective January 8, 1982, and to the Federal Government's mandate of a Social Security Medicare tax for all employees not covered by Social Security hired on or after April 1, 1986, the City established the Supplemental Pension Savings Plan ("SPSP"), a defined contribution plan administered by American Express Trust Company, Minneapolis, MN, which provides pension benefits for eligible full-time employees. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. State legislation requires that both the employee and the City contribute an amount equal to 3% of the employee's total salary each month. Participants in the plan hired before April 1, 1986 and on or after April 1, 1986 may voluntarily contribute up to an additional 4.5% and 3.05%, respectively, of total salary.

The City also contributes an amount equal to the employee voluntary contributions. The City's contributions for each employee (and interest allocated to the employee's account) are fully vested after five years of continuous service. City contributions for, and interest forfeited by, employees who leave employment before five years of service are used to reduce the City's contribution requirement.

The City and the covered employees contributed approximately \$32,191,000. As of June 30, 1997, market value of Plan assets totaled approximately \$274,929,000. SPSP is considered part of the City of San Diego's financial reporting entity and is included in the City's financial reports as a Pension Trust Fund.

9. PENSION PLANS (Continued)

In addition, the City established a 401(k) Plan effective July 1, 1985. The plan is a defined contribution plan administered by American Express Trust Company, Minneapolis, MN, to provide pension benefits for all eligible full-time employees. Employees are eligible to participate twelve months after the date of employment. Employees make contributions to their 401(k) accounts through payroll deductions, and may also elect to have the City contribute to their 401(k) accounts through the City's Employees' Flexible Benefits Program.

The employees' 401(k) contributions were calculated pursuant to various combination arrangements. The covered employees and the City contributed approximately \$7,667,000 during the fiscal year.

As of June 30, 1997, market value of Plan assets totaled approximately \$49,667,000. The 401(k) Plan is considered part of the City of San Diego's financial reporting entity and is included in the City's financial reports as an Agency Fund.

- b. Centre City Development Corporation ("CCDC") has a Money Purchase Pension Plan covering all full-time permanent employees. The plan is a defined contribution plan under which benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate on the first day of the month following 90 days after their date of employment. During each plan year, CCDC contributes quarterly an amount equal to 8% of the total quarterly compensation for all employees. CCDC's contributions for each employee are fully vested after six years of continuous service.

CCDC's total payroll in Fiscal Year 1997 was approximately \$1,685,000. CCDC contributions were calculated using the base salary amount of approximately \$1,631,000. CCDC made the required 8% contribution, amounting to approximately \$131,000 (net of forfeitures) for Fiscal Year 1997.

In addition, CCDC has a Tax Deferred Annuity Plan covering current and previous full-time permanent employees. The plan is a defined contribution plan. Employees are eligible to participate the first day of the month following 90 days after their date of employment. During each plan year, CCDC contributes semi-monthly an amount equal to 10% of the total semi-monthly compensation for all employees. CCDC's contributions for each employee are fully vested at time of contribution.

CCDC's total payroll in Fiscal Year 1997 was approximately \$1,685,000. CCDC contributions were calculated using the base salary amount of approximately \$1,631,000. CCDC made the required 10% contribution amounting to approximately \$163,000 for Fiscal Year 1997. The Tax Deferred Annuity Plan includes amounts deposited by employees prior to CCDC becoming a contributor to the Plan.

The fiduciary responsibilities of CCDC consist of making contributions and remitting deposits collected.

- c. The San Diego Convention Center Corporation Money Purchase Pension Plan (the "Plan") became effective January 1, 1986. The Plan is a qualified defined contribution plan and, as such, benefits depend on amounts contributed to the plan plus investment earnings and allocated forfeitures, less allowable plan expenses. The Plan covers employees not otherwise covered through a collective bargaining unit agreement. Employees are eligible at the earlier of the date on which they complete six months of continuous full-time service, or the twelve-month period beginning on their hire date (or any subsequent plan year) during which they complete 1,000 hours of service. A plan year is defined as a calendar year. Plan balances for each eligible employee are vested gradually over five years of continuing service with an eligible employee becoming fully vested after five years. Forfeitures and Plan expenses are allocated in accordance with Plan provisions.

9. PENSION PLANS (Continued)

Required contributions were calculated using the covered compensation amount of approximately \$6,346,000. SDCCC has funded the required contribution as of June 30, 1997.

For the fiscal year ended June 30, 1997, pension expense for the Plan amounted to \$663,621. SDCCC records pension expense during the fiscal year based upon estimated covered compensation. Included in accrued liabilities at June 30, 1997, is \$205,271 of accrued pension expense.

SDCCC offers its employees a Deferred Compensation Plan (the "Deferred Plan") created in accordance with Internal Revenue Code Section 457. The Deferred Plan, available to all employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, disability, or an unforeseeable emergency.

SDCCC funds the deferred compensation through investments in various mutual funds administered by an insurance company. Until paid or made available to the employee or other beneficiary, such investments and all related earnings thereon are solely the property and right of SDCCC (without being restricted to the provisions of benefits under the Deferred Plan), subject only to the claims of SDCCC's general creditors. Participants under the Deferred Plan have only the right to receive benefits in an amount equal to the balance of their account. SDCCC is of the opinion that it has no liability for the losses under the Deferred Plan but does have the duty of due care that would be required of an ordinary prudent investor. SDCCC believes that it is unlikely that it will use the Deferred Plan's assets to satisfy claims of creditors in the future.

- d. San Diego Data Processing Corporation ("SDDPC") has accrued and set aside funds in a money market account to provide employees who transferred from the City to SDDPC with retirement benefits approximately equal to those under the City's retirement plan. As of June 30, 1997 and 1996, the balance in the account was \$99,913 and \$95,288, respectively.

The balance at June 30, 1997 consisted of the total estimated liability plus interest earned on the account since its establishment in Fiscal Year 1991.

In addition, SDDPC has in effect a Money Purchase Pension Plan ("the Plan") covering substantially all employees. The plan is a defined contribution plan, wherein benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. During each plan year, SDDPC contributes monthly an amount equal to 20% of the total monthly compensation for all employees. SDDPC contributions for each employee are fully vested after four years of continuous service.

SDDPC's total payroll in Fiscal Year 1997 and 1996, was approximately \$14,003,000 and \$12,414,000, respectively. As all employees are substantially covered, SDDPC contributions were calculated using this base salary amount. SDDPC made the required 20% contribution amounting to approximately \$2,724,000 and \$2,410,000 for Fiscal Years 1997 and 1996 respectively.

- e. The San Diego Housing Authority (the "Authority") provides pension benefits for all of its full-time employees through a defined contribution plan. Employees are eligible to participate on the first day of their employment. The Authority contributes an amount equal to 12% of the employee's base salary semi-monthly. The Authority's contributions for each employee (and interest allocated to the employee's account) are fully vested after five years of continuous service. The Authority's contributions for, and interest forfeited by, employees who leave employment before five years of service are used to reduce the Authority's contribution requirement.

9. PENSION PLANS (Continued)

The Authority made the required 12% contribution, amounting to approximately \$1,039,000 for Fiscal Year 1997 based on covered payroll of approximately \$8,662,000.

- f. Southeastern Economic Development Corporation ("SEDC") has a Simplified Employee Pension Plan covering all full-time, permanent employees. The plan is a defined contribution plan. Employees are eligible to participate on the first day of the month following 90 days after their date of employment. During each plan year, SEDC contributes monthly an amount equal to 12% of the employee's base salary. Such contributions are fully vested upon contributions.

SEDC's total payroll in Fiscal Year 1997 was approximately \$680,000. SEDC contributions were calculated using the base salary amount of approximately \$494,000. SEDC made the required 12% contribution, amounting to approximately \$72,000 for Fiscal Year 1997.

10. POST RETIREMENT HEALTH INSURANCE

In addition to providing pension benefits, the City of San Diego Municipal Code provides certain health care insurance benefits for retired general and safety members of SDCERS who retired on or after October 6, 1980. At June 30, 1997, approximately 1,975 eligible retirees received benefits.

Certain health care insurance benefits were established during Fiscal Year 1995 for eligible retirees who retired prior to October 6, 1980 or who were otherwise not eligible to receive City-paid health care insurance as of June 30, 1994. At June 30, 1997, approximately 1,125 eligible retirees received benefits.

Currently, expenses for post-employment healthcare benefits are recognized as they are paid. For the fiscal year ended June 30, 1997, expenditures of approximately \$5,017,000 were recognized for such health care benefits.

Substantially all of the City's general and safety members of SDCERS may become eligible for those benefits if they reach normal retirement age and meet service requirements as defined while working for the City.

11. INTERFUND RECEIVABLE AND PAYABLE BALANCES

Individual fund interfund working capital advances balances at June 30, 1997 are as follows (in thousands):

Fund	Advances from Other Funds	Advances to Other Funds
General Fund	\$ 0	\$ 8,346
Special Revenue Funds:		
City of San Diego Reporting Entity:		
Acquisition, Improvement and Operation	0	165
Environmental Growth	0	226
Special Gas Tax Street Improvement	0	2,916
Transient Occupancy Tax	0	561
Grants	24	237
Other Special Revenue	0	54
Centre City Development Corporation	325	0
Housing Authority	237	0
Southeastern Economic Development Corporation	159	0
Total Special Revenue Funds	<u>745</u>	<u>4,159</u>
Capital Projects Funds:		
Redevelopment Agency	0	484
San Diego Facilities and Equipment Leasing Corporation	561	0
Total Capital Projects Funds	<u>561</u>	<u>484</u>
Enterprise Funds:		
City of San Diego Reporting Entity:		
Airports	0	118
Environmental Services	0	4,295
Golf Course	0	218
Sewer Utility	0	10,563
Water Utility	0	10,645
Total Enterprise Funds	<u>0</u>	<u>25,839</u>
Internal Service Funds:		
City of San Diego Reporting Entity:		
Central Garage and Machine Shop	33,783	0
Central Stores	3,282	7
Engineering and Capital Projects	0	24
Print Shop	0	27
Self Insurance	185	0
Total Internal Service Funds	<u>37,250</u>	<u>58</u>
Trust and Agency Funds:		
City of San Diego Reporting Entity:		
Other Miscellaneous Agency	330	0
Total	<u>\$38,886</u>	<u>\$38,886</u>

11. INTERFUND RECEIVABLE AND PAYABLE BALANCES (Continued)

Individual fund interfund receivable and payable balances at June 30, 1997 are as follows (in thousands):

Fund	Due from Other Funds	Due to Other Funds
General Fund	\$ 76,808	\$ 768
Special Revenue Funds:		
City of San Diego Reporting Entity:		
Other Special Revenue	500	329
Housing Authority	329	0
Redevelopment Agency	<u>0</u>	<u>27,517</u>
Total Special Revenue Funds	<u>829</u>	<u>27,846</u>
Capital Projects Funds:		
Public Facilities Financing Authority	0	2,154
Redevelopment Agency	<u>27,517</u>	<u>0</u>
Total Capital Projects Funds	<u>27,517</u>	<u>2,154</u>
Enterprise Funds:		
City of San Diego Reporting Entity:		
Development Services	0	843
Environmental Services	843	1,499
Sewer Utility	<u>3,653</u>	<u>0</u>
Total Enterprise Funds	<u>4,496</u>	<u>2,342</u>
Internal Service Funds:		
Self-Insurance	<u>268</u>	<u>0</u>
Trust and Agency Funds:		
Other Miscellaneous Agency	<u>0</u>	<u>76,808</u>
Total	<u>\$109,918</u>	<u>\$109,918</u>
Primary Government and Component Unit:		
Component Unit - SDCCC	352	0
Primary Government - Transient Occupancy Tax	<u>0</u>	<u>352</u>
Total	<u>\$ 352</u>	<u>\$ 352</u>

12. ENTERPRISE FUNDS SEGMENT INFORMATION

The City maintains Enterprise Funds which provide airport, sewer, water and other services. Segment information for the year ended June 30, 1997 is as follows (in thousands):

	<u>Airports</u>	<u>The Centre</u>	<u>City Store</u>	<u>Develop- ment Services</u>	<u>Environ- mental Services</u>	<u>Subtotal</u>
Operating Revenues	\$ 1,925	\$ 407	\$ 442	\$ 21,731	\$ 46,035	\$ 70,540
Operating Expenses before Depreciation & Amortization	1,587	360	399	21,715	37,145	61,206
Depreciation & Amortization	239	3	2	665	333	1,242
Operating Income (Loss)	99	44	41	(649)	8,557	8,092
Operating Transfers In	3	0	0	39	34	76
Operating Transfers Out	(6)	0	0	(84)	(50)	(140)
Transfers Out to Governmental Funds	0	0	(7)	0	0	(7)
Nonoperating Revenue	182	15	10	470	3,616	4,293
Nonoperating Expense	0	(1)	(3)	(40)	(1,598)	(1,642)
Net Income (Loss)	278	58	41	(264)	10,559	10,672
Grant Revenues (Expenses)	0	0	0	0	822	822
Capital Contributions	461	0	(130)	82	0	413
Net Fixed Asset Additions (Deletions)	342	(2)	(3)	1,575	4,827	6,739
Net Working Capital	1,742	114	105	3,048	42,630	47,639
Total Assets	10,956	180	133	12,290	113,385	136,944
Total Equity	10,786	119	123	6,486	101,063	118,577
Long-Term Liabilities:						
Bonds Payable	0	0	0	0	0	0
Other	0	0	0	0	6,846	6,846

12. ENTERPRISE FUNDS SEGMENT INFORMATION (Continued)

	Subtotal (Previous Page)	Golf Course	Sewer Utility	Water Utility	Sand Diego Data Processing Corporation	Grand Total
Operating Revenues	70,540	6,284	218,739	167,427	41,007	503,997
Operating Expenses before Depreciation & Amortization	61,206	4,169	116,422	149,611	36,147	367,555
Depreciation & Amortization	1,242	178	14,301	12,759	4,480	32,960
Operating Income (Loss)	8,092	1,937	88,016	5,057	380	103,482
Operating Transfers In	76	6	128	84	0	294
Operating Transfers Out	(140)	(5)	(1,425)	(1,679)	0	(3,249)
Transfers Out to Governmental Funds	(7)	0	0	0	0	(7)
Nonoperating Revenue	4,293	392	64,050	11,945	87	80,767
Nonoperating Expense	(1,642)	(6)	(73,482)	(6,765)	(166)	(82,061)
Net Income (Loss)	10,672	2,324	77,287	8,642	301	99,226
Grant Revenues (Expenses)	822	0	42,485	1,274	0	44,581
Capital Contributions	413	(1,050)	33,964	25,856	0	59,183
Net Fixed Asset Additions (Deletions)	6,739	560	316,151	77,335	4,534	405,319
Net Working Capital	47,639	3,061	281,066	118,918	(1,376)	449,308
Total Assets	136,944	11,103	2,288,555	829,105	24,638	3,290,345
Total Equity	118,577	10,511	1,403,871	781,367	11,867	2,326,193
Long-Term Liabilities:						
Bonds Payable	0	0	0	0	0	0
Other	6,846	0	818,860	1,329	2,953	829,988

13. CONTRIBUTED CAPITAL

During the year ended June 30, 1997, contributed capital increased (decreased) by the following amounts (in thousands):

Source	Airports	The Centre	City Store	Development Services	Environmental Services	Golf Course	Sewer Utility	Water Utility
Capacity Charges	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 8,067	\$ 9,672
Developer-Capital Improvements	0	0	0	0	0	0	7,564	15,424
Federal Grant - Capital Improvements	461	0	0	0	0	0	16,271	643
Federal Grant - Capital Reimbursements	0	0	0	0	0	0	0	0
Government - General Fixed Assets	0	0	0	0	0	0	0	0
Government - Capital Infusion	0	0	0	82	0	0	1,708	571
Government - Capital Reimbursement	0	0	(130)	0	0	(1,050)	0	0
Meters and Services	0	0	0	0	0	0	0	0
State Grant - Capital Improvements	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>354</u>	<u>(454)</u>
Total Additions (Deletions)	461	0	(130)	82	0	(1,050)	33,964	25,856
Contributed Capital, July 1, 1996	<u>8,976</u>	<u>0</u>	<u>130</u>	<u>137</u>	<u>276</u>	<u>4,001</u>	<u>739,224</u>	<u>501,667</u>
Contributed Capital, June 30, 1997	<u>\$9,437</u>	<u>\$0</u>	<u>\$ 0</u>	<u>\$219</u>	<u>\$276</u>	<u>\$2,951</u>	<u>\$773,188</u>	<u>\$527,523</u>

14. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters which may render the City liable to the public and to its employees. The Self Insurance Fund, an Internal Service Fund, was created to provide coverage against such risks up to a maximum of \$3.0 million for each workers' compensation claim and \$1.0 million for each general or automobile claim.

In addition, the City maintains an excess liability insurance policy whereby the City pays the first \$1,000,000 per occurrence. Amounts in excess of \$1,000,000 up to \$24,000,000 per occurrence are covered by insurance. Any amounts over \$24,000,000 per occurrence would be paid by the City.

The City is self-insured for workers' compensation, long-term disability and certain employee group health coverages. Each participating fund contributes an amount equal to an actuarially determined rate times the gross salaries of the fund. These payments are treated as operating expenditures in the contributing funds and operating revenues in the receiving funds.

14. RISK MANAGEMENT (Continued)

All funds of the City participate in the program and make payments to the Self Insurance Fund based on actuarial estimates of the amounts needed to pay prior and current year claims and to establish a reserve for catastrophic losses. The reserve was \$(19.4) million at June 30, 1997 and is reported as a reservation of the Self Insurance Fund's retained earnings.

Estimated liabilities for liability claims have been set up in the Self-Insurance Fund, Sewer Utility Fund, Water Utility Fund, as well as in the General Long-Term Debt Account Group. These amounts represent the City's determination of the probable ultimate cost of the claims. The City has set up a reserve for liability claims of approximately \$7,753,000 in the Internal Service Funds to indicate funds set aside to pay for claims in excess of the annual appropriations in the General Fund. Property insurance is maintained on selected capital assets based upon various factors including management's assessment of the risks of loss.

The estimated liabilities as of June 30, 1997 are determined by the City based on recommendations from an independent actuarial evaluation. The liabilities are based on estimates of the ultimate costs of claims (including future claim adjustment expenses) that have been reported but not settled and claims that have been incurred but not reported (IBNR).

A reconciliation showing current and prior year activity is presented below (in thousands):

	Public Liability	City's Liability Under Worker's Comp, Long- term Disability, & Group Health Insurance	Total
Balance July 1, 1995	\$33,651	\$28,454	\$62,105
Claims and Changes in Estimates	22,426	10,371	32,797
Claim Payments	<u>(11,724)</u>	<u>(11,895)</u>	<u>(23,619)</u>
Balance June 30, 1996	44,353	26,930	71,283
Claims and Changes in Estimates	3,229	29,908	33,137
Claim Payments	<u>(7,228)</u>	<u>(25,966)</u>	<u>(33,194)</u>
Balance June 30, 1997	<u>\$40,354</u>	<u>\$30,872</u>	<u>\$71,226</u>

During the current year, there were no significant reductions in insurance coverage from the prior year. For each of the past three fiscal years, the settlements have not exceeded insurance coverage.

15. FUND DEFICIT

The Internal Service Funds have a net fund equity of approximately \$4,665,000 at June 30, 1997. This balance includes a fund equity deficit in the Self Insurance Fund of approximately \$19,356,000 which represents unfunded estimated claims and claim settlements related to worker's compensation, long-term disability and certain employee group health coverages. It is anticipated that individual claim settlements will be funded through user charges subsequent to the filing of a claim and prior to its settlement.

The Special Revenue Funds have a net fund equity of approximately \$180,027,000 at June 30, 1997. This balance includes a fund equity deficit in the Southeastern Economic Development Corporation fund of approximately \$4,000. It is anticipated that the Corporation will be reimbursed by the City in Fiscal Year 1998.

16. COMMITMENTS

The City is currently obligated to transfer up to two-thirds of the annual franchise tax receipts in the Environmental Growth Fund (a Special Revenue Fund) to the San Diego Open Space Park Facilities District #1 (the "District") Fund (a Debt Service Fund) for the payment of debt service on the District's outstanding general obligation bonds. Such required debt service on the District's outstanding bond obligations of \$60,525,000 at June 30, 1997 is approximately \$6,845,000 for each of the subsequent five years ending June 30, 2002.

The City has guaranteed the payment of a revolving line of credit in the maximum amount of \$7,500,000 on behalf of various individuals through Wells Fargo Bank regarding the CDBG Housing Loan Leveraging Program. As of June 30, 1997, approximately \$3,843,000 of total leveraged loans are still outstanding.

The Sewer Utility's construction plans for various projects are estimated to cost approximately \$238,419,000. As of June 30, 1997, the Utility's contractual commitments for the projects totaled approximately \$91,104,000. The Utility intends to finance the contractual commitments with approved State and Federal grants, service charges and the Installment Purchase Agreement.

The Water Utility's construction plans for various projects are estimated to cost approximately \$62,691,000. As of June 30, 1997, the Utility's contractual commitments for the projects totaled approximately \$35,702,000. The Utility intends to finance the contractual commitments with reserves and service charges.

17. CONTINGENCIES

The City has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. City management believes such disallowances, if any, would not have a material effect on the City's financial position.

In September 1989, legislation was adopted (Assembly Bill No. 2080) which requires the Redevelopment Agency of the City of San Diego to fund Low and Moderate Housing Activity equivalent to at least 20% of tax increment revenue received after Fiscal Year 1985. In October 1990, the Agency adopted a nine-year plan to fully fund the retroactive 20% requirement (Resolution No.'s 1911, 1912, and 1913). At June 30, 1997, the 20% requirement deficit remaining to be funded in future years is approximately \$2,133,000.

Proposition 218 was approved by the voters in November 1996 and could limit the City's ability to collect new taxes and fees. This measure requires a voter majority approval for all taxes used for "general government purposes" and a two-thirds voter approval for "special taxes" used for defined purposes. Proposition 218 repeals any such taxes imposed after January 1, 1995, that fail to meet these requirements. If the City is unable to continue to collect these revenues, the services and programs funded with these revenues would be reduced or eliminated.

During 1997 the City entered into an agreement with the San Diego Chargers professional football team which included a clause whereby the City would generally provide stadium rent credits to the San Diego Chargers for the value of unsold tickets up to 60,000 for any home game. The agreement is for ten years and covers eight (8) to ten (10) home games per season.

18. THIRD PARTY DEBT

The City has authorized the issuance of certain 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. 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 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, 1997, the status of all third party bonds issued is as follows (in thousands):

	<u>Issued</u>	<u>Outstanding</u>
Mortgage Revenue	\$452,699	\$ 362,257
Industrial Development Revenue	423,420	423,020
1911 Act Special Assessment	<u>188</u>	<u>188</u>
Totals	<u>\$876,307</u>	<u>\$ 785,465</u>

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 the opinion of the City officials, these bonds are not payable from any revenues or assets of the City, and neither the full faith and 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 an agent for the property owners/bondholders in collecting and forwarding the funds. Accordingly, no liability has been recorded in the City's General Long-Term Debt Account Group.

19. CLOSURE AND POSTCLOSURE CARE COST

State and federal laws and regulations require that the City of San Diego place a final cover on its Miramar landfill site when it stops accepting waste and perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the City reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date.

19. CLOSURE AND POSTCLOSURE CARE COST (Continued)

The \$6.8 million reported as landfill closure and postclosure care liability at June 30, 1997 represents the cumulative amount reported to date based on the use of 43.7% of the estimated capacity of the landfill. The City will recognize the remaining estimated cost of closure and postclosure care of \$8.9 million as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 1997. The City expects to close the landfill in the year 2003. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

The City is required by state and federal laws and regulations to make annual contributions to finance closure and postclosure care. The City is in compliance with these requirements, and, at June 30, 1997 cash or equity in pooled cash and investments of \$16,220,000 is held for this purpose. This is reported as restricted assets on the balance sheet. The City expects that future inflation costs will be paid from interest earnings on these annual contributions. However, if interest earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws or regulations, for example), these costs may need to be covered by charges to future landfill users or from other sources.

20. OPERATING AGREEMENTSCity of San Diego and San Diego Data Processing Corporation

In September 1979, the San Diego Data Processing Corporation (SDDPC) entered into an operating agreement with the City. Under the terms of the agreement, as amended, SDDPC has agreed to provide data processing and services needed to support the operational and planning requirements of the City.

The rates charged for the various services are subject to adjustment each fiscal year. Included in data processing services revenue for the year ended June 30, 1997 and 1996 are approximately \$20,049,000 and \$17,589,000, respectively, of revenue earned from the City under this agreement.

The operating agreement also requires SDDPC to purchase computer equipment, computer maintenance, various contractual services and other reimbursed expenses as a part of the service it provides to the City. The City then reimburses SDDPC the costs associated with these expenses. Such transactions are not considered to be revenues and expenses of SDDPC and are excluded from its statements of revenues, expenses and members' equity. The amount of these expenditures for the years ended June 30, 1997 and 1996 were approximately \$18,479,000 and \$16,447,000, respectively. SDDPC earned \$1,504,000 and \$1,135,000 in general and administrative fees from such transactions for year ended June 30, 1997 and 1996 respectively.

The operating agreement was amended during fiscal 1988 to have SDDPC provide and operate telecommunications services for the City. The rates for the various services are subject to adjustment each fiscal year.

Library System

During Fiscal Year 1984, SDDPC entered into an agreement with the City of San Diego Public Library and the County of San Diego Public Library (the "Libraries") which provided that SDDPC would purchase and operate an automated library system and to provide the related data processing services to support the operational requirements of the Libraries.

20. OPERATING AGREEMENTS (Continued)

The Libraries share the cost of operations based upon certain percentages of direct costs and shared costs. The rates charged for the various services are subject to adjustment each fiscal year.

Included in SDDPC's data processing service revenue are the following amounts for the automated library system for the years ended June 30, 1997 and 1996:

	<u>1997</u>	<u>1996</u>
City of San Diego Public Library	\$1,440,064	\$1,290,766
County of San Diego Public Library	<u>676,656</u>	<u>463,330</u>
Total	<u>\$2,116,720</u>	<u>\$1,754,096</u>

As of June 30, 1997, the San Diego County Library decided not to renew their agreement with SDDPC. However, SDDPC will continue to provide services to the San Diego Public Library under the terms and conditions of the City of San Diego umbrella agreement.

Regional Urban Information System

During Fiscal Year 1984, SDDPC entered into an agreement with the City and the County of San Diego (the "County") to provide, subject to annual appropriations, data processing services to implement and operate a database system known as the Regional Urban Information System ("RUIS"). The long-range goal of RUIS is to provide the City and County with an information system that monitors, where feasible, all operations both current and future, that affect their jurisdictions.

Included in SDDPC's data processing services revenue are the following amounts relating to RUIS for the years ended June 30, 1997 and 1996:

	<u>1997</u>	<u>1996</u>
City	\$3,449,824	\$3,478,582
County	<u>1,518,451</u>	<u>1,528,359</u>
Total	<u>\$4,968,275</u>	<u>\$5,006,941</u>

In Fiscal Year 1997, San Diego Geographic Information System ("SANGIS") was formed as a Joint Powers Authority ("JPA") to replace RUIS. At June 30, 1997, a five year services agreement was being finalized between SDDPC and SANGIS.

21. PRIOR PERIOD ADJUSTMENT

Due to the implementation of GASB Pronouncements No.25 and 27, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans" and "Accounting for Pensions by State and Local Governmental Employers," respectively, at July 1, 1996, amounts as of and for the year ended June 30, 1996 have been restated to reflect the retroactive treatment of this pronouncement and to enhance comparability. This restatement resulted in an increase in Pension Trust Funds - City Employees' Retirement System Assets and Reserved for Pension Benefits by approximately \$158,302,000.

During the year, the City changed its method of accounting for its TransNet Sales Tax Revenue. This required re-statement of the June 30, 1996 balances as follows; a decrease in deferred revenues of \$29,200,000, an increase in fund balance of \$22,500,000 and an increase in revenue of \$6,700,000.

21. PRIOR PERIOD ADJUSTMENT (Continued)

During Fiscal Year 1997, the City received supplemental information from the San Diego Housing Authority which required restatement of the June 30, 1996 balances as follows; an increase in total expenditures of \$4,382,000, a decrease in fund balance of \$3,471,000 and an increase in revenues by \$911,000.

22. SUBSEQUENT EVENTS

- a. On July 2, 1997, the City issued the \$82,000,000 Fiscal Year 1997-1998 Tax Anticipation Notes.
- b. On July 2, 1997, the City paid off the \$73,500,000 Fiscal Year 1996-1997 Tax Anticipation Notes.

THE CITY OF SAN DIEGO ANNUAL FINANCIAL REPORT

TRUST AND AGENCY FUNDS
PENSION TRUST FUNDS
CITY EMPLOYEES' RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION - ANALYSIS OF FUNDING PROGRESS
LAST SIX FISCAL YEARS
(IN MILLIONS)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) PUC (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
06/30/91	\$973,075	\$1,006,300	\$33,225	96.7 %	\$303,471	10.9 %
06/30/92	1,077,135	1,057,239	(19,896)	101.9	331,663	(6.0)
06/30/93	1,189,184	1,220,830	31,646	97.4	340,732	9.3
06/30/94	1,273,827	1,338,280	64,453	95.2	360,173	17.9
06/30/95	1,380,436	1,476,711	96,275	93.5	372,967	25.8
06/30/96	1,553,283	1,682,605	129,322	92.3	388,646	33.3

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APPENDIX C

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following is a summary of certain definitions and provisions set forth in the Indenture and the Convention Center Facility Lease. These summaries do not purport to be comprehensive, and reference should be made to such documents for a full and complete statement of such definitions and provisions. Prior to delivery of the 1998A Bonds, copies of these documents are available from the City, and after delivery of the 1998A Bonds, from the Trustee.

SELECTED DEFINITIONS

Additional Bonds

The term "Additional Bonds" means all lease revenue bonds or refunding lease revenue bonds of the Authority authorized by and at any time Outstanding pursuant to the Indenture and executed, issued and delivered in accordance with the Indenture.

Additional Rental

"Additional Rental" means all the additional rental payable by the City under and pursuant to the Facility Lease.

Agreement

The term "Agreement" means the Joint Exercise of Powers Agreement, dated as of May 1, 1996, between the City and the District creating the Convention Center Expansion Financing Authority, as originally executed and as it may be amended or supplemented from time to time in accordance with the terms thereof.

Annual Debt Service

The term "Annual Debt Service" means, for any Bond Year, the sum of (1) the interest payable on all Outstanding Bonds in such Bond Year, assuming that all Outstanding Serial Bonds are retired as scheduled and that all Outstanding Term Bonds, if any, are redeemed or paid from the Sinking Account as scheduled (except to the extent that such interest is to be paid from the proceeds of the sale of any Bonds), (2) the principal amount of all Outstanding Serial Bonds, if any, maturing by their terms in such Bond Year, and (3) the principal amount of all Outstanding Term Bonds, if any, required to be redeemed or paid in such Bond Year (together with the redemption premiums, if any, thereon).

Ambac Assurance

The term "Ambac Assurance" means Ambac Assurance Corporation, a Wisconsin-domiciled stock insurance company.

Assignment Agreement

"Assignment Agreement" means that certain Assignment Agreement, dated as of September 1, 1998, by and between the Authority and the Trustee, providing for the assignment by the Authority of certain rights contained in the Facility Lease, as originally executed and as it may from time to time be amended or supplemented in accordance with the terms thereof.

Authority

The term "Authority" means the Convention Center Expansion Financing Authority, a joint powers agency created by the City and the District pursuant to California Government Code Sections 6500 *et seq.* and the Agreement.

Authorized Denominations

The term "Authorized Denominations" means \$5,000 and any integral multiple thereof.

Base Rental Payments

The term "Base Rental Payments" means all amounts payable by the City as the Base Rental pursuant to the Facility Lease.

Beneficial Owner

The term "Beneficial Owner" means any person which has the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

Bond Year

The term "Bond Year" means the period from April 1 to the following March 31.

Bonds

The term "Bonds" means the 1998A Bonds and all Additional Bonds.

Business Day

The term "Business Day" means a day of the year which is not a Saturday or Sunday, or a day on which banking institutions located in California are required or authorized to remain closed, or on which the New York Stock Exchange is closed.

Center

"Center" means the Existing Center and the Expanded Center to be subleased by the City under the Facility Lease.

Certificate of Completion

The term "Certificate of Completion" means a Certificate of the City filed with the Trustee, stating that the Expansion Project being financed with the proceeds of the Bonds has been acquired, constructed, installed and improved and that all Construction Costs have been paid or provided for.

Certificate of the Authority

The term "Certificate of the Authority" means an instrument in writing signed by the Chair, the Treasurer or the Secretary of the Authority, or by any other officer or authorized delegate of the Authority duly authorized by the Authority for that purpose.

Certificate of the City

The term "Certificate of the City" means an instrument in writing signed by the City Manager of the City, or by any other officer of the City duly authorized by the City for that purpose.

City

The term "City" means the City of San Diego, a municipal corporation duly organized and existing under its charter and the Constitution of the State.

Closing Date

The term "Closing Date" means September 17, 1998.

Code

"Code" means the Internal Revenue Code of 1986, as amended, and the regulations of the United States Department of the Treasury issued thereunder, and in this regard reference to any particular section of the Code will include reference to all successors to such section of the Code.

Construction Costs

The term "Construction Costs" means all costs of acquiring, constructing, installing or improving the Expansion Project, including but not limited to:

(i) all costs which the Authority or the City will be required to pay to a manufacturer, vendor or contractor or any other person under the terms of any contract or contracts for the acquisition, construction, installation or improvement of the Expansion Project;

(ii) obligations of the Authority or the City incurred for labor and materials (including obligations payable to the Authority or the City for actual out-of-pocket expenses of the Authority or the City) in connection with the acquisition, construction, installation or improvement of the Expansion Project, including reimbursement to the Authority or the City for all advances and payments made in connection with the Expansion Project prior to or after delivery of the Bonds;

(iii) the costs of performance or other bonds and any and all types of insurance that may be necessary or appropriate to have in effect during the course of acquisition, construction, installation or improvement of the Expansion Project;

(iv) all costs of engineering and architectural services, including the actual out-of-pocket costs of the Authority or the City for test borings, surveys, estimates, plans and specifications and preliminary investigations therefor, development fees and sales commissions, and for supervising acquisition, construction, installation and improvement, as well as for the performance of all other duties required by or consequent to the proper acquisition, construction, installation or improvement of the Expansion Project; and

(v) any sums required to reimburse the Authority or the City for advances made by the Authority or the City for any of the above items or for any other costs incurred and for work done by the Authority or the City which are properly chargeable to the acquisition, construction, installation or improvement of the Expansion Project.

Continuing Disclosure Agreement

The term "Continuing Disclosure Agreement" means that certain Continuing Disclosure Agreement between the City and the Trustee, dated as of September 1, 1998, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

Corporate Trust Office of the Trustee

The term "Corporate Trust Office of the Trustee" means the principal corporate trust office of the Trustee in Los Angeles, California or such other or additional offices as may be specified to the Authority by the Trustee in writing, except that with respect to presentation of Bonds for payment or for registration of transfer and exchange such term will mean the office or agency of the Trustee at which at any particular time, its corporate trust agency will be conducted.

Costs of Issuance

The term "Costs of Issuance" means all items of expense directly or indirectly payable by or reimbursable to the City or the Authority relating to the issuance, sale and delivery of the Bonds and the execution and delivery of the Existing Center Lease, the Expansion Lease and the Facility Lease, including but not limited to filing and recording costs, settlement costs, printing costs, reproduction and binding costs, initial fees and charges of the Trustee (including legal fees), financing discounts, legal fees and charges, insurance fees and charges, financial and other professional consultant fees, costs of rating agencies or credit ratings, fees for transportation and safekeeping of the Bonds and charges and fees in connection with the foregoing, or to the District for expenses not to exceed \$349,413 incident to the Expansion Project and related agreements to which it is a party.

Credit Facility

The term "Credit Facility" means any line of credit, letter of credit, insurance policy, surety bond or other credit source deposited with the Trustee pursuant to the Indenture.

District

The term "District" means the San Diego Unified Port District, a public body, corporate and politic, duly organized and existing under and by virtue of the laws of the State of California.

Existing Center

The term "Existing Center" means the real property described in the Facility Lease and the improvements thereon, excluding the Parking Facility and the Tennis Courts.

Existing Center Expiry Date

The term "Existing Center Expiry Date" means September 16, 2002, a date which is four (4) years after the Closing Date, unless terminated on an earlier date pursuant to the Facility Lease and the Existing Center Lease.

Existing Center Lease

The term "Existing Center Lease" means that certain Existing Center Lease, dated as of September 1, 1998, between the District and the Authority under which the District leases to the Authority the Existing Center, as originally executed and as it may from time to time be amended or supplemented in accordance with the terms thereof.

Expanded Center

The term "Expanded Center" means the Expansion Site and the Expansion Project constructed thereon.

Expansion Lease

The term "Expansion Lease" means that certain Expansion Lease, dated as of September 1, 1998, between the District and the Authority under which the District leases to the Authority the Expanded Center, as originally executed and as it may from time to time be amended or supplemented in accordance with the terms thereof.

Expansion Project

The term "Expansion Project" means the expansion to the Existing Center to be constructed on the Expansion Site.

Expansion Project Expiry Date

"Expansion Project Expiry Date" means September 16, 2002, except as extended or sooner terminated pursuant to the Facility Lease and the Expansion Lease.

Expansion Site

The term "Expansion Site" means the real property described in the Facility Lease.

Facility Lease

The term "Facility Lease" means that certain Convention Center Facility Lease, dated as of September 1, 1998, between the City and the Authority under which the Authority subleases to the City the Existing Center and the Expanded Center, as originally executed and as it may from time to time be amended or supplemented in accordance with the terms thereof.

Financial Newspaper

The term "Financial Newspaper" means The Wall Street Journal or The Bond Buyer or any other newspaper or journal printed in the English language publishing financial news and selected by the City, whose decision will be final and conclusive.

Fiscal Year

The term "Fiscal Year" means each annual period of the Authority which, as of the date of the Indenture, is the period from July 1 to the following June 30.

Fitch

The term "Fitch" means Fitch IBCA, Inc., or any successor credit rating agency selected by the Authority.

Indenture

The term "Indenture" means the Indenture, dated as of September 1, 1998, between the Authority and the Trustee, as originally executed and as it may from time to time be amended or supplemented by all Supplemental Indentures executed pursuant to the provisions of the Indenture.

Information Services

The term "Information Services" means Financial Information, Inc.'s "Daily Called Bond Service," 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 17302, Attention: Editor; Kenny Information Services' "Called Bond Service," 65 Broadway, 16th Floor, New York, New York 10006; Moody's Investors Service's "Municipal and Government," 99 Church Street, 8th Floor, New York, New York 10007, Attention: Municipal News Reports; and Standard and Poor's Corporation's "Called Bond Record," 25 Broadway, 3rd Floor, New York, New York 10004; or, in accordance with then current guidelines of the Securities and Exchange Commission, to such other addresses and/or such other services providing information with respect to called bonds, or to such services as the Authority may designate in a Certificate of the Authority delivered to the Trustee.

Insurance Consultant

"Insurance Consultant" means an individual or firm retained by the City as an independent insurance consultant, experienced in the field of risk management.

Interest Payment Date

The term "Interest Payment Date" means each April 1 and October 1 commencing April 1, 1999.

Lease Year

The term "Lease Year" means the period from each September 1 to and including the following August 31, during the term of the Facility Lease; except that the initial Lease Year means the period from September 17, 1998 to and including August 31, 1999.

Leased Property

The term "Leased Property" means, prior to the Existing Center Expiry Date, the Existing Center and the Expanded Center, and after the Existing Center Expiry Date, the Expanded Center (as the same may be changed from time to time by Removal or Substitution as provided in the Facility Lease).

Maximum Annual Debt Service

The term "Maximum Annual Debt Service" means the largest Annual Debt Service during the period from the date of such determination through the final maturity date of any Outstanding Bonds.

Moody's

The term "Moody's" means Moody's Investors Service, Inc., or any successor credit rating agency selected by the Authority.

Municipal Bond Insurance Policy

The term "Municipal Bond Insurance Policy" means the municipal bond insurance policy issued by Ambac Assurance insuring the payment when due of the principal of and interest on the 1998A Bonds as provided therein.

Net Proceeds

The term "Net Proceeds" means, collectively, the net proceeds of any insurance or condemnation award resulting from any damage or destruction of any portion of the Leased Property payable in accordance with the Facility Lease.

1998A Bonds

The term "1998A Bonds" means all lease revenue bonds of the Authority authorized by and at any time Outstanding pursuant to the Indenture and issued, executed and delivered in accordance with the Indenture.

Operating Agreement

"Operating Agreement" means that certain First Amended and Restated Convention Center Management Agreement, dated September 17, 1998, by and between the City and the Port, providing the terms and conditions under which (i) the City is operating the Existing Center and (ii) the City will operate the Expanded Center, as originally executed and as it may from time to time be amended or supplemented in accordance with the terms thereof.

Opinion of Counsel

The term "Opinion of Counsel" means a written opinion of counsel of recognized national standing in the field of law relating to municipal bonds, appointed and paid by the Authority or the City.

Outstanding

The term "Outstanding," when used as of any particular time with reference to Bonds, means (subject to the provisions of the Indenture relating to Disqualified Bonds) all Bonds theretofore or thereupon executed by the Authority and authenticated and delivered by the Trustee pursuant to the Indenture including, but not limited to, 1998A Bonds of which the principal and/or interest due shall have been paid by Ambac Assurance pursuant to the Municipal Bond Insurance Policy, except:

- (i) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation;
- (ii) Bonds paid or deemed to have been paid within the meaning of the provisions of the Indenture relating to defeasance; and
- (iii) Bonds in lieu of or in substitution for which other Bonds will have been executed by the Authority and authenticated and delivered pursuant to the Indenture.

Owner

The term "Owner" means any person who shall be the registered owner of any Outstanding Bond, as shown on the registration books required to be maintained by the Trustee pursuant to the Indenture.

Parking Facility

"Parking Facility" means the parking facility constructed adjacent to and below the Existing Center as described in the Facility Lease.

Permitted Encumbrances

"Permitted Encumbrances" means, as of any particular time: (i) liens for general ad valorem taxes and assessments, if any, not then delinquent, or which the City may, pursuant to the Facility Lease, permit to remain unpaid; (ii) the Existing Center Lease and the Expansion Lease; (iii) the Facility Lease and the Assignment Agreement, as it may be amended from time to time; (iv) the Operating Agreement; (v) any right or claim of any mechanic, laborer, materialman, supplier or vendor not filed or perfected in the manner prescribed by law; (vi) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions, all of a non-monetary nature, which exist of record as of the Closing Date; and (vii) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions, all of a non-

monetary nature, established following the date of recordation of the Facility Lease and to which the Authority and the City consent in writing.

Permitted Investments

The term "Permitted Investments" means any of the following to the extent then permitted by law and the Indenture:

(1) United States of America Treasury bills, notes, bonds or certificates of indebtedness, or obligations of, or obligations guaranteed directly or indirectly by, the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America or any Federal Reserve Bank) or securities or other instruments evidencing direct ownership interests in such obligations or in specified portions of the interest on or principal of such obligations, which will be held by a custodian on behalf of such owners;

(2) (i) Obligations issued by banks for cooperatives, federal land banks, federal intermediate credit banks, federal home loan banks, the Federal Home Loan Bank Board, Federal Home Loan Mortgage Corporation or the Tennessee Valley Authority, or (ii) obligations, participations or other instruments of or issued by, or fully guaranteed as to interest and principal by, the Federal National Mortgage Association (excluding stripped mortgage backed securities which are valued at greater than par on the unpaid principal), or (iii) guaranteed portions of Small Business Administration notes, or (iv) obligations, participations or other instruments of or issued by a federal agency or a United States of America government-sponsored enterprise; *provided, however*, that prior to investing in investments described in clause (iv) hereof, the City will have provided to the Trustee a Certificate of the City that such investment shall have been approved for investment under the Indenture by the Rating Agencies;

(3) Bills of exchange or time drafts drawn on and accepted by a commercial bank (including the Trustee or its affiliates), otherwise known as bankers acceptances, which are eligible for purchase by members of the Federal Reserve System and which are drawn on any bank the short-term obligations of which are of the highest letter and numerical rating category as provided by the Ratings Agencies; *provided* that purchases of eligible bankers acceptances may not exceed 270 days' maturity;

(4) Commercial paper of "prime" quality of the highest ranking or of the highest letter and numerical rating as provided by the Ratings Agencies, which commercial paper is limited to issuing corporations that are organized and operating within the United States of America and that have total assets in excess of five hundred million dollars (\$500,000,000) and that have an "A" or higher rating for the issuer's unsecured debentures, other than commercial paper, as provided by the Ratings Agencies; *provided* that purchases of eligible commercial paper may not exceed 180 days maturity nor represent more than 10% of the outstanding commercial paper of an issuing corporation;

(5) Certificates of deposit, whether negotiable or non-negotiable, issued by a state or national bank (including the Trustee or its affiliates) or a state or federal savings and loan association, *provided* that such certificates of deposit will be either (A) continuously and fully insured by the Federal Deposit Insurance Corporation or (B) have maturities of not more than 365 days and issued by any state or national bank or a state or federal savings and loan association, the short term obligations of which are rated in the highest short term letter and numerical rating category by the Rating Agencies;

(6) Any repurchase agreement with any state or national bank (including the Trustee or its affiliates) or government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York, which agreement is either (A) with any institution which has debt rated no lower than "AA" or whose commercial paper is rated no lower than "F-1" by Fitch, if then rating the Certificates, no lower than "P-1" by Moody's, if then rating the Bonds, and no lower than "A-1" by S&P, if then rating the Bonds, (B) with any corporation or other entity that falls under the jurisdiction of the Federal Bankruptcy Code *provided* that: (a) the term of such repurchase agreement is less than one year or due on

demand; (b) the Trustee or a third party acting solely as agent for the Trustee has possession of the collateral; (c) the market value of the collateral is maintained at levels acceptable to the Rating Agencies as evidenced by a Certificate of the City delivered to the Trustee; (d) failure to maintain the requisite collateral levels will require the Trustee to liquidate the collateral immediately; (e) the repurchase agreement securities must be either obligations of, or fully guaranteed as to principal and interest by, the United States of America or any agency of the United States of America, certificates of deposit or bankers' acceptances; and (f) repurchase agreement securities are free and clear of any third-party lien or claim; or (C) with financial institutions insured by the Federal Deposit Insurance Corporation or any broker-dealer with "retail customers" which falls under the jurisdiction of the Securities Investors Protection Corporation; *provided that*: (a) the market value of the collateral is maintained at levels acceptable to the Rating Agencies as evidenced by a Certificate of the City delivered to the Trustee; (b) the Trustee or a third party acting solely as agent for the Trustee has possession of the collateral; (c) the Trustee has a perfected first priority security interest in the collateral; (d) the collateral is free and clear of third-party liens and in the case of a Securities Investors Protection Corporation broker was not acquired pursuant to a repurchase agreement or reverse repurchase agreement; and (e) failure to maintain the requisite collateral percentage will require the Trustee to liquidate the collateral immediately;

(7) Certificates, notes, warrants, bonds or other evidence of indebtedness of the State of California or of any political subdivision or public agency thereof which are rated in the highest short-term rating category or within one of the two highest long term rating categories of the Rating Agencies (excluding securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date);

(8) For amounts less than \$10,000, interest-bearing demand or time deposits (including certificates of deposit) in a nationally or state-chartered bank, or state or federal savings and loan association in the State of California, fully insured by the Federal Deposit Insurance Corporation, including the Trustee or any affiliate thereof;

(9) Investments in taxable government money market portfolios restricted to obligations with an average maturity of one year or less, issued or guaranteed as to payment of principal and interest by the full faith and credit of the United States of America and rated in either of the two highest rating categories by the Rating Agencies, including funds for which the Trustee, its affiliates or subsidiaries provide investment advisory or other management services;

(10) Guaranteed investment contracts or funding agreements (in either case approved for investment under the Indenture by the Rating Agencies as evidenced by a Certificate from the City to the Trustee) fully collateralized at all times with permitted collateral from domestic or Canadian insurance companies or insurance holding companies rated at least "Aa3" or "AA-" as to claims paying ability by the Rating Agencies, or U.S. branches of foreign banks rated at least "Aa3" or "AA-" by the Rating Agencies, domestic banks rated at least "A2" or "A" by the Rating Agencies, or, if such agreement is in a repurchase format, registered broker/dealers subject to SIPC or primary government security dealers rated, or whose parent is rated, at least "A3" or "A-" by the Rating Agencies and, in any case, if the investment contracts or funding agreements with such securities dealers, commercial banks or insurance companies is unconditionally guaranteed by an entity meeting the respective foregoing rating requirements, such rating will be deemed the rating of such securities dealers, commercial banks or insurance companies and, in measuring the maturity of an investment under this subsection (10), such maturity of an investment can be liquidated by the Trustee at par plus accrued interest without the payment of any penalty; and

(11) Shares in a California common law trust established pursuant to Title 1, Division 7, Chapter 5 of the Government Code of the State of California which consists exclusively of investments permitted by Section 53635 of Title 5, Division 2, Chapter 4 of the Government Code of the State of California, as it may be amended.

Rating Agencies

The term "Rating Agencies" means Moody's, Inc., S&P or Fitch, or in the event that Moody's Investors Service, Inc. or S&P or Fitch no longer maintains a rating on the Bonds, any other nationally recognized bond rating agency then maintaining a rating on the Bonds, but, in each instance, only so long as Moody's Investors Service, Inc., S&P or Fitch or other nationally recognized rating agency then maintains a rating on the Bonds.

Rebate Requirement

The term "Rebate Requirement" with respect to a series of Bonds has the meaning set forth in the applicable Tax Certificate.

Record Date

The term "Record Date" means the 15th day of the month immediately preceding an Interest Payment Date, whether or not such day is a Business Day.

Removal

"Removal" means the release of all or a portion of the Leased Property from the leasehold of the Facility Lease as provided in the Facility Lease.

Reserve Requirement

The term "Reserve Requirement" means, as of any date of calculation, the least of (i) 10% of the stated principal amount of the Bonds, (ii) one-half of Maximum Annual Debt Service for the current or any future Bond Year, or (iii) 125% of average Annual Debt Service. For purposes of determining if the amount on deposit in the Reserve Account equal the Reserve Requirement, any Credit Facility will be deemed to be a deposit in the face amount or stated amount of such Credit Facility, less any unreimbursed drawings or other amounts not reinstated under such Credit Facility.

Revenues

The term "Revenues" means all Base Rental Payments made pursuant to the Facility Lease and interest or profits from the investment of money in any fund, account or subaccount (other than the Rebate Fund) pursuant to the Indenture.

Securities Depositories

The term "Securities Depositories" means: The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11530, Fax-(516) 227-4039 or 4190; Midwest Securities Trust Company, Capital Structures-Call Notification 440 South LaSalle Street, Chicago, Illinois 60605, Fax-(312) 663-2343; Philadelphia Depository Trust Company, Reorganization Division, 1900 Market Street, Philadelphia, Pennsylvania 19103, Attention: Bond Department, Fax-(215) 496-5058; or to such other addresses and/or such other securities depositories as the Authority may designate in writing to the Trustee.

Serial Bonds

The term "Serial Bonds" means Bonds for which no sinking fund payments are provided.

S&P

The term "S&P" means Standard & Poor's Ratings Services, or any successor credit rating agency selected by the Authority.

State

The term "State" means the State of California.

Substitution

"Substitution" means the release of all or a portion of the Leased Property from the leasehold of the Facility Lease, and the lease of substituted real property and improvements under the Facility Lease as provided in the Facility Lease.

Supplemental Indenture

The term "Supplemental Indenture" means any indenture then in full force and effect which has been duly executed and delivered by the Authority and the Trustee amendatory of or supplemental to the Indenture; but only if and to the extent that such Supplemental Indenture is specifically authorized under the Indenture.

Tax Certificate

The term "Tax Certificate" means the Tax Certificate delivered by the Authority at the time of the issuance and delivery of a series of Bonds, as the same may be amended or supplemented in accordance with its terms.

Tennis Courts

"Tennis Courts" means those tennis courts constructed on the roof of the Existing Center.

Term Bonds

The term "Term Bonds" means Bonds which are payable on or before their specified maturity dates from sinking fund payments established for that purpose and calculated to retire such Bonds on or before their specified maturity dates.

Trustee

The term "Trustee" means BNY Western Trust Company, a banking corporation existing under and by virtue of the laws of the State of California, or any other association or corporation which may at any time be substituted in its place as provided in the Indenture.

Written Request of the Authority

The term "Written Request of the Authority" means a request in writing signed by the Chair, the Treasurer or the Secretary of the Authority, or by any other officer or authorized delegate of the Authority duly authorized by the Authority for that purpose.

Written Request of the City

The term "Written Request of the City" means a request in writing signed by the City Manager of the City, or by any other officer of the City duly authorized by the City for that purpose.

INDENTURE

The Indenture sets forth certain terms of the 1998A Bonds, the nature and extent of the security for the 1998A Bonds, various rights of the Owners of the 1998A Bonds, rights, duties and immunities of the Trustee and the rights and obligations of the Authority. Certain provisions of the Indenture are summarized below. Other provisions are summarized in this Official Statement under the captions "THE 1998A BONDS" and the "SECURITY AND SOURCES OF PAYMENT FOR THE 1998A BONDS." This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Indenture.

Equal Security

In consideration of the acceptance of the Bonds by the Owners thereof, the Indenture will be deemed to be and will constitute a contract between the Authority and the Trustee for the benefit of the Owners from time to time of all Bonds authorized, executed, issued, executed and delivered under the Indenture and then Outstanding to secure the full and final payment of the interest on and principal of and redemption premiums, if any, with respect to all Bonds which may from time to time be authorized, executed, issued and delivered under the Indenture, subject to the agreements, conditions, covenants and provisions contained in the Indenture and all agreements and covenants set forth in the Indenture to be performed by or on behalf of the Authority will be for the equal and proportionate benefit, protection and security of all Owners of the Bonds without distinction, preference or priority as to security or otherwise of any Bonds over any other Bonds by reason of the number or date thereof or the time of authorization, sale, issuance, execution, or delivery thereof or for any cause whatsoever, except as expressly provided in the Indenture or therein.

Issuance of Additional Bonds

Conditions for the Issuance of Additional Bonds. The Authority may at any time issue Additional Bonds payable from the Revenues as provided in the Indenture and secured by a pledge of the Revenues as provided in the Indenture equal to the pledge securing the Outstanding Bonds theretofore issued under the Indenture, but only subject to the following specific conditions, which are made conditions precedent to the issuance of any such Additional Bonds:

(a) The Authority shall be in compliance with all agreements and covenants contained in the Indenture and no Event of Default shall have occurred and be continuing under the Facility Lease.

(b) The issuance of such Additional Bonds shall have been authorized by the Authority and shall have been provided for by Supplemental Indenture which shall specify the following:

(1) The purpose for which such Additional Bonds are to be issued; *provided* that the proceeds of such Additional Bonds shall be applied solely for the purpose of (i) financing, acquiring, constructing, maintaining, operating, improving and leasing the Expansion Project, including payment of all costs incidental to or connected with such financing, (ii) increasing the Reserve Requirement and/or (iii) refunding any Bonds then Outstanding, including payment of all costs incidental to or connected with such refunding;

(2) The authorized principal amount and designation of such Additional Bonds;

(3) The dated date and the maturity dates of, and the sinking fund payment dates, if any, for such Additional Bonds; *provided* that (i) each maturity and sinking fund date shall fall upon April 1, (ii) all such Additional Bonds of like maturity shall be identical in all respects, except as to number and denomination, and (iii) serial maturities for Serial Bonds or sinking fund payments for Term Bonds, or any combination thereof, shall be established to provide for the retirement of such Additional Bonds on or before their respective longest maturity dates;

(4) The interest payment dates for such Additional Bonds, which shall be Interest Payment Dates;

(5) The redemption premiums, if any, and the redemption terms, if any, for such Additional Bonds;

(6) The amount, if any, to be deposited from the proceeds of sale of such Additional Bonds in the Interest Account;

(7) The amount, if any, to be deposited from the proceeds of sale of such Additional Bonds in an escrow fund or construction fund;

(8) The amount to be deposited from the proceeds of sale of such Additional Bonds in the Reserve Account, which amount shall be sufficient to cause the amount on deposit in the Reserve Account to equal the Reserve Requirement upon the issuance of such Additional Bonds;

(9) The forms of such Additional Bonds; and

(10) Such other provisions as are necessary or appropriate and not inconsistent with the Indenture.

(c) The Facility Lease shall have been further amended so as to increase the aggregate Base Rental payable by the City thereunder by an amount at least sufficient to pay the interest on and principal of such Additional Bonds as the same become due, subject to the limitation that the increase in Base Rental together with existing Base Rental Payments shall not in any year be in excess of the annual fair rental of the Leased Property determined as of the time the Additional Bonds are issued.

(d) The Authority shall have received confirmation in writing from the Rating Agencies that the issuance of such Additional Bonds shall not, in and of itself, cause a downgrading or withdrawal of such rating. The Authority shall not seek such a confirmation in writing if the annual amount of interest and principal, including sinking fund payments, payable on the Additional Bonds, does not exceed the corresponding amount of such payments on the Outstanding Bonds being refunded, *provided*, that the term of the Additional Bonds does not exceed the term on the Outstanding Bonds being refunded.

Nothing contained in the Indenture will limit the issuance of any lease revenue bonds of the Authority payable from the Revenues and secured by a pledge of the Revenues if, after the issuance and delivery of such lease revenue bonds, none of the Bonds theretofore issued under the Indenture will be Outstanding.

Procedure for the Issuance of Additional Bonds. The Authority may, at any time, execute Additional Bonds for issuance under the Indenture and deliver them to the Trustee, and thereupon such Additional Bonds will be authenticated and delivered by the Trustee to the purchaser thereof upon the Written Request of the Authority, but only upon receipt by the Trustee of the following documents or money or securities, all of such documents dated or certified, as the case may be, as of the date of delivery of such Additional Bonds by the Trustee (unless the Trustee shall accept any of such documents bearing a prior date):

(a) An executed copy of the Supplemental Indenture authorizing the issuance of such Additional Bonds;

(b) A Written Request of the Authority as to the delivery of such Additional Bonds;

(c) An Opinion of Counsel to the effect that (1) the Authority has the right and power to execute and deliver the Supplemental Indenture and the Supplemental Indenture has been duly and lawfully executed and delivered by the Authority, is in full force and effect and is valid and binding upon the Authority and enforceable in accordance with its terms (except as enforcement may be limited by

bankruptcy, insolvency, reorganization and other similar laws relating to the enforcement of creditors' rights and by equitable principles) and no other authorization for the execution and delivery thereof is required, (2) the Supplemental Indenture creates the valid pledge of the Revenues which it purports to create as provided therein, subject to the application thereof to the purposes and on the conditions permitted by the Indenture, (3) such Additional Bonds are valid and binding special obligations of the Authority, enforceable in accordance with their terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization and other similar laws relating to the enforcement of creditors' rights and by equitable principles) and the terms of the Indenture and entitled to the benefits of the Indenture, and such Additional Bonds have been duly and validly authorized, executed, issued and delivered in accordance with the Indenture, (4) the amendments to the Facility Lease required by the provision of the Indenture described in paragraph (c) of the section immediately above under the caption "Conditions for the Issuance of Additional Bonds" have been duly authorized, executed and delivered and are valid and binding upon the Authority and the City and enforceable in accordance with its terms (except as enforcement may be limited by bankruptcy insolvency, reorganization and other similar laws relating to the enforcement of creditors' rights and by equitable principles), and (5) the issuance of such Additional Bonds will not adversely affect the exclusion from gross income for federal tax purposes of interest on the Bonds then Outstanding;

(d) A Certificate of the Authority certifying that the conditions for the issuance of such Additional Bonds contained in the Indenture have been complied with and satisfied; and

(e) Such further documents, opinions, money or securities as are required by the provisions of the Supplemental Indenture providing for the issuance of such Additional Bonds.

Certain Funds

Costs of Issuance Fund. The Trustee will hold the moneys in the Costs of Issuance Fund and will disburse such moneys from time to time to pay Costs of Issuance. The Trustee will disburse moneys in the Costs of Issuance Fund from time to time upon receipt by the Trustee of a Written Request of the City or Authority, which may be sent to the Trustee by facsimile, that: (a) states with respect to each disbursement to be made: (i) the requisition number, (ii) the name and address of the person, firm or corporation to whom payment is due, (iii) the amount to be disbursed, and (iv) that each obligation therein has been properly incurred, and is a proper charge against the Costs of Issuance Fund and has not been the basis of any previous disbursement; (b) specifies in reasonable detail the nature of the obligation; and (c) is accompanied by a bill or statement of account for each obligation.

Upon the earlier of the date one year after the Closing Date or the date of receipt of a Certificate of the City stating that all Costs of Issuance have been paid, the Trustee will transfer any amounts then remaining in the Costs of Issuance Fund to the Construction Fund until such time as the Certificate of Completion is delivered to the Trustee and thereafter to the Reserve Account to the extent amounts in the Reserve Account have been withdrawn to pay debt service on the Bonds and any amount remaining thereafter in the Costs of Issuance Fund will be transferred to the Interest Account; *provided* that investment earnings or equivalent amount may be transferred to the Rebate Fund as provided in the Indenture.

Construction Fund. (a) The Trustee will hold the moneys in the Construction Fund and will disburse such moneys therefrom to pay the costs of the Expansion Project or, at the election of the City as set forth in a Written Request of the City, transfer such moneys therefrom to the Interest Account to pay interest on the Bonds when and as the same will become due and payable. Such disbursements will be made from time to time upon receipt of a Written Request of the City on behalf of the Authority (in the form as set forth in the Indenture) which: (a) states with respect to each disbursement to be made: (i) the requisition number, (ii) the name and address of the person, firm or authority to whom payment is due, (iii) the amount to be disbursed, and (iv) that each obligation therein has been properly incurred, and is a proper charge against the Construction Fund and has not been the basis of any previous disbursement; (b) specifies in reasonable detail the nature of the obligation; and (c) is accompanied by a bill or statement of account for each obligation.

(b) If, after payment by the Trustee of all Written Requests of the City on behalf of the Authority and delivery to the Trustee of a Certificate of Completion, there will remain any balance of money in the Construction Fund, all money so remaining will be transferred first to the Reserve Account to the extent necessary to make the amount on deposit therein equal to the Reserve Requirement, and thereafter to the accounts of the Interest Account.

Revenues

Pledge of Revenues. All Revenues and amounts on deposit in the funds, accounts and subaccounts established under the Indenture (other than amounts on deposit in the Rebate Fund created pursuant to the Indenture) are irrevocably pledged to the payment of the interest on and principal of the Bonds as provided in the Indenture, and the Revenues will not be used for any other purpose while any of the Bonds remain Outstanding; *provided, however*, that out of the Revenues there may be allocated such sums for such purposes as are expressly permitted by Indenture.

The Trustee will be entitled to and will receive all of the Revenues, and any Revenues collected or received by the Authority will be deemed to be held, and to have been collected or received, by the Authority as agent of the Trustee and will forthwith be paid by the Authority to the Trustee.

Receipt and Deposit of Revenues in the Bond Fund. In order to carry out and effectuate the pledge contained in the Indenture, the Trustee agrees and covenants that all Revenues when and as received will be received in trust under the Indenture for the benefit of the Owners and will be deposited when and as received in the Bond Fund. All Revenues will be accounted for through and held in trust in the Bond Fund, and the Authority will have no beneficial right or interest in any of the Revenues except only as in the Indenture provided. All Revenues, whether received by the Authority in trust or deposited with the Trustee as in the Indenture provided, will nevertheless be allocated, applied and disbursed solely to the purposes and uses described below, and will be accounted for separately and apart from all other accounts, funds, money or other resources of the Authority.

Establishment and Maintenance of Accounts for Use of Money in the Bond Fund. Subject to the covenant of the Authority relating to tax and rebate fund described below, all money in the Bond Fund will be set aside by the Trustee in the following respective special accounts within the Bond Fund each of which is created pursuant to the Indenture and each of which the Trustee covenants and agrees to maintain) in the following order of priority:

- (a) Interest Account,
- (b) Principal Account,
- (c) Reserve Account, and
- (d) Redemption Account.

All money in each of such accounts will be held in trust by the Trustee and will be applied, used and withdrawn only for the purposes authorized in the Indenture.

(a) *Interest Account.* On or before each Interest Payment Date, the Trustee will set aside from the Bond Fund and deposit in the Interest Account that amount of money which, together with any money contained in the Interest Account, is equal to the aggregate amount of interest becoming due and payable on all Outstanding Bonds on such Interest Payment Date.

No deposit need be made in the Interest Account if the amount contained in the Interest Account is at least equal to the aggregate amount of interest becoming due and payable on all Outstanding Bonds on such interest payment date.

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

(b) *Principal Account.* On or before April 1 of each year, beginning on April 1, 2002, the Trustee will set aside from the Bond Fund and deposit in the Principal Account an amount of money equal to the aggregate principal amount of all Outstanding Serial Bonds maturing on such April 1, plus the aggregate amount of all sinking fund payments required to be made with respect to the Term Bonds on such April 1. No deposit need be made in the Principal Account if the amount contained therein is at least equal to the aggregate amount of the principal of all Outstanding Serial Bonds maturing by their terms on such April 1, plus the aggregate amount of all sinking fund payments required to be made on such April 1, for all Outstanding Term Bonds.

The Trustee will establish and maintain within the Principal Account a separate subaccount for the Term Bonds of each series and maturity, designated as the “__ Sinking Account” (the “Sinking Account”), inserting therein the series and maturity (if more than one such subaccount is established for such series) designation of such Bonds. With respect to each Sinking Account, on each mandatory sinking account payment date established for such Sinking Account, the Trustee will apply the mandatory sinking account payment required on that date to the redemption (or payment at maturity, as the case may be) of Term Bonds of the series and maturity for which such Sinking Account was established, upon the notice and in the manner provided in the Indenture or in the Supplemental Indenture pursuant to which such series of Bonds were issued; *provided* that, at any time prior to giving such notice of such redemption, the Trustee may apply moneys in such Sinking Account at the written direction of the City to the purchase of Term Bonds of such series and maturity at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as will be determined by the City, except that the purchase price (excluding accrued interest) shall not exceed the redemption price that would be payable for such Bonds upon redemption by application of such mandatory sinking account payment. If, during the twelve-month period immediately preceding said mandatory sinking account payment date, the Trustee has purchased Term Bonds of such series and maturity with moneys in such Sinking Account, such Bonds so purchased will be applied, to the extent of the full principal amount thereof, to reduce said mandatory sinking account payment.

All money in the Principal Account will be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Bonds as they will become due and payable, except that any money in any Sinking Account will be used and withdrawn by the Trustee only to purchase or to redeem or to pay Term Bonds for which such sinking account was created.

(c) *Reserve Account.* All amounts deposited into the Reserve Account will be used only for the purposes set forth in the Indenture while any of the Bonds remain Outstanding and are irrevocably pledged to the payment of the interest, principal and redemption premiums, if any, with respect to the Bonds.

(1) On or before April 1 of each year, beginning on April 1, 1999, the Trustee will set aside from the Bond Fund and deposit in the Reserve Account that amount of money which will be required to maintain the Reserve Account in the full amount of the Reserve Requirement or such larger amount as will be required to be maintained in the Reserve Account by any Supplemental Indenture. No deposit need be made in the Reserve Account so long as there will be on deposit therein a sum equal to at least the amount required by this paragraph to be on deposit therein.

(2) All money in the Reserve Account will be used and withdrawn by the Trustee solely for the purpose of replenishing the Interest Account or the Principal Account in such order, in the event of any deficiency at any time in either of such accounts, or for the purposes of paying the interest, principal or redemption premiums, if any, with respect to the Bonds in the event that

no other money of the Authority is lawfully available therefor, or for the retirement of all the Bonds then Outstanding, except that so long as the Authority is not in default under the Indenture. All interest income received by the Trustee on investment of moneys in the Reserve Account will be transferred first to the Rebate Fund to the extent required pursuant to the Indenture, as set forth in a Written Request of the Authority or the City to the Trustee, and thereafter to the Interest Account; *provided, however*, that such interest income will be retained in the Reserve Account to the extent that amounts therein have been transferred in accordance with this paragraph (3) to make up a deficiency in the Interest Account or the Principal Account. Amounts in the Reserve Account in excess of the then current Reserve Requirement will be transferred to the Construction Fund until such time as the Certificate of Completion is delivered to the Trustee, and thereafter to the Interest Account.

(3) At any time that amounts in the Reserve Account are to be withdrawn pursuant to the Indenture, the Trustee will withdraw such amounts from any subaccounts therein as specified in a Written Request of the City. In the absence of such Written Request of the City, the Trustee will withdraw amounts in each such subaccount on a *pro rata* basis.

(4) Notwithstanding anything in the Indenture to the contrary, at the option of the Authority or the City, amounts required to be held in the Reserve Account may be withdrawn, in whole or in part, upon the deposit of a Credit Facility with the Trustee, in a stated amount equal to the amounts so withdrawn; *provided*, that at the time of such deposit the unsecured obligations of the Credit Facility are rated not lower than "Aa/AA" by the Rating Agencies and that prior to the deposit of such Credit Facility, the Rating Agencies will be notified of such proposed withdrawal and the deposit of such Credit Facility will not result in a withdrawal or downgrading of any rating of the Bonds then in effect by the Rating Agencies. Any such withdrawn moneys will be transferred to the Interest Account or Principal Account or to a special account to be established for the payment of any fees in connection with obtaining such Credit Facility or to the Construction Fund to pay the costs of the Project or to the City for any other purpose, all at the option of the City.

(e) Redemption Account. In addition to the above accounts, the Trustee will establish and maintain within the Bond Fund, when required, a special account designated the "Redemption Account." All money in the Redemption Account will be held in trust by the Trustee and will be applied, used and withdrawn only for the purposes authorized in this section. Any Net Proceeds which, in accordance with a Written Request of the City or the Authority delivered to the Trustee pursuant to the provisions of the Indenture relating to Authority's covenant with respect to insurance proceeds and condemnation awards and all other amounts received by the Trustee in connection with the redemption of the Bonds pursuant to the Indenture (except for any amounts for sinking fund redemptions pursuant to the Indenture)) are to be used to redeem Bonds will be deposited by the Trustee in the Redemption Account. The Trustee will, on the scheduled redemption date, withdraw from the Redemption Account and pay to the Owners entitled thereto an amount equal to the redemption price of the Bonds to be redeemed on such date.

(f) Any delinquent Base Rental Payments and any proceeds of rental interruption insurance with respect to the real property encumbered by the Facility Lease will be applied first to the Interest Account for the immediate payment of interest payments past due and then to the Principal Account for immediate payment of principal payments past due according to the tenor of any Bond, and then to the Reserve Account to the extent necessary to make the amount on deposit therein equal to the Reserve Requirement. Any remaining money representing delinquent Base Rental Payments and any proceeds of rental interruption insurance will be deposited in the Bond Fund to be applied in the manner provided in the Indenture.

Investment of Moneys in Funds and Accounts. Moneys in the Bond Fund, the Costs of Issuance Fund, the Construction Fund and any accounts and subaccounts therein will, upon the Written Request of the City or the Authority at least two Business Days before the investment, be invested by the Trustee in Permitted Investments.

In the absence of a Written Request of the City or the Authority, the Trustee may invest moneys in such funds and accounts in Permitted Investments described in subparagraph (9) of the definition of Permitted Investments. The obligations in which moneys in the said funds, accounts and subaccounts are invested will mature on or prior to the date on which such moneys are estimated to be required to be paid out under the Indenture. The obligations in which moneys in the Reserve Account are so invested will be invested in obligations maturing no later than seven years in the case of the Outstanding Bonds and any Additional Bonds (unless a different maturity is specified in the related Supplemental Indenture) after the date of investment, except that obligations in the Reserve Account may mature at a date which is more than the specified maximum if the Authority or the Authority and the City will have entered into an agreement with a corporation, partnership or other business enterprise, having unsecured long-term credit ratings provided by the Rating Agencies, which at the time are "Aa" or higher as provided by Moody's, if then rating the Bonds, and "AA" as provided by S&P, if then rating the Bonds, under which the provider of the agreement will agree to purchase, at the amortized cost thereof to the Authority, such obligations in the event that obligations in the Reserve Account must be sold to pay principal of or interest on Bonds including Bonds that are redeemed in accordance with the Indenture or in the case of Additional Bonds in accordance with any mandatory sinking fund redemption or redemption from Net Proceeds. Any interest, income or profits from the deposits or investments of all funds, accounts and subaccounts under the Indenture (except the Rebate Fund and the Reserve Account to the extent required to be maintained therein or transferred pursuant to the Indenture) will be deposited (a) prior to the delivery to the Trustee of the Certificate of Completion, to the Construction Fund or, at the election of the City as set forth in a Written Request of the City, to the Interest Account, to pay interest on the Bonds when and as the same will become due and payable and (b) thereafter, first to the Reserve Account to the extent required to maintain the Reserve Requirement, and thereafter to the Interest Account. For purposes of determining the amount of deposit in any fund, account or subaccount held under the Indenture, all Permitted Investments credited to such fund or account will be valued, on or about December 1 during each year that Bonds are Outstanding, at the cost thereof (adjusting for any amortized premium or discount to maturity). Except as otherwise provided in this section, Permitted Investments representing an investment of moneys attributable to any fund, account or subaccount and all investment profits or losses thereon will be deemed at all times to be a part of said fund, account or subaccount. The Trustee may act as principal or agent in the acquisition or disposition of investments, and to the extent permitted under the Tax Certificate may commingle the funds, accounts and subaccounts established under the Indenture for investment purposes. The Trustee will have no liability or responsibility for any loss resulting from any investment made in accordance with the provisions described above.

Selected Covenants of the Authority

Punctual Payment and Performance. The Authority will punctually pay the interest on and the principal of and redemption premiums, if any, to become due on every Bond issued under the Indenture in strict conformity with the terms of the Indenture and of the Bonds, and will faithfully observe and perform all the agreements and covenants contained in the Indenture and in the Bonds.

Against Encumbrances. The Authority will not make any pledge of or place any charge or lien upon the Revenues except as provided in the Indenture, and will not issue any bonds, notes or obligations payable from the Revenues or secured by a pledge of or charge or lien upon the Revenues except the Bonds.

Against Sale or Other Disposition of the Leased Property. Except as provided in the Facility Lease, the Authority will not sell or otherwise dispose of the Leased Property, enter into any agreement which impairs the use of the Leased Property or any part thereof necessary to secure adequate Revenues for the payment of the interest on and principal of and redemption premiums, if any, with respect to the Bonds, or which would otherwise impair the rights of the Owners with respect to the Revenues.

Tax Covenants: Rebate Fund. (a) In addition to the other funds and accounts created pursuant to the Indenture, the Trustee will establish and maintain a fund separate from any other fund or account established and maintained under the Indenture designated the "Rebate Fund" (the "Rebate Fund"). Within the Rebate Fund, the Trustee will maintain such accounts or subaccounts as are specified in a Written Request of the City or the Authority to the Trustee pursuant to the Tax Certificate. The Trustee will deposit moneys in the Rebate Fund pursuant to a Written Request of the City or the Authority. Subject to the transfer provisions provided in paragraph

(e) below, all money at any time deposited in the Rebate Fund will be held by the Trustee in trust, to the extent required to satisfy the Rebate Requirement, for payment to the federal government of the United States of America, and none of the City, the Authority, the Trustee or the Owner of any Bond will have any right in or claim to such money. All amounts deposited into or on deposit in the Rebate Fund will be governed by this section and by the Tax Certificate (which is incorporated in the Indenture by reference). The Trustee will be deemed conclusively to have complied with the provisions of the Indenture and the Tax Certificate if it follows the Written Request of the City or the Authority, including supplying all necessary information in the manner provided in the Tax Certificate, and except as otherwise expressly provided in the Indenture, will not be required to take any actions under the Indenture in the absence of written directions by the City or the Authority, and will have no liability or responsibility to enforce compliance by the City or the Authority with the terms of the Tax Certificate or this section. The Trustee agrees to comply with all Written Requests of the City or the Authority given in accordance with the Tax Certificate.

(b) Upon a Written Request of the City or the Authority, an amount will be deposited into the Rebate Fund by the Trustee from deposits by the Authority, if and to the extent required, so that the balance of the amount on deposit thereto will be equal to the Rebate Requirement. Computations of the Rebate Requirement will be furnished by or on behalf of the City and the Authority in accordance with the Tax Certificate. The City will provide the Trustee with written evidence that the computation of the Rebate Requirement has been made.

(c) The Trustee will have no obligation to rebate any amounts required to be rebated pursuant to this section, other than from moneys held in the funds and accounts created under the Indenture or from other moneys provided to it by the City or the Authority.

(d) The Trustee will invest all amounts held in the Rebate Fund in Permitted Investments as directed by a Written Request of the City or the Authority. Money, including investment earnings, will not be transferred from the Rebate Fund except as provided in paragraph (e) below.

(e) Upon receipt of a Written Request of the City or the Authority, the Trustee will remit part or all of the amounts in the Rebate Fund to the United States of America, as so directed. In addition, if the City or the Authority so directs, the Trustee will deposit moneys into or transfer moneys out of the Rebate Fund from or into such accounts or fund as directed by the Written Request of the City or the Authority. Any funds remaining in the Rebate Fund in excess of the Rebate Requirement as of the end of any Bond Year will be transferred to the Interest Account of the Bond Fund.

(f) Notwithstanding any other provision of the Indenture, the obligation to remit the Rebate Requirement to the United States and to comply with all other requirements of this section and the Tax Certificate will survive the defeasance or payment in full of the Bonds.

(g) The Authority will not use or permit the use of any proceeds of the Bonds and any Additional Bonds or any funds of the Authority, directly or indirectly, to acquire any securities or obligations, and will not take or permit to be taken any other action or actions, which would cause the Bonds or any Additional Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code or obligations subject to federal income taxation because they are "federally guaranteed" within the meaning Section 103(h) of the Internal Revenue Code of 1954, as amended (the "1954 Code"), or Section 149(b) of the Code and any such applicable regulations promulgated from time to time thereunder. The Authority will observe and not violate the requirements of Section 148 of the Code and any such applicable regulations. The Authority will comply with all requirements of Sections 148 and 149(b) of the Code to the extent applicable to the 1998A Bonds.

(h) The Authority specifically covenants to comply with the provisions and procedures of the Tax Certificate.

(i) The Authority will not use or permit the use of any proceeds of the Bonds or any funds of the Authority, directly or indirectly, in any manner, and will not take or omit to take any action that would cause any of the Bonds to be treated as an obligation not described in Section 103(a) of the Code.

(j) Notwithstanding any provisions of this section, if the Authority shall provide to the Trustee an Opinion of Counsel to the effect that any specified action required under this section is no longer required or that some further or different action is required to maintain the exclusion from gross income for federal income tax purposes of interest with respect to the 1998A Bonds, the Trustee, the Authority and the City may conclusively rely on such opinion in complying with the requirements of this section, and, notwithstanding provisions of the Indenture relating to amendments of the Indenture, the covenants under the Indenture will be deemed to be modified to that extent.

Payment of Claims. The Authority will pay and discharge or cause to be paid and discharged any and all lawful claims for labor, materials or supplies which, if unpaid, might become a legal charge or lien upon the Leased Property or the Revenues or any part thereof or upon any funds under the control of the Authority or the Trustee superior to or on a parity with the charge and lien upon the Revenues securing the Bonds, or which might impair the security of the Bonds.

Payment of Taxes and Compliance with Governmental Regulations. The Authority will pay and discharge or cause to be paid and discharged all applicable taxes, assessments and other governmental charges that may be levied, assessed or charged upon the Leased Property or any part thereof or upon the Revenues or any part thereof promptly as and when the same will become due and payable. The Authority will duly observe and conform with all valid applicable regulations and requirements of any governmental authority relative to the use of the Leased Property or any part thereof, but the Authority will not be required to comply with any such regulations or requirements so long as the application or the validity thereof will be contested in good faith.

Insurance. The Authority will maintain or cause to be maintained insurance with respect to the Leased Property as required by the Facility Lease.

Insurance Proceeds and Condemnation Awards: Title Insurance.

(a) The Trustee will receive all moneys which may become due and payable under any insurance policies obtained pursuant to the Facility Lease and pursuant to any condemnation awards in a separate fund to be established and maintained by the Trustee and designated the "Insurance Proceeds and Condemnation Awards Fund," and will apply the proceeds of such insurance as provided in the Facility Lease. The Trustee will permit withdrawals of said proceeds from time to time upon receiving the Written Request of the City, stating that the City or the Authority has expended moneys or incurred liabilities in an amount equal to the amount therein requested to be paid over to it for the purpose of repair, reconstruction or replacement, and specifying the items for which such moneys were expended, or such liabilities were incurred, in such reasonable detail as the Trustee may in its discretion require.

(b) The Trustee will not be responsible for the sufficiency of any insurance required by the Facility Lease and will be fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss agreed to by the City. Delivery to the Trustee of the schedule of insurance policies under the Facility Lease will not confer responsibility upon the Trustee as to the sufficiency of coverage or amounts of such policies. The Trustee may request, in writing, that the City deliver to the Trustee certificates or duplicate originals or certified copies of each insurance policy described in the schedule required to be delivered by the City to the Trustee pursuant to the Facility Lease.

(c) Proceeds of any policy of title insurance received by the Trustee in respect of the Leased Property will be applied and disbursed by the Trustee as follows:

(1) If the City determines that the title defect giving rise to such proceeds has not materially affected the operation of the Leased Property and will not result in an abatement of Base Rental Payments payable by the City under the Facility Lease, such proceeds will at the election of the City as set forth in a Written Request of the City, be deposited in the Redemption Account and such proceeds will be applied to cause the redemption of Outstanding Bonds in the

manner provided in the Indenture or in the Construction Fund and utilized to improve or enhance the remaining Leased Property; or

(2) If any portion of the Leased Property has been affected by such title defect, and if the City determines that such title defect will result in an abatement of Base Rental Payments payable by the City under the Facility Lease, then the Trustee will immediately deposit such proceeds in the Redemption Account and such proceeds will be applied to cause the redemption of Outstanding Bonds in the manner provided in the Indenture.

Accounting Records and Reports. The Authority will keep or cause to be kept proper books of record and accounts in which complete and correct entries will be made of all transactions relating to the receipts, disbursements, allocation and application of the Revenues, and such books will be available for inspection by the Trustee, at reasonable hours and under reasonable conditions. Not more than six months after the close of each Fiscal Year, the Authority will furnish or cause to be furnished to the Trustee a complete financial statement covering receipts, disbursements, allocation and application of Revenues for such Fiscal Year, and including a profit and loss statement and balance sheet. The Authority will also keep or cause to be kept such other information as is required under the Tax Certificate.

Facility Lease and Other Documents. The Authority will at all times maintain and vigorously enforce all of its rights under the Facility Lease, and will promptly collect all rents and charges due for the use of the Leased Property as the same become due under the Facility Lease, and will promptly and vigorously enforce its rights against any tenant or other person who does not pay such rents or charges as they become due under the Facility Lease. The Authority will not do or permit anything to be done, or omit or refrain from doing anything, in any case where any such act done or permitted to be done, or any such omission of or refraining from action, would or might be a ground for cancellation, abatement or termination of the Facility Lease by the respective lessees thereunder.

Other Liens. The Authority will keep the Leased Property free from judgments, mechanics' and materialmen's liens (except those arising from the acquisition, construction and installation of the Leased Property) and free from all liens, claims, demands and encumbrances of whatsoever prior nature or character to the end that the security for the Bonds provided in the Indenture will at all times be maintained and preserved free from any claim or liability which, in the judgment of the Trustee (and its determination thereof will be final), might hamper the Authority in conducting its business or interfere with the City's use and occupancy of the Leased Property, and the Trustee at its option (after first giving the Authority ten days' written notice to comply therewith and failure of the Authority to so comply within such period) may defend against any and all actions or proceedings in which the validity of the Indenture is or might be questioned, or may pay or compromise any claim or demand asserted in any such action or proceeding; *provided, however,* that in defending such actions or proceedings or in paying or compromising such claims or demands the Trustee will not in any event be deemed to have waived or released the Authority from liability for or on account of any of its agreements and covenants contained in the Indenture, or from its liability under the Indenture to defend the validity of the Indenture and the pledge of the Revenues made in the Indenture and to perform such agreements and covenants.

Prosecution and Defense of Suits. The Authority will promptly from time to time take or cause to be taken such action as may be necessary or proper to remedy or cure any defect in or cloud upon the title to the Leased Property, whether now existing or developing after the delivery of the Indenture, and will prosecute or cause to be prosecuted all such suits, actions and other proceedings as may be appropriate for such purpose and will indemnify and hold the Trustee harmless from all loss, cost, damage and expense, including attorney's fees, which it may incur by reason of any such defect, cloud, suit, action or proceeding.

The Authority will defend against every suit, action or proceeding except those arising out of the wrongful, willful act or actions of the Trustee at any time brought against the Trustee upon any claim arising out of the receipt, application or disbursement of any of the Revenues or involving the rights of the Trustee under the Indenture; *provided* that the Trustee at its election may appear in and defend any such suit, action or proceeding.

Continuing Disclosure. Pursuant to the Facility Lease, the City has undertaken all responsibility for compliance with continuing disclosure requirements, and the Authority will have no liability to the Owners or any other person with respect to S.E.C. Rule 15c2-12. The Trustee covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Agreement and the Facility Lease. Notwithstanding any other provision of the Indenture, failure of the City or the Trustee to comply with the Continuing Disclosure Agreement will not be considered an Event of Default; *however*, the Trustee may (and, at the request of any Participating Underwriter (as defined in the Continuing Disclosure Agreement) or the Owners of at least 25% aggregate principal amount of Outstanding Bonds, will) or any Owner or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under of the Facility Lease, or to cause the Trustee to comply with its obligations under this section.

The Trustee

Duties, Removal and Resignation of Trustee: Appointment of Successor Trustee. (a) The Trustee will, prior to an Event of Default, and after the curing of all Events of Default which may have occurred, perform such duties and only such duties as are specifically set forth in the Indenture and no implied duties or obligations will be read into the Indenture against the Trustee. The Trustee will, during the existence of any Event of Default (which has not been cured), exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in their exercise as a prudent person would exercise or use under the circumstances in the conduct of his own affairs.

(b) So long as no Event of Default has occurred and is continuing, the Authority may remove the Trustee at any time and will remove the Trustee if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding (or their attorneys duly authorized in writing) or if at any time the Trustee will cease to be eligible in accordance with subsection (e) of this section, or will become incapable of acting, or will commence a case under any bankruptcy, insolvency or similar law, or a receiver of the Trustee or of its property will be appointed, or any public officer will take control or charge of the Trustee or its property or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving written notice of such removal to the Trustee, and thereupon will appoint a successor Trustee by an instrument in writing.

(c) The Trustee may resign by giving written notice of such resignation to the Authority and by giving notice of such resignation by mail, first class postage prepaid, to the Owners at the addresses listed in the bond register. Upon receiving such notice of resignation, the Authority will promptly appoint a successor Trustee by an instrument in writing.

(d) Any removal or resignation of the Trustee and appointment of a successor Trustee will become effective upon acceptance of appointment by the successor Trustee. If no successor Trustee will have been appointed and will have accepted appointment within 45 days of giving notice of removal or notice of resignation as aforesaid, the resigning Trustee, at the expense of the Authority, or any Owner (on behalf of himself and all other Owners) may petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Trustee. Any successor Trustee appointed under the Indenture will signify its acceptance of such appointment by executing and delivering to the Authority and to its predecessor Trustee a written acceptance thereof, and thereupon such successor Trustee, without any further act, deed or conveyance, will become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Trustee, with like effect as if originally named Trustee in the Indenture; but, nevertheless, at the written request of the Authority or of the successor Trustee, such predecessor Trustee will execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Trustee all the right, title and interest of such predecessor Trustee in and to any property held by it under the Indenture and will pay over, transfer, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions in the Indenture set forth. Upon request of the successor Trustee, the Authority will execute and deliver any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to

such successor Trustee all such moneys, estates, properties, rights, powers, trusts, duties and obligations. Upon acceptance of appointment by a successor Trustee as provided in this subsection, such successor Trustee will mail a notice of the succession of such Trustee to the trusts under the Indenture by first class mail, postage prepaid, to the Owners at their addresses listed in the bond register.

(e) Any Trustee appointed under the provisions of this section will be a trust company or bank having the powers of a trust company, having a corporate trust office in California, having a combined capital and surplus of at least fifty million dollars (\$50,000,000), and subject to supervision or examination by federal or state authority. If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purpose of this subsection the combined capital and surplus of such bank or trust company will be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. In case at any time the Trustee will cease to be eligible in accordance with the provisions of this subsection (e), the Trustee will resign immediately in the manner and with the effect specified in this section.

(f) For such time as the Municipal Bond Insurance Policy will be in full force and effect and so long as Ambac Assurance is not in default under its Municipal Bond Insurance Policy (1) the Trustee may be removed at any time, at the request of Ambac Assurance, for any breach of the Trust set forth in the Indenture, (2) Ambac Assurance will receive prior written notice of any Trustee resignation, (3) every successor Trustee appointed pursuant to this section will be a trust company or bank in good standing located in or incorporated under the laws of the State, duly authorized to exercise trust powers and subject to examination by federal or state authority, having a reported capital and surplus of not less than \$75,000,000 and acceptable to Ambac Assurance, and (4) no removal, resignation or termination of the Trustee will take effect until a successor, acceptable to Ambac Assurance, shall be appointed.

Rights of Owners. Notwithstanding any other provision of the Indenture, in determining whether the rights of the Owners will be adversely affected by any action taken pursuant to the terms and provision of the Indenture, the Trustee will consider the effect on the Owners as if there were no Municipal Bond Insurance Policy.

Amendment of the Indenture

The Indenture and the rights and obligations of the Authority and of the Owners may be amended at any time by a Supplemental Indenture which will become binding when the written consents of the Owners of at least a majority in aggregate principal amount of the Bonds then Outstanding, exclusive of Bonds disqualified as provided in the Indenture, are filed with the Trustee. No such amendment will (1) extend the maturity of or reduce the interest rate on or otherwise alter or impair the obligation of the Authority to pay the interest on or principal of or redemption premium, if any, on any Bond at the time and place and at the rate and in the currency provided in the Indenture without the express written consent of the Owner of such Bond, (2) permit the creation by the Authority of any pledge of the Revenues as provided in the Indenture superior to or on a parity with the pledge created by the Indenture for the benefit of the Bonds, (3) modify any rights or obligations of the Trustee without its prior written assent thereto, or (4) modify any provision of the Indenture expressly recognizing or granting rights in or to Ambac Assurance in any manner which affects the rights of Ambac Assurance under the Indenture without its prior written assent thereto.

The Indenture and the rights and obligations of the Authority and of the Owners may also be amended at any time by a Supplemental Indenture which will become binding upon adoption without the consent of any Owners, but only to the extent permitted by law and after receipt of an approving Opinion of Counsel and only for any one or more of the following purposes:

(a) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained in the Indenture or in regard to questions arising under the Indenture which the Authority may deem desirable or necessary and not inconsistent with the Indenture and which shall not materially adversely affect the interests of the Owners; or

(b) to make any other change or addition to the Indenture which shall not materially adversely affect the interests of the Owners or Ambac Insurance, or to surrender any right or power reserved in the Indenture to or conferred in the Indenture on the Authority; or

(c) to provide for the issuance of any Additional Bonds and to provide the terms of such Additional Bonds, subject to the conditions and upon compliance with the procedure set forth in the Indenture.

Events of Default and Remedies of Holders

Events of Default. Any one or more of the following events will be called an "Event of Default" under the Indenture:

(a) default shall be made in the due and punctual payment of the interest on any Bond when and as the same shall become due and payable;

(b) default shall be made in the due and punctual payment of the principal of or redemption premium, if any, on any Bond when and as the same shall become due and payable, whether at maturity as therein expressed or by proceedings for redemption;

(c) default shall be made by the Authority in the performance of any of the other agreements or covenants required in the Indenture to be performed by the Authority, and such default shall have continued for a period of 60 days after the Authority shall have been given notice in writing of such default by the Trustee; or

(d) the Authority shall file a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction shall approve a petition filed with or without the consent of the Authority seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction shall assume custody or control of the Authority or of the whole or any substantial part of its property.

Proceedings by Trustee. Subject to provision in the Indenture relating to consent of Ambac Assurance upon Default described below, upon the happening and continuance of any Event of Default the Trustee in its discretion may, and at the written request of the Owners of not less than 25% in aggregate principal amount of Bonds Outstanding will, do the following:

(a) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Owners and require the Authority to enforce all rights of the Owners of Bonds, including the right to require the Authority to receive and collect Revenues and to enforce its rights under the Facility Lease and to require the Authority to carry out any other covenant or agreement with Owners of Bonds and to perform its duties under the Indenture;

(b) bring suit upon the Bonds;

(c) by action or suit in equity enjoin any acts or things which may be unlawful or in violation of the rights of the Owners; and

(d) as a matter of right, have a receiver or receivers appointed for the Revenues and the issues, earnings, income, products and profits thereof, pending such proceedings, with such powers as the court making such appointment will confer.

Notwithstanding the foregoing, neither the Indenture nor the Bonds provide for the remedy of acceleration of principal or interest due with respect to the Bonds prior to their stated due dates.

Effect of Discontinuance or Abandonment. In case any proceeding taken by the Trustee on account of any default will have been discontinued or abandoned for any reason, or will have been determined adversely to the Trustee, then and in every such case the Authority, the Trustee and the Owners will be restored to their former positions and rights under the Indenture, respectively, and all rights, remedies and powers of the Trustee will continue as though no such proceeding had been taken.

Rights of Owners. Anything in the Indenture to the contrary notwithstanding, subject to the limitations and restrictions as to the rights of the Owners described in the sections entitled "Proceedings by Trustee" above, "Restrictions on Owners' Actions" below and "Consent of Ambac Assurance Upon Default" below, upon the happening and continuance of any Event of Default, the Owners of not less than 25% in aggregate principal amount of the Bonds then Outstanding will have the right upon providing the Trustee security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby, by an instrument in writing executed and delivered to the Trustee, to direct the method and place of conducting all remedial proceedings to be taken by the Trustee under the Indenture.

The Trustee may refuse to follow any direction that conflicts with law or the Indenture or that the Trustee determines is prejudicial to rights of other Owners or would subject the Trustee to personal liability.

Restriction on Owners' Action. In addition to the other restrictions on the rights of Owners to request action upon the occurrence of an Event of Default and to enforce remedies set forth in the Indenture, no Owner of any of the Bonds will have any right to institute any suit, action or proceeding in equity or at law for the enforcement of any trust under the Indenture, or any other remedy under the Indenture or on said Bonds, unless such Owner previously will have given to the Trustee written notice of an Event of Default as in the Indenture provided and unless the Owners of not less than 25% in aggregate principal amount of the Bonds then Outstanding will have made written request of the Trustee to institute any such suit, action, proceeding or other remedy, after the right to exercise such powers or rights of action, as the case may be, will have accrued, and will have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers in the Indenture granted, or to institute such action, suit or proceeding in its or their name; nor unless there also will have been offered to the Trustee security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee will not have complied with such request within a reasonable time; and such notification, request and offer of indemnity are declared in every such case, at the option of the Trustee, to be conditions precedent to the execution of the trusts of the Indenture or for any other remedy under the Indenture; it being understood and intended that no one or more Owners of the Bonds secured by the Indenture will have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Indenture, or to enforce any right under the Indenture or under the Bonds, except in the manner in the Indenture provided, and that all proceedings at law or in equity will be instituted, had and maintained in the manner in the Indenture provided, and for the equal benefit of all Owners of Outstanding Bonds; *subject, however,* to the provisions of this section.

Application of Moneys. Any moneys received by the Trustee pursuant to the provisions of the Indenture relating to default, together with any moneys which upon the occurrence of an Event of Default are held by the Trustee in any of the funds and accounts under the Indenture (other than the Rebate Fund and other than moneys held for Bonds not presented for payment) will, after payment of all fees and expenses of the Trustee, and the fees and expenses of its counsel, be applied as follows:

- (a) unless the principal of all of the Outstanding Bonds shall be due and payable,

FIRST: To the payment of the persons entitled thereto of all installments of interest then due on the Bonds, in the order of the maturity of the installments of such interest and, if the amount available will not be sufficient to pay in full any particular installment, then to the payment ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or privilege;

SECOND: To the payment of the persons entitled thereto of the unpaid principal of and premium, if any, on any of the Bonds which shall have become due (other than Bonds matured or called for redemption for the payment of which moneys are held pursuant to the provisions of the Indenture), in the order of their due dates and, if the amount available shall not be sufficient to pay in full the principal of and premium, if any, on such Bonds due on any particular date, then to the payment ratably, according to the amount due on such date, to the persons entitled thereto without any discrimination or privilege; and

THIRD: To be held for the payment to the persons entitled thereto as the same shall become due of the principal of, interest, and premium, if any, on the Bonds, which may thereafter become due either at maturity or upon call for redemption prior to maturity and, if the amount available shall not be sufficient to pay in full such principal and premium, if any, due on any particular date, together with interest then due and owing thereon, payment will be made in accordance with the FIRST and SECOND paragraphs hereof.

(b) if the principal of all of the Outstanding Bonds shall be due and payable, to the payment of the principal, and premium, if any, and interest then due and unpaid upon the Outstanding Bonds without preference or priority of any of principal, premium or interest over the others or of any installment of interest, or of any Outstanding Bond over any other Outstanding Bond, ratably, according to the amounts due respectively for principal, premium, and interest, to the persons entitled thereto without any discrimination or preference except as to any difference in the respective amounts of interest specified in the Outstanding Bonds.

Whenever moneys are to be applied pursuant to the provisions of this section, such moneys will be applied at such times, and from time to time, as the Trustee will determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. The Trustee will give, by mailing by first class mail as it may deem appropriate, such notice of the deposit with it of any such moneys.

Consent of Ambac Assurance Upon Default. Anything in the Indenture to the contrary notwithstanding, upon the occurrence and continuance of an Event of Default as defined in the Indenture and during such time as the Municipal Bond Insurance Policy shall be in full force and effect and so long as Ambac Assurance is not in default under its Municipal Bond Insurance Policy, Ambac Assurance will be entitled to control and direct the enforcement of all rights and remedies granted to the Owners or the Trustee for the benefit of the Owners under the Indenture.

Defeasance

Discharge of Bonds. (a) If the Authority shall pay or cause to be paid or there shall otherwise be paid to the Owners of all Outstanding Bonds the interest thereon and the principal thereof and the redemption premiums, if any, thereon at the times and in the manner stipulated in the Indenture and therein, then the Owners of such Bonds will cease to be entitled to the pledge of the Revenues as provided in the Indenture, and all agreements, covenants and other obligations of the Authority to the Owners of such Bonds under the Indenture will thereupon cease, terminate and become void and be discharged and satisfied. In such event, the Trustee will execute and deliver to the Authority all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee will pay over or deliver to the Authority all money or securities held by it pursuant to the Indenture which are not required for the payment of the interest on and principal of and redemption premiums, if any, on such Bonds.

Subject to the provisions of this section, when any of the Bonds shall have been paid and if, at the time of such payment, the Authority will have kept, performed and observed all the covenants and promises in such Bonds and in the Indenture required or contemplated to be kept, performed and observed by the Authority or on its part on or prior to that time, then the Indenture will be considered to have been discharged in respect of such Bonds

and such Bonds will cease to be entitled to the lien of the Indenture and such lien and all covenants, agreements and other obligations of the Authority under the Indenture will cease, terminate, become void and be completely discharged as to such Bonds.

Notwithstanding the satisfaction and discharge of the Indenture or the discharge of the Indenture in respect of any Bonds, those provisions of the Indenture relating to the maturity of the Bonds, interest payments and dates thereof, tender and exchange provisions, exchange and transfer of Bonds, replacement of mutilated, destroyed, lost or stolen Bonds, the safekeeping and cancellation of Bonds, nonpresentment of Bonds, and the duties of the Trustee in connection with all of the foregoing, remain in effect and will be binding upon the Trustee and the Owners of the Bonds and the Trustee will continue to be obligated to hold in trust any moneys or investments then held by the Trustee for the payment of the principal of, redemption premium, if any, and interest on the Bonds, to pay to the Owners of Bonds the funds so held by the Trustee as and when such payment becomes due. Notwithstanding the satisfaction and discharge of the Indenture or the discharge of the Indenture in respect of any Bonds, those provisions of the Indenture relating to the tax-exempt status of interest on the Bonds and relating to the compensation and indemnification of the Trustee will remain in effect and will be binding upon the Trustee and the Authority.

(b) Any Outstanding Bonds will prior to the maturity date or redemption date thereof be deemed to have been paid within the meaning of and with the effect expressed in subsection (a) of this section if (1) in case any of such Bonds are to be redeemed on any date prior to their maturity date, the Authority shall have given to the Trustee in form satisfactory to it irrevocable instructions to mail, on a date in accordance with the provisions of the Indenture, notice of redemption of such Bonds on said redemption date, said notice to be given in accordance with the Indenture, (2) there shall have been deposited with the Trustee either (A) money in an amount which shall be sufficient or (B) Permitted Investments of the type described in clause (1) of such definition which are not subject to redemption prior to maturity except by the holder thereof (including any such Permitted Investments issued or held in book-entry form on the books of the Department of the Treasury of the United States of America) or tax-exempt securities which are not subject to redemption prior to maturity except by the holder thereof rated "AAA" or its equivalent by the Rating Agencies then rating the Bonds, the interest on and principal of which when paid shall provide money which, together with the money, if any, deposited with the Trustee at the same time, shall, as verified by an independent Certified Public Accountant, be sufficient to pay when due the interest to become due on such Bonds on and prior to the maturity date or redemption date thereof, as the case may be, and the principal of and redemption premiums, if any, with respect to such Bonds, and (3) in the event such Bonds are not by their terms subject to redemption within the next succeeding 60 days, the Authority shall have given the Trustee in form satisfactory to it irrevocable instructions to mail as soon as practicable, a notice to the Owners of such Bonds that the deposit required by clause (2) above has been made with the Trustee and that such Bonds are deemed to have been paid in accordance with this section and stating the maturity date or redemption date upon which money is to be available for the payment of the principal of and redemption premiums, if any, on such Bonds.

(c) Notwithstanding anything in the Indenture to the contrary, in the event that the principal and/or interest due on the 1998A Bonds shall be paid by Ambac Assurance pursuant to the Municipal Bond Insurance Policy, the 1998A Bonds will remain Outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the Authority, and the assignment and pledge of the trust estate and all covenants, agreements and other obligations of the Authority to the registered owners will continue to exist and will run to the benefit of Ambac Assurance, and Ambac Assurance will be subrogated to the rights of such registered owners.

Unclaimed Money. Anything contained in the Indenture to the contrary notwithstanding, any money held by the Trustee in trust for the payment and discharge of any of the Bonds which remains unclaimed for two years after the date when such Bonds have become due and payable, either at their stated maturity dates or by call for redemption prior to maturity, if such money was held by the Trustee at such date, or for two years after the date of deposit of such money if deposited with the Trustee shall be repaid by the Trustee to the Authority as its absolute property free from trust, and the Trustee will thereupon be released and discharged with respect thereto and the Owners will look only to the Authority for the payment of such Bonds; *provided, however*, that before being **required to make any such payment** to the Authority, the Trustee will, upon the Written Request of the Authority

and at the expense of the Authority, cause to be published once a week for two successive weeks in a Financial Newspaper, a notice that such money remains unclaimed and that, after a date named in such notice, which date will not be less than 30 days after the date of the first publication of each such notice, the balance of such money then unclaimed will be returned to the Authority.

Municipal Bond Insurance Policy

Payments Under the Municipal Bond Insurance Policy. For such time as the Municipal Bond Insurance Policy will be in full force and effect, the Authority and the Trustee will comply with the following provisions:

(a) At least one (1) day prior to all Interest Payment Dates the Trustee will determine whether there will be sufficient funds in the funds and accounts to pay the principal of or interest on the 1998A Bonds on such Interest Payment Date. If the Trustee determines that there will be insufficient funds in such funds or accounts, the Trustee will so notify Ambac Assurance. Such notice will specify the amount of the anticipated deficiency, the 1998A Bonds to which such deficiency is applicable and whether such 1998A Bonds will be deficient as to principal or interest, or both. If the Trustee has not so notified Ambac Assurance at least one (1) day prior to an Interest Payment Date, Ambac Assurance will make payments of principal and interest due on the 1998A Bonds on or before the first (1st) day next following the date on which Ambac Assurance shall have received notice of nonpayment from the Trustee.

(b) The Trustee will, after giving notice to Ambac Assurance as provided in (a) above, make available to Ambac Assurance and, at Ambac Assurance's discretion, to the United States Trust Company of New York, as insurance trustee for Ambac Assurance or any successor insurance trustee (the "Insurance Trustee"), the registration books kept by the Trustee pursuant to the Indenture and all records relating to the funds and accounts maintained under the Indenture.

(c) The Trustee will provide Ambac Assurance and the Insurance Trustee with a list of registered owners of 1998A Bonds entitled to receive principal or interest payments from Ambac Assurance under the terms of the Municipal Bond Insurance Policy, and will make arrangements with the Insurance Trustee (i) to mail checks or drafts to the registered owners of 1998A Bonds entitled to receive full or partial interest payments from Ambac Assurance and (ii) to pay principal upon 1998A Bonds surrendered to the Insurance Trustee by the registered owners of 1998A Bonds entitled to receive full or partial principal payments from Ambac Assurance.

(d) The Trustee will, at the time it provides notice to Ambac Assurance pursuant to (a) above, notify registered owners of 1998A Bonds entitled to receive the payment of principal or interest therein from Ambac Assurance (i) as to the fact of such entitlement, (ii) that Ambac Assurance will remit to them all or a part of the interest payments next coming due upon proof of Owner entitlement to interest payments and delivery to the Insurance Trustee, in form satisfactory to the Insurance Trustee, of an appropriate assignment of the registered owner's right to payment, (iii) that should they be entitled to receive full payment of principal from Ambac Assurance, they must surrender their 1998A Bonds (along with an appropriate instrument of assignment in form satisfactory to the Insurance Trustee to permit ownership of such 1998A Bonds to be registered in the name of Ambac Assurance) for payment to the Insurance Trustee, and not the Trustee, and (iv) that should they be entitled to receive partial payment of principal from Ambac Assurance, they must surrender their 1998A Bonds for payment thereon first to the Trustee who will note on such 1998A Bonds the portion of the principal paid by the Trustee and then, along with an appropriate instrument of assignment in form satisfactory to the Insurance Trustee, to the Insurance Trustee, which will then pay the unpaid portion of principal.

(e) In the event that the Trustee has notice that any payment of principal of or interest on a 1998A Bond which has become Due for Payment and which is made to an Owner by or on behalf of the Authority has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with the final,

nonappealable order of a court having competent jurisdiction, the Trustee will, at the time Ambac Assurance is notified pursuant to (a) above, notify all registered owners that in the event that any registered owner's payment is so recovered, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available, and the Trustee will furnish to Ambac Assurance its records evidencing the payments of principal of and interest on the 1998A Bonds which have been made by the Trustee and subsequently recovered from registered owners and the dates on which such payments were made.

(f) In addition to those rights granted Ambac Assurance under the Indenture, Ambac Assurance will, to the extent it makes payment of principal of or interest on 1998A Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Municipal Bond Insurance Policy, and to evidence such subrogation (i) in the case of subrogation as to claims for past due interest, the Trustee will note Ambac Assurance's rights as subrogee on the registration books kept by the Trustee pursuant to the Indenture, upon receipt from Ambac Assurance of proof of the payment of interest thereon to the registered owners of the 1998A Bonds, and (ii) in the case of subrogation as to claims for past due principal, the Trustee will note Ambac Assurance's rights as subrogee on the registration books kept by the Trustee pursuant to the Indenture, upon surrender of the 1998A Bonds by the registered owners thereof together with proof of the payment of principal thereof.

Consent of Ambac Assurance in Addition to Owner Consent. Unless otherwise provided in this section, Ambac Assurance's consent will be required in addition to Owner consent, when required, for the following purposes: (i) execution and delivery of any supplemental Indenture or any amendment, supplement or change to or modification of the Facility Lease (ii) removal of the Trustee and selection and appointment of any successor trustee; and (iii) initiation or approval of any action not described in (i) or (ii) above which requires Owner consent.

Consent of Ambac Assurance in the Event of Insolvency. Any reorganization or liquidation plan with respect to the City must be acceptable to Ambac Assurance. In the event of any reorganization or liquidation, Ambac Assurance will have the right to vote on behalf of all Owners who hold Ambac Assurance-insured bonds absent a default by Ambac Assurance under the applicable Municipal Bond Insurance Policy insuring such 1998A Bonds.

Miscellaneous

Liability of Authority Limited to Revenues. Notwithstanding anything contained in the Indenture, the Authority will not be required to advance any money derived from any source of income other than the Revenues as provided in the Indenture for the payment of the interest on or principal of or redemption premiums, if any, on the Bonds or for the performance of any agreements or covenants in the Indenture contained. The Authority may, however, advance funds for any such purpose so long as such funds are derived from a source legally available for such purpose without incurring an indebtedness.

The Bonds will be limited obligations of the Authority and will be payable solely from the Revenues and amounts on deposit in the funds and accounts established under the Indenture (other than amounts on deposit in the Rebate Fund created pursuant to the Indenture). The Bonds do not constitute a debt or liability of the City or of the State of California and neither the faith and credit of the City nor of the State are pledged to the payment of the principal of or interest on the Bonds.

Ambac as Third Party Beneficiary. To the extent that the Indenture confers upon or gives or grants to Ambac Assurance any right, remedy or claim under or by reason of the Indenture, Ambac Assurance is explicitly recognized as being a third-party beneficiary under the Indenture and may enforce any such right remedy or claim conferred, given or granted under the Indenture.

CONVENTION CENTER FACILITY LEASE

The Facility Lease sets forth certain terms and conditions of the lease of the Leased Property by the City. Certain provisions of the Facility Lease are summarized below. Other provisions are summarized in the Official Statement under the captions "SECURITY AND SOURCES OF PAYMENT FOR THE 1998A BONDS" and "THE LEASED PROPERTY." The summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Facility Lease.

The Leased Property

Lease of the Leased Property. The Authority leases to the City, and the City rents and hires from the Authority, the Leased Property on the conditions and terms set forth in the Facility Lease. The City agrees and covenants that during the term of the Facility Lease, except as provided in the Facility Lease, it will use the Leased Property for public purposes so as to afford the public the benefits contemplated by the Facility Lease and so as to permit the Authority to carry out its agreements and covenants contained in the Facility Lease and in the Indenture, and the City further agrees and covenants that during the term of the Facility Lease that it will not abandon or vacate the Leased Property.

Prohibition Against Encumbrance or Sale. The City and the Authority will not create or suffer to be created any mortgage, pledge, lien, charge or encumbrance upon the Leased Property without obtaining the prior written consent of the District, except Permitted Encumbrances, and except incident to the execution and delivery of Additional Bonds as contemplated by the Facility Lease. The City and the Authority will not sell or otherwise dispose of the Leased Property or any property essential to the proper operation of the Leased Property without obtaining the prior written consent of the District, except as otherwise provided in the Facility Lease. Notwithstanding anything to the contrary in the Facility Lease contained, the City may assign, transfer or sublease any and all of the Leased Property or its other rights under the Facility Lease, *provided* that (a) the rights of any assignee, transferee or sublessee will be subordinate to all rights of the Authority under the Facility Lease, (b) no such assignment, transfer or sublease will relieve the City of any of its obligations under the Facility Lease, (c) the assignment, transfer or sublease will not result in a breach of any covenant of the City contained in any other section of the Facility Lease, (d) any such assignment, transfer or sublease will by its terms expressly provide that the fair rental value of the Leased Property for all purposes will be first allocated to the Facility Lease, as the same may be amended from time to time before or after any such assignment, transfer or sublease and (e) no such assignment, transfer or sublease will confer upon the parties thereto any remedy which allows reentry upon the Leased Property unless concurrently with granting such remedy the same will be also granted under the Facility Lease by an amendment to the Facility Lease which will in all instances be prior to and superior to any such assignment, transfer or sublease.

Liens. In the event the City shall at any time during the term of the Facility Lease cause any improvements to the Leased Property to be constructed or materials to be supplied in or upon or attached to the Leased Property, the City will pay or cause to be paid when due all sums of money that may become due or purporting to be due for any labor, services, materials, supplies or equipment furnished or alleged to have been furnished to or for the City in, upon, about or relating to the Leased Property and will keep the Leased Property free of any and all liens against the Leased Property or the Authority's interest in the Facility Lease. In the event any such lien attaches to or is filed against the Leased Property or the Authority's interest in the Facility Lease, and the enforcement thereof is not stayed or if so stayed such stay thereafter expires, the City will cause each such lien to be fully discharged and released at the time the performance of any obligation secured by any such lien matures or becomes due. If any such lien shall be reduced to final judgment and such judgment or any process as may be issued for the enforcement thereof is not promptly stayed, or if so stayed and such stay thereafter expires, the City will forthwith pay and discharge or cause to be paid and discharged such judgment.

Substitution or Removal of Leased Property. (a) The City and the Authority may amend the Facility Lease to substitute additional real property and/or improvements (the "Substituted Property") for existing Leased Property or to remove real property (including undivided interests in the Facility Lease) or improvements from the definition of Leased Property, upon compliance with all of the conditions set forth in subsection (b). After a Substitution or Removal, the part of the Leased Property for which the Substitution or Removal has been effected will be released from the leasehold under the Facility Lease.

(b) No Substitution or Removal will take place under the Facility Lease until the City delivers to the Authority and the Trustee the following:

(1) A Certificate of the City containing a description of all or part of the Leased Property to be released and, in the event of a Substitution, a description of the Substituted Property to be substituted in its place;

(2) A Certificate of the City stating that the annual fair rental value of the Leased Property after a Substitution or Removal, in each year during the remaining term of the Facility Lease, is at least equal to the maximum annual Base Rental Payments attributable to the Leased Property prior to said Substitution or Removal, as determined by the City on the basis of an appraisal of the Leased Property after said Substitution or Removal conducted by a member of the American Institute of Real Estate Appraisers or the American Society of Appraisers designated by the City;

(3) An Opinion of Counsel to the effect that the amendments to the Facility Lease contemplating Substitution or Removal have been duly authorized, executed and delivered and constitute the valid and binding obligations of the City and the Authority enforceable in accordance with their terms;

(4) In the event of a Substitution, a policy of title insurance in an amount equal to the same proportion of the principal amount as the principal portion of Base Rental Payments for the Substituted Property bears to the total principal portion of Base Rental Payments, insuring the Authority's interest in the Substituted Property (except any portion thereof which is not real property) subject to Permitted Encumbrances, together with an endorsement thereto making said policy payable to the Trustee for the benefit of the Owners of the Bonds and any Additional Bonds;

(5) In the event of a Substitution, an opinion of the City Attorney of the City to the effect that the exceptions, if any, contained in the title insurance policy referred to in (4) above do not interfere with the beneficial use and occupancy of the Substituted Property described in such policy by the City for the purposes of leasing or using the Substituted Property;

(6) An Opinion of Counsel that the Substitution or Removal does not cause the interest with respect to the Bonds and any Additional Bonds to be includable in gross income of the Owners thereof for federal income tax purposes;

(7) A Certificate of the City stating that the City has complied with the covenants described in clauses (1) and (2) under the caption "Maintenance; Taxes; Insurance and Other Charges—Insurance" below, with respect to the Substituted Property;

(8) Evidence that the City has delivered to the Rating Agencies copies of the certificates and appraisal described in clauses (1) and (2) above; and

(9) Evidence that the City has delivered to each of the Rating Agencies then rating the Bonds or any Additional Bonds copies of the certificates and appraisal described in clauses (1) and (ii) above, and evidence from each of the Rating Agencies then rating the Bonds or any

Additional Bonds that such Substitution or Removal, in and of itself, will not result in a reduction of its rating on the Bonds or any Additional Bonds from the rating which then prevails.

Acquisition and Construction of the Project; Components. The City agrees to cause the Expansion Project to be constructed, acquired and installed as agent of the Authority. The City will enter into contracts and provide for, as agent of the Authority, the complete construction, acquisition and installation of the Expansion Project. The City agrees that it will cause the construction, acquisition and installation of the Expansion Project to be diligently performed.

Terms of the Facility Lease

Commencement of the Facility Lease. The term of the Facility Lease will commence on the Closing Date, and will end, with respect to the Existing Center, on the Existing Center Expiry Date, and with respect to the Expanded Center, on the Expansion Project Expiry Date, unless the Expansion Project Expiry Date is extended or the Existing Center Expiry Date or the Expansion Project Expiry Date is sooner terminated as provided in the Facility Lease. If on the Expansion Project Expiry Date, the rental payable under the Facility Lease shall not be fully paid and all Bonds and Additional Bonds shall not be fully paid and defeased, or if the rental payable under the Facility Lease shall have been abated at any time and for any reason, then the term of the Facility Lease will be extended until ten days after the rental payable under the Facility Lease will be fully paid and all Bonds and Additional Bonds will be fully paid and defeased, except that the term of the Facility Lease will in no event be extended beyond April 1, 2033. If prior to either the Existing Center Expiry Date or the Expansion Project Expiry Date, the rental payable under the Facility Lease shall be fully paid and all Bonds and Additional Bonds shall have been fully paid or defeased in accordance with the Indenture, the term of the Facility Lease will end ten days thereafter or ten days after written notice by the City to the Authority to the effect that the rental payable under the Facility Lease will be fully paid and all Bonds and Additional Bonds have been fully paid, whichever is earlier, and the Facility Lease will thereupon terminate.

The City will take possession of the Leased Property on the Closing Date and the obligation of the City to pay Base Rental Payments and Additional Rental will commence on the Closing Date, subject to the limitations described above under the caption "Rental Payments—Rental Payments—Base Rental."

Tax Covenants; Continuing Disclosure

Tax Covenants. (a) The City will not take any action, or fail to take any action, if such action or failure to take such action would adversely affect the exclusion from gross income of the interest on the Bonds and any Additional Bonds pursuant to Section 103 of the Code and specifically the City will not directly or indirectly use or make any use of the proceeds of the Bonds and any Additional Bonds or any other funds of the City or take or omit to take any action that would cause the Bonds or any Additional Bonds to be "arbitrage bonds" subject to federal income taxation by reason of Section 148 of the Code or obligations subject to federal income taxation because they are "federally guaranteed" as provided in Section 149(b) of the Code, as applicable; and to that end the City, with respect to the proceeds of the Bonds and any Additional Bonds and such other funds, will comply with all requirements of such sections of the Code to the extent that such requirements are, at the time, applicable and in effect; *provided*, that if the City shall obtain an Opinion of Counsel to the effect that any action required under this section is no longer required, or to the effect that some further action is required, to maintain the exclusion from gross income of the interest evidenced and represented by the Bonds and any Additional Bonds pursuant to Section 103 of the Code, as applicable, the City may rely conclusively on such opinion in complying with the provisions of the Facility Lease. In the event that at any time the City is of the opinion that for purposes of this section it is necessary to restrict or limit the yield on the investment of any moneys held by the Trustee under the Indenture or otherwise the City will so instruct the Trustee in writing, and the Trustee will take such action as may be necessary in accordance with such instructions.

(b) To the ends covenanted in this section, the City specifically agrees to ensure that the following requirements are met:

(1) No more than 5% of the Leased Property or the Expansion Project or the Center (determined both on the basis of space and cost) will be used in the trade or business of one or more nongovernmental persons (not including the portion of the proceeds properly allocable to facilities expected to be used by an organization described in Section 501(c)(3) of the Code).

(2) The City will not invest or allow to be invested proceeds of the Facility Lease, the Bonds or any Additional Bonds at a yield in excess of the yield on the Bonds and such Additional Bonds, except to the extent allowed under the Tax Certificate.

(3) The City will rebate or cause to be rebated any amounts due to the federal government, as provided in the Tax Certificate.

Continuing Disclosure. The City covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Agreement. Notwithstanding any other provision of the Facility Lease, failure of the City to comply with the Continuing Disclosure Agreement will not be considered an event of default under the Facility Lease; however, the Trustee may (and, at the request of any Participating Underwriter (as defined in the Continuing Disclosure Agreement) or Owners of at least 25% aggregate principal amount in Outstanding Bonds, will, after providing the Trustee security and indemnification satisfactory to it against the costs, expenses and liabilities to be incurred in the Facility Lease or thereby) or any Owner or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the City to comply with its obligations under this section.

Rental Payments

Base Rental. The City will pay to the Authority rental under the Facility Lease as Base Rental Payments with respect to the Leased Property at the times and in the amounts set forth in the Base Rental Payment Schedule attached to the Facility Lease. The obligation of the City to pay Base Rental Payments (and Additional Rental) will commence on the Closing Date. Notwithstanding the foregoing, the City will deposit with the Authority not later than the third Business Day preceding each April 1 and October 1, commencing April 1, 1999, one-half of the aggregate Base Rental Payments due in the then current fiscal year (provided that the Base Rental Payment due on April 1, 1999 will be in an amount representing payments due for that period ending on such date as set forth in Exhibit C) and the same will be held by the Authority as security for the Base Rental Payments due on such dates.

Additional Rental. The City will also pay, as rental under the Facility Lease in addition to the Base Rental Payments, to the Authority or the Trustee, as provided in the Facility Lease, such amounts in each year as will be required for the payment of all costs and expenses incurred by the Authority in connection with the execution, performance or enforcement of the Facility Lease or the assignment of the Facility Lease pursuant to the Assignment Agreement, the Indenture or the respective interests in the Leased Property and the lease of the Leased Property by the Authority to the City under the Facility Lease, including but not limited to all fees, costs and expenses and all administrative costs of the Authority relating to the Leased Property including, without limiting the generality of the foregoing, salaries and wages of employees, overhead, insurance premiums, taxes and assessments (if any), expenses, compensation and indemnification of the Trustee (to the extent not paid or otherwise provided for out of the proceeds of the sale of the Bonds or any Additional Bonds), fees of auditors, accountants, attorneys or engineers, insurance premiums, and all other reasonable and necessary administrative costs of the Authority or charges required to be paid by it to comply with the terms of the Bonds, any Additional Bonds or the Indenture.

The foregoing Additional Rental will be billed to the City by Authority or the Trustee from time to time, together with a statement certifying that the amount billed has been incurred or paid by the Authority, the Trustee or the Trustee on behalf of the Authority for one or more of the items above described, or that such amount is then so payable for such items. Amounts so billed will be paid by the City not later than the latest time as such amounts may be paid without penalty or, if no penalty is associated with a late payment of such amounts, within 30 days after receipt of a bill by the City for such amounts.

The Authority may issue bonds and may enter into leases to finance facilities other than the Leased Property. The administrative costs of the Authority will be allocated among said facilities and the Leased Property, as described in this paragraph. Any taxes levied against the Authority with respect to the Leased Property, the fees of the Trustee, and any other expenses directly attributable to the Leased Property will be included in the Additional Rental payable under the Facility Lease. Any taxes levied against the Authority with respect to real property other than the Leased Property, the fees of any trustee or paying agent under any resolution securing bonds of the Authority or any trust agreement or indenture other than the Indenture, and any other expenses directly attributable to any facilities other than the Leased Property will not be included in the administrative costs of the Leased Property and will not be paid from the Additional Rental payable under the Facility Lease. Any expenses of the Authority not directly attributable to any particular project of the Authority will be equitably allocated among all such projects, including the Leased Property, in accordance with sound accounting practice. In the event of any question or dispute as to such allocation, the written opinion of an independent firm of certified public accountants, employed by the Authority to consider the question and render an opinion thereon, will be final and conclusive determination as to such allocation. The Trustee may conclusively rely upon a Certificate of the Authority in making any determination that costs are payable as Additional Rental under the Facility Lease, and will not be required to make any investigation as to whether or not the items so requested to be paid are expenses of operation of the Leased Property.

Consideration. (i) Such payments of Base Rental Payments and Additional Rental for each Lease Year or portion thereof during the term of the Facility Lease will constitute the total rental for such Lease Year or portion thereof and will be paid or payable by the City for and in consideration of the right of the use and possession of, and the continued quiet use and enjoyment of, the Leased Property. On the Closing Date, the City will deliver a Certificate to the Authority and the Trustee which will set forth the annual fair rental value of the Leased Property. The parties to the Facility Lease have agreed and determined that the annual fair rental value of the Leased Property is not less than the maximum Base Rental Payments payable under the Facility Lease in any year. In making such determinations of annual fair rental value, consideration has been given to a variety of factors including the replacement costs of the existing improvements on the Leased Property, other obligations of the parties under the Facility Lease, the uses and purposes which may be served by the improvements on the Leased Property and the benefits therefrom which will accrue to the City and the general public.

(ii) The parties to the Facility Lease acknowledge that the parties to the Facility Lease may amend the Facility Lease from time to time to increase the Base Rental Payments payable under the Facility Lease so that Additional Bonds may be executed and delivered pursuant to the Facility Lease and the Indenture. The proceeds of such Additional Bonds will be used as provided in the Indenture. Notwithstanding anything to the contrary in the Facility Lease, the Facility Lease may not be amended in a manner such that the sum of Base Rental Payments, including Base Rental Payments payable pursuant to such amendment, and Additional Rental with respect to Outstanding Bonds and Additional Bonds in any year is in excess of the annual fair rental value of the Leased Property and other land and improvements leased to the City under the Facility Lease after giving effect to the application of proceeds of any Additional Bonds executed and delivered in connection therewith.

Payment: Credit. Each installment of Base Rental Payments payable under the Facility Lease will be paid in lawful money of the United States of America to or upon the order of the Authority at the principal corporate trust office of the Trustee in Los Angeles, California, or such other place as the Trustee will designate. Any such installment of rental accruing under the Facility Lease which will not be paid when due will remain due and payable until received by the Trustee, except as provided the provision of the Facility Lease relating to rental abatement described below, and to the extent permitted by law will bear simple interest at the rate of ten percent per annum from the date when the same is due under the Facility Lease until the same shall be paid. Notwithstanding any dispute between the City and the Authority, the City will make all rental payments when due, without deduction or offset of any kind, and will not withhold any rental payments pending the final resolution of any such dispute. In the event of a determination that the City was not liable for said rental payments or any portion thereof, said payments or excess of payments, as the case may be, will, at the option of the City, be credited against subsequent rental payments due under the Facility Lease or be refunded at the time of such determination. Amounts required to be deposited by the City with the Trustee pursuant to this section on any date will be reduced to the extent of amounts on deposit on such date in the Interest Account or the Principal Account held under the Indenture.

Annual Budgets; Reporting Requirements. The City covenants to take such action as may be necessary to include all Base Rental Payments and Additional Rental payments due under the Facility Lease in its operating budget for each fiscal year commencing after the date of the Facility Lease (an "Operating Budget") and to make all necessary appropriations for such Base Rental Payments and Additional Rental payments. In addition, to the extent permitted by law, the City covenants to take such action as may be necessary to amend or supplement the budget appropriations for payments under the Facility Lease at any time and from time to time during any fiscal year in the event that the actual Base Rental Payments and Additional Rental paid in any fiscal year exceeds the pro rata portion of the appropriations then contained in the City's budget.

Application of Rental Payments. All Base Rental Payments received will be applied first to the Base Rental Payments due under the Facility Lease (including any prepayment premium components) and thereafter to all Additional Rental due under the Facility Lease, but no such application of any payments which are less than the total rental due and owing will be deemed a waiver of any default under the Facility Lease.

Rental Abatement. Except to the extent of (a) amounts held by the Trustee in the Bond Fund or the Reserve Account of the Bond Fund, (b) amounts received in respect of use and occupancy insurance, and (c) amounts, if any, otherwise legally available to the Trustee for payments in respect of the Bonds, during any period in which, by reason of material damage, destruction, title defect or condemnation there is substantial interference with the use and possession by the City of any portion of the Leased Property, rental payments due under the Facility Lease with respect to the Leased Property will be abated to the extent that the annual fair rental value of the portion of the Leased Property in respect of which there is no substantial interference is less than the annual Base Rental Payments and Additional Rental, in which case rental payments will be abated only by an amount equal to the difference. In the event the City shall assign, transfer or sublease any or all of the Leased Property or other rights under the Facility Lease, as permitted by the Facility Lease, for purposes of determining the annual fair rental value available to pay Base Rental Payments and Additional Rental, annual fair rental value of the Leased Property will first be allocated to the Facility Lease as described in clause (d) of the section entitled "The Leased Property—Prohibition Against Encumbrance and Sale" above. Any abatement of rental payments pursuant to this section will not be considered an event of default as defined in the Facility Lease. The City waives the benefits of Civil Code Sections 1932(2) and 1933(4) and any and all other rights to terminate the Facility Lease by virtue of any such interference and the Facility Lease will continue in full force and effect. Such abatement will continue for the period commencing with the date of such damage, destruction, title defect or condemnation and ending with the substantial completion of the work of repair or replacement of the portions of the Leased Property so damaged, destroyed, defective or condemned.

In the event that rental is abated, in whole or in part, pursuant to this section due to damage, destruction, title defect or condemnation of any part of the Leased Property and the City is unable to repair, replace or rebuild the Leased Property from the Net Proceeds, if any, the City agrees to apply for and to use its best efforts to obtain any appropriate state and/or federal disaster relief in order to obtain funds to repair, replace or rebuild the Leased Property.

Prepayment of Base Rental Payments. Subject to the provisions of the Facility Lease, the City may prepay, from Net Proceeds received by it pursuant to the Facility Lease, all or any portion of the components of Base Rental Payments relating to any portion of the Leased Property then unpaid on any date, in whole or in part, in Authorized Denomination so that the aggregate annual amounts of principal components of Base Rental Payments represented by the Bonds and any Additional Bonds which shall be payable after such prepayment date will each be in an integral multiple of an Authorized Denomination and will be as nearly proportional as practicable to the aggregate annual amounts of principal components of Base Rental Payments represented by the Bonds and any Additional Bonds, with respect to the portion of the Leased Property so prepaid.

The City may prepay, from any source of available moneys and in accordance with the redemption provisions of the Indenture, all or any part (in an integral multiple of an Authorized Denomination) of the principal components of Base Rental Payments then unpaid so that the aggregate annual amounts of principal components of Base Rental Payments under the Facility Lease which will be payable after such prepayment date will be as nearly proportional as practicable to the aggregate annual amounts of principal components represented

by the Bonds and any Additional Bonds unpaid prior to the prepayment date, at a prepayment amount equal to the principal component prepaid plus accrued interest thereon to the date of prepayment plus any applicable premium.

Before making any prepayment pursuant to this section, at least 45 days before the prepayment date the City will give written notice to the Authority and the Trustee describing such event, specifying the order of Principal Payment Dates and specifying the date on which the prepayment will be made, which date will be not less than 30 nor more than 60 days from the date such written notice is given to the Authority and the Trustee.

Additional Bonds. In addition to the Bonds to be executed and delivered under the Indenture the Authority may, from time to time, but only upon satisfaction of the conditions to the execution and delivery of Additional Bonds set forth in the Indenture, enter into a Supplemental Indenture to execute and deliver Additional Bonds on a parity with the Bonds and any previously executed and delivered Additional Bonds (unless otherwise provided in the related Supplemental Indenture), the proceeds of which may be used as provided in the Indenture and as provided in the Supplemental Indenture; *provided* that prior to or concurrently with the execution and delivery of the Additional Bonds, the City and the Authority will have entered into an amendment to the Facility Lease providing for an increase in the Base Rental Payments to be made under the Facility Lease subject to the limitations set forth in the Facility Lease.

Maintenance; Taxes; Insurance and Other Charges

Maintenance of the Leased Property by the City. The City agrees that, at all times during the term of the Facility Lease, it will, at its own cost and expense, maintain, preserve and keep the Leased Property and every portion thereof in good repair, working order and condition and that it will from time to time make or cause to be made all necessary and proper repairs, replacements and renewals. The Authority will have no responsibility in any of these matters or for the making of additions or improvements to the Leased Property.

Taxes, Other Governmental Charges and Utility Charges. The parties to the Facility Lease contemplate that the Leased Property will be used for public purposes by the City and, therefore, that the Leased Property will be exempt from all taxes presently assessed and levied with respect to real and personal property, respectively. In the event that the use, possession or acquisition by the City or the Authority of the Leased Property is found to be subject to taxation in any form, the City will pay during the term of the Facility Lease, as the same respectively become due, all taxes and governmental charges of any kind whatsoever that may at any time be lawfully assessed or levied against or with respect to the Leased Property and any other property acquired by the City in substitution for, as a renewal or replacement of, or a modification, improvement or addition to, the Leased Property, as well as all gas, water, steam, electricity, heat, power, air conditioning, telephone, utility and other charges incurred in the operation, maintenance, use, occupancy and upkeep of the Leased Property; *provided*, that with respect to any governmental charges or taxes that may lawfully be paid in installments over a period of years, the City will be obligated to pay only such installments as are accrued during such time as the Facility Lease is in effect.

Insurance. The City will procure or cause to be procured and maintain or cause to be maintained throughout the term of the Facility Lease for the Center insurance against the following risks in the following respective amounts:

- (1) insurance against loss or damage to the Leased Property caused by fire, lightning or earthquake, with an extended coverage endorsement covering the risk of vandalism and malicious mischief, sprinkler system leakage and boiler loss; *provided* that earthquake coverage will be required only if: (a) available from reputable insurers at commercially reasonable rates; and (b) the Leased Property cannot satisfy any earthquake standards which may be imposed by any Rating Agency then rating the Bonds or any Additional Bonds. In the event the City is unable to obtain earthquake coverage on any Leased Property which it previously has maintained, it will promptly so notify all Rating Agencies then rating the Bonds or any Additional Bonds. The insurance described in this paragraph (1) will be in an amount equal to the lesser of (a) replacement cost (without deduction for depreciation) of improvements located or to be located on the Leased Property or, if lower, \$50,000,000 in the case of earthquake

insurance, or (b) the remaining unpaid principal amount of Bonds Outstanding plus the amount of use and occupancy coverage described in paragraph (2) below, except that such insurance may be subject to deductible clauses of not to exceed the first one hundred thousand dollars (\$100,000) of the amount of any one loss (or ten percent (10%) of the amount insured, in the case of earthquake). Insurance described in this paragraph (1) and in paragraph (2) below may be in the form of a policy which covers the Leased Property and one or more additional parcels of real property insured by the City; *provided* that the amount of coverage available thereunder will be at least equal to the cumulative replacement values of the Leased Property and any other such property which is the subject of a lease, installment purchase or other financing arrangement ("Financed Property") for which bonds, certificates of participation or other obligations shall have been issued ("Obligations") plus the amount of use and occupancy coverage required by paragraph (2) below; in the event the City elects to obtain insurance for the Leased Property and one or more additional parcels of real property and the amount of the insurance proceeds available to pay all claims thereunder is not sufficient to cover the replacement values of all such properties, then any such proceeds will be used first to rebuild or repair the Leased Property and all Financed Properties or to repay all Obligations, the Bonds and any Additional Bonds.

(2) use and occupancy insurance against loss, total or partial, of the use and occupancy of the Center as a result of any of the hazards covered by the insurance required by paragraph (1) hereof, in an amount sufficient to pay the Base Rental Payments attributable to the Center for a twenty-four month period; *provided*, that the amount of such insurance need not exceed the total remaining Base Rental Payments attributable to the Center; *provided further*, that such insurance may be part of a policy permitted under paragraph (1) above, which policy may provide that insurance proceeds paid for coverages contemplated by paragraph (1) above may reduce amounts payable under coverage required by this paragraph (2), and vice-versa; the City may obtain use and occupancy insurance covering the Center as well as other parcels of property owned by the City, *provided* that the cumulative amount thereof is at least equal to the cumulative amount of use and occupancy insurance required by this paragraph (2) and any agreements relating to Financed Property in respect of which Obligations are outstanding.

(3) workers' compensation insurance covering all employees working in or on the Center, in the same amount and type as other workers' compensation insurance maintained by the City for similar employees doing similar work; and the City will also require any other person or entity working in or on the Center to carry the foregoing amount of workers' compensation insurance; any such policy maintained by the City may provide for a deductible so long as the deductible is covered by a self-insurance or self-funding method or plan permitted by this section.

(4) a standard, commercial general liability insurance policy or policies in protection of the Authority, the City, the District and their directors, officers and employees and the Trustee, indemnifying and defending such parties against direct or contingent loss or liability for damages for personal injury, death or property damage related to the possession, operation or use of the Center, with a minimum combined single limit of one million dollars (\$1,000,000) for personal injury or death of one or more persons, and for property damage, in each accident or event (subject to a deductible clause of not to exceed one hundred thousand dollars (\$100,000) or such greater amount as may be covered by any self-insurance or self-funding method or plan permitted by this section).

The City will collect, adjust and receive all moneys which may become due and payable under any policies contemplated by paragraphs (1) and (2) above, may compromise any and all claims thereunder and, subject to the provisions of the Facility Lease, will transfer such Net Proceeds to the Trustee for application as provided in the Facility Lease or in the Indenture. The Trustee will not be responsible for the sufficiency of any insurance in the Facility Lease required. The Trustee will be fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss agreed to by the City.

Notwithstanding the above provisions, as an alternative to providing the insurance required by paragraphs (3) and (4) above, the City may provide a self-insurance or self-funding method or plan of protection for any part or all of the requirements for such insurance and, through such a plan or method, provide for deductible or

retention amounts greater than those contemplated by paragraphs (1), (3) or (4) above. Any such self-insurance or self-funding maintained by the City pursuant to the foregoing sections, will comply with the following terms:

- (i) the self-insurance or self-funding program shall be approved by an Insurance Consultant;
- (ii) the self-insurance or self-funding program shall include a reasonable claims reserve fund out of which each self-insured or self-funded claim and any deductible amount authorized by paragraphs (1), (3) and (4) above shall be paid; prior to the end of the first Lease Year, the adequacy of each such fund shall be evaluated by an Insurance Consultant who shall also evaluate the appropriateness of the reserving and funding methods and practices employed in establishing and maintaining each such fund; any deficiencies in any claims reserve fund shall be remedied in accordance with the recommendation of the Insurance Consultant and any recommended changes in the reserving or funding methods or practices shall be adopted in accordance with the recommendation of the Insurance Consultant; after the first Lease Year, at least annually and not later than September 1 of each year that is a Lease Year, the City shall provide to the Trustee a report by either the independent accountants which provide the audit report on the City's annual audited financial statements or by an Insurance Consultant, as selected by the City, as to the appropriateness of the reserving and funding methods and practices employed by the City in funding the claims funds, and any changes recommended by the report shall promptly be implemented by the City;
- (iii) the claims reserve fund shall be held in a separate fund by the City; and
- (iv) in the event the self-insurance or self-funding program shall be discontinued, the soundness of its claim and deductible or retention reserve fund, as determined by the Insurance Consultant, shall be maintained.

Any insurance policy issued pursuant to paragraph (1) above will be so written or endorsed as to make losses, if any, payable to the City, the Authority, the District and the Trustee as their respective interests may appear and the Net Proceeds of the insurance required by paragraph (1) above will be applied as provided in the Facility Lease. The net proceeds, if any, of the insurance policy described in paragraph (1) above will, to the extent that such proceeds are paid on account of loss or damage to the Leased Property, be payable to the Trustee and deposited in the Insurance Proceeds and Condemnation Awards Fund and applied as described in the Indenture. The net proceeds, if any, of the insurance policy described in paragraph (2) above will, to the extent that such proceeds relate to the use and occupancy of the Leased Property, be payable to the Trustee and deposited in the Bond Fund. Each insurance policy provided for in the Facility Lease will contain a provision to the effect that the insurance company will not cancel the policy or modify it materially and adversely to the interests of the Authority and the Trustee without first giving written notice thereof to the Authority and the Trustee at least 60 days in advance of such intended cancellation or modification.

The City will file a certificate with the Authority and the Trustee not later than April 1 of each year commencing April 1, 1999, certifying that the insurance required by this section is in full force and effect and that the Trustee and the Authority are named as loss payees on each insurance policy which the Facility Lease requires to be so endorsed.

Advances. In the event the City will fail to maintain the full insurance coverage required by the Facility Lease or will fail to keep the Leased Property in good repair and operating condition, the Authority may (but will be under no obligation to) purchase the required policies of insurance and pay the premiums on the same or may make such repairs or replacements as are necessary and provide for payment thereof; and all amounts so advanced therefor by the Authority will become Additional Rental, which amounts the City agrees to pay within 30 days of a written request therefor, together with interest thereon at the maximum rate allowed by law.

Title Insurance. The City covenants and agrees to deliver or cause to be delivered to the Trustee on the Closing Date a CLTA leasehold policy or policies, or a commitment for such policy or policies, with respect to the Leased Property with liability in the aggregate amount equal to the principal amount represented by the Bonds. Such policy or policies, when issued, will name the Trustee as the insured and will insure the estate of the

Authority in the Leased Property subject only to such exceptions as do not materially affect the City's right to the use and occupancy of the Leased Property.

Damage, Title Defect and Condemnation

Damage, Destruction, Title Defect and Condemnation; Use of Net Proceeds. (a) If prior to the termination of the term of the Facility Lease (i) the Center or any other improvements in or on the Center are damaged (each of which is hereinafter called "Damaged Improvements") by a peril covered by a policy of insurance described in the Facility Lease (an "Insured Peril"); or (ii) title to, or the temporary use of, the Center or any portion thereof or the estate of the City or the Authority in the Center or any portion thereof is defective or will be taken under the exercise of the power of eminent domain by any governmental body or by any person or firm or corporation acting under governmental authority, then the City and the Authority will cause the Net Proceeds of any insurance claim (other than rental interruption insurance pursuant to the Facility Lease which will be directly transferred to the Trustee for deposit in the Bond Fund pursuant to the Facility Lease) or condemnation award to be transferred to the Trustee for deposit in the Insurance Proceeds and Condemnation Awards Fund established pursuant to the Indenture and applied as follows:

(1) Net Proceeds Exceeding Costs. Within 120 days of the date of said Insured Peril, the City will obtain a written estimate(s) of the (i) cost of the repair, replacement and reconstruction of the Damaged Improvements (collectively referred to in the Facility Lease as the "Reconstruction"), and (ii) Net Proceeds available to pay such costs. Copies of such estimate(s) will be made available to the District at the District's request. If the 120 day period is insufficient to obtain said estimates, the period will be reasonably extended by the City Manager. If the Net Proceeds (not including proceeds of any policy of title insurance or condemnation award received by the Trustee in respect of the Leased Property) exceed the estimated costs of Reconstruction, the Damaged Improvements will be repaired, replaced and reconstructed to the same or better quality as existed before the damage occurred. The City will commence and manage the Reconstruction and will complete the Reconstruction as soon as reasonably possible after the occurrence of such damage. Any balance of Net Proceeds remaining after the Reconstruction has been completed will be transferred to the Trustee with directions to apply the proceeds to the Redemption Account established under the Indenture to redeem Outstanding Bonds in the manner provided by the Indenture.

(2) Costs Exceeding Proceeds. If the estimated costs of Reconstruction exceed the Net Proceeds (not including proceeds of any policy of title insurance or condemnation award received by the Trustee in respect of the Leased Property), the City, in its sole discretion, may elect to budget and appropriate to the Reconstruction the amount of such excess, whether the same is greater or less than the estimated excess, and to manage the Reconstruction as set forth in the Facility Lease.

(3) Net Proceeds Sufficient to Redeem All Bonds. If the City does not exercise the election to reconstruct as set forth in paragraph (2) immediately above, and Net Proceeds are at least sufficient to redeem all Outstanding Bonds pursuant to the Indenture, such Net Proceeds will be transferred to the Trustee with directions to apply the proceeds to the Redemption Account established under the Indenture to redeem all Outstanding Bonds in the manner provided by the Indenture. If the Net Proceeds (not including proceeds of any policy of title insurance or condemnation award received by the Trustee in respect of the Leased Property) exceed the amount necessary to redeem all Outstanding Bonds, District will be entitled to the amount of proceeds remaining after redemption of all Outstanding Bonds ("Excess Proceeds") and will have the option (i) to distribute the Excess Proceeds to the Reconstruction and to manage the Reconstruction pursuant to the Facility Lease, or (ii) if required by law or if the District so elects, to demolish any remaining improvements on the Center site and remove all debris from the site.

(4) Net Proceeds Insufficient to Redeem All Bonds. If the City does not exercise the election to reconstruct as set forth in paragraph (2) above, and Net Proceeds are insufficient to redeem all Outstanding Bonds pursuant to the Indenture, the City, in its sole discretion, may elect to budget and appropriate funds to cause the redemption of the remaining Outstanding Bonds and the Net Proceeds,

together with such funds, will be transferred to the Trustee with directions to apply the proceeds to the Redemption Account established under the Indenture to redeem all Outstanding Bonds in the manner provided by the Indenture; *provided*, that if the City elects not to appropriate funds for the redemption of the remaining Outstanding Bonds, the City will apply Net Proceeds (not including proceeds of any policy of title insurance or condemnation award received by the Trustee in respect of the Leased Property) to the Reconstruction. If the City, in its sole discretion, elects to budget or appropriate funds for the redemption of the remaining Outstanding Bonds, the City will transfer such funds to the Trustee for deposit in the Redemption Account established pursuant to the Indenture.

(5) Management of Reconstruction. If the Center or any part thereof becomes Damaged Improvements, the District or the City, whichever is entitled to manage the Reconstruction under the Facility Lease, will promptly cause, manage and supervise the Reconstruction. Nothing in this section will be construed to preclude the City or the District from agreeing to issue a joint construct(s) for, or otherwise cooperating in, the Reconstruction of any of the Damaged Improvements.

(b) The proceeds of any policy of title insurance or condemnation award received by the Trustee in respect of the Leased Property will be applied in accordance with the Indenture.

Assignment and Indemnification

Assignment by Authority. The parties understand that certain of the rights of the Authority under the Facility Lease will be assigned to the Trustee pursuant to the Assignment Agreement and accordingly the City agrees to make all payments due under the Facility Lease to the Trustee, notwithstanding any claim, defense, setoff or counterclaim whatsoever (whether arising from a breach of the Facility Lease or otherwise) that the City may from time to time have against the Authority. The City agrees to execute all documents, including notices of assignment and chattel mortgages or financing statements, which may be reasonably requested by the Authority or the Trustee to protect their interests in the Leased Property during the term of the Facility Lease.

Assignment by City. The Facility Lease and the interest of the City in the Leased Property may not be assigned or encumbered by the City except as permitted by the Facility Lease.

Indemnification. (a) The City will, to the full extent permitted by law, indemnify, protect, hold harmless, save and keep harmless the District, the Authority and the Trustee and their respective directors, officers and employees from and against any and all liability, obligations, losses, claims and damages whatsoever, regardless of the cause thereof, and expenses in connection therewith, including, without limitation, counsel fees and expenses as incurred, penalties and interest (collectively, a "Claim"), arising out of or as the result of entering into the Financing Documents (as defined in the Operating Agreement), and the acquisition, construction, operation, use, condition, or possession of the Existing Center and the Expanded Center and any portion thereof, including:

- (1) any accident in connection with the operation, use, condition or possession of the Existing Center and the Expanded Center and any portion thereof, resulting in damage to property or injury to or death to any person including, without limitation, any Claim alleging latent and other defects, whether or not discoverable by the City, the District or the Authority;
- (2) patent trademark or copyright infringement as a consequence of the operation of the Existing Center and the Expanded Center and any portion thereof;
- (3) strict liability in tort as a consequence of the operation of the Center and any portion thereof;
- (4) except as provided in the Facility Lease any environmental law or regulation as a consequence of the operation of the Existing Center and the Expanded Center;

(5) any claim of any nature directly arising from or related to the dewatering system, which claim is based upon the operation of the dewatering system from and after the Closing Date; and

(6) except as provided in the Facility Lease, the existence, placement, delivery, storage or release of hazardous materials on the Existing Center and the Expanded Center or contamination of property, arising therefrom.

(b) Pursuant to the Agreement and the Operating Agreement, the District will, to the full extent then permitted by law, indemnify, protect, hold harmless, save and keep harmless the City, the Authority and the Trustee and their respective directors, officers and employees from and against any and all liability, obligations, losses, fines, penalties, claims and damages whatsoever, regardless of the cause thereof, and expenses in connection therewith, including, without limitation, counsel fees and expenses as incurred, penalties and interest (collectively, a "Claim") arising out of or as the result of the acquisition, construction, installation, operation, use, condition, or possession of the Parking Facility and Tennis Courts and any portion thereof, including:

(1) any accident in connection with the operation, use, condition or possession of the Parking Facility and Tennis Courts and any portion thereof, resulting in damage to property or injury to or death to any person including, without limitation, any Claim alleging latent and other defects, whether or not discoverable by the City, the District or the Authority;

(2) patent trademark or copyright infringement as a consequence of the operation of the Parking Facility and Tennis Courts and any portion thereof;

(3) strict liability in tort as a consequence of the operation of the Parking Facility and Tennis Courts and any portion thereof;

(4) any environmental law or regulation as a consequence of the operation of the Parking Facility and Tennis Courts and any portion thereof;

(5) any claim of any nature directly arising from or related to the dewatering system, which claim is based upon the operation of the dewatering system prior to the Closing Date; and

(6) the existence, placement, delivery, storage or release of hazardous materials on the Existing Center and Expanded Center or contamination of property, arising therefrom.

The indemnification arising under this section will continue in full force and effect notwithstanding the full payment of all obligations under the Facility Lease or the termination of the Facility Lease for any reason or the resignation or removal of the Trustee. The City and the District mutually agree to promptly give notice to each other of any claim or liability indemnified against by the Facility Lease following the learning thereof by such party.

Default

Default. (a) The following events shall be "events of default" under the Facility Lease and the terms "event of default" and "default" will mean, whenever they are used in the Facility Lease, any one or more of the following events:

(i) The City shall fail to deposit with the Trustee any Base Rental Payment required to be so deposited by the close of business on the day such deposit is required pursuant to the Facility Lease, *provided*, that the failure to deposit any Base Rental Payments abated pursuant to the Facility Lease will not constitute an event of default;

(ii) Subject to the provisions of subsection (c) of this section, the City shall fail to pay any item of Additional Rental when the same will become due and payable pursuant to the Facility Lease; or

(iii) The City shall breach any other terms, covenants or conditions contained in the Facility Lease or in the Indenture, and will fail to remedy any such breach with all reasonable dispatch within a period of 30 days after written notice thereof from the Authority to the City; *provided, however*, that if the failure stated in the notice cannot be corrected within such period, then the Authority will not unreasonably withhold its consent to an extension of such time if corrective action is instituted by the City within such period and is diligently pursued until the default is corrected.

Upon the happening of any of the events specified in subsection (a) or (b) of this section (in either case an "Event of Default"), it will be lawful for the Authority or its assignee, subject to the terms of the Facility Lease, to exercise any and all remedies available or granted to it pursuant to law or under the Facility Lease.

The Authority or its assignee, in addition to all other rights and remedies it may have at law, will have the option to do any of the following:

(1) To terminate the Facility Lease in the manner hereinafter provided on account of default by the City, notwithstanding any retaking of possession or re-letting of the Leased Property as hereinafter provided for in subparagraph (2) hereof, and to retake possession of the Leased Property. In the event of such termination, the City agrees to surrender immediately possession of the Leased Property, without let or hindrance, and to pay the Authority or its assignee all damages recoverable at law that the Authority or its assignee may incur by reason of default by the City, including, without limitation, any costs, loss or damage whatsoever arising out of, in connection with, or incident to any such retaking possession of the Leased Property. Neither notice to pay rent nor to deliver up possession of the Leased Property given pursuant to law nor any proceeding in unlawful detainer, or otherwise, brought by the Authority or its assignee for the purpose of obtaining possession of the Leased Property nor the appointment of a receiver upon initiative of the Authority or its assignee to protect the Authority's or its assignee's interest under the Facility Lease will of itself operate to terminate the Facility Lease, and no termination of the Facility Lease on account of default by the City will be or become effective by operation of law or acts of the parties to the Facility Lease, unless and until the Authority or its assignee shall have given written notice to the City of the election on the part of the Authority or its assignee to terminate the Facility Lease. Notwithstanding any other provisions of the Existing Center Lease, the Expansion Lease or the Agreement, the Authority's interest in the Existing Center will not revert to the District prior to the Existing Center Expiry Date and the Authority's interest in the Expanded Center will not revert to the District until all Bonds and Additional Bonds are fully paid and retired or defeased under the Indenture.

(2) Without terminating the Facility Lease, (i) to collect each installment of rent as it becomes due and enforce any other term or provision of the Facility Lease to be kept or performed by the City and/or (ii) to exercise any and all rights to retake possession of the Leased Property. In the event the Authority or its assignee does not elect to terminate the Facility Lease in the manner provided for in subparagraph (1) hereof, the City will remain liable and agrees to keep or perform all covenants and conditions in the Facility Lease contained to be kept or performed by the City and, to pay the rent to the end of the term of the Facility Lease or, in the event that the Leased Property is re-let, to pay any deficiency in rent that results therefrom; and further agrees to pay said rent and/or rent deficiency punctually at the same time and in the same manner as provided in the Facility Lease for the payment of rent under the Facility Lease (without acceleration), notwithstanding the fact that the Authority or its assignee may have received in previous years or may receive thereafter in subsequent years rental in excess of the rental in the Facility Lease specified and notwithstanding any retaking of possession of the Leased Property by the Authority or its assignee or suit in unlawful detainer, or otherwise, brought by the Authority or its assignee for the purpose of obtaining possession of the Leased Property. Should the Authority or its assignee elect to retake possession of the Leased Property as in the Facility Lease provided, the City irrevocably appoints the Authority or its assignee as the agent and attorney-in-fact of the City to re-let the Leased Property, or any items thereof, from time to time, either in the Authority's or its

assignee's name or otherwise, upon such terms and conditions and for such use and period as the Authority or its assignee may deem advisable and the City indemnifies and agrees to save harmless the Authority or its assignee from any costs, loss or damage whatsoever arising out of, in connection with, or incident to any retaking of possession of and re-letting of the Leased Property by the Authority or its assignee or its duly authorized agents in accordance with the provisions contained in the Facility Lease. The City agrees that the terms of the Facility Lease constitute full and sufficient notice of the right of the Authority or its assignee to re-let the Leased Property in the event of such reentry without effecting a surrender of the Facility Lease, and further agrees that no acts of the Authority or its assignee in effecting such re-letting will constitute a surrender or termination of the Facility Lease irrespective of the use or the term for which such re-letting is made or the terms and conditions of such re-letting, or otherwise, but that on the contrary, in the event of such default by the City the right to terminate the Facility Lease shall vest in the Authority or its assignee to be effected in the sole and exclusive manner provided for in subparagraph (1) hereof. The City further waives the right to rental obtained by the Authority or its assignee in excess of the rental in the Facility Lease specified and conveys and releases such excess to the Authority or its assignee as compensation to the Authority or its assignee for its services in re-letting the Leased Property or any items thereof. The City further agrees to pay the Authority or its assignee the cost of any alterations or repairs to the Leased Property or any items thereof necessary to place the Leased Property or any items thereof in condition for re-letting immediately upon notice to the City of the completion and installation of such alterations or repairs.

The City waives any and all claims for damages caused or which may be caused by the Authority or its assignee in taking possession of the Leased Property as in the Facility Lease provided and all claims for damages that may result from the destruction of or injury to the Leased Property and all claims for damages to or loss of any property belonging to the City, or any other person, that may be on or about the Leased Property.

The Authority expressly waives the right to receive any amount from the City pursuant to Section 1951.2(a)(3) of the California Civil Code.

(b) In addition to any default resulting from breach by the City of any agreement, condition, covenant or term of the Facility Lease, if (1) the City's interest in the Facility Lease or any part thereof be assigned, sublet or transferred without the written consent of the Authority and the District (except as otherwise permitted by the Facility Lease), either voluntarily or by operation of law; or (2) the City or any assignee shall file any petition or institute any proceedings under any act or acts, state or federal, dealing with or relating to the subject of bankruptcy or insolvency or under any amendment of such act or acts, either as a bankrupt or as an insolvent or as a debtor or in any similar capacity, wherein or whereby the City asks or seeks or prays to be adjudicated a bankrupt, or is to be discharged from any or all of its debts or obligations, or offers to its creditors to effect a composition or extension of time to pay its debts, or asks, seeks or prays for a reorganization or to effect a plan of reorganization or for a readjustment of its debts or for any other similar relief, or if the City shall make a general or any assignment for the benefit of its creditors; or (3) the City will abandon or vacate the Leased Property or any portion thereof (except as permitted by the Facility Lease); then in each and every such case the City will be deemed to be in default under the Facility Lease.

(c) The City and Authority and its successors and assigns will honor the exclusive rights of the City to use the Leased Facility.

Miscellaneous

Net Lease. It is the purpose and intent of the Authority and the City that lease payments under the Facility Lease will be absolutely net to the Authority so that the Facility Lease will yield to the Authority the lease payments, free of any charges, assessments or impositions of any kind charged, assessed or imposed on or against the Leased Property, and without counterclaim, deduction, defense, deferment or set-off by the City except as in the Facility Lease specifically otherwise provided. The Authority will not be expected or required to pay any such charge, assessment or imposition, or be under any obligation or liability under the Facility Lease except as in the Facility Lease expressly set forth, and all costs, expenses and obligations of any kind relating to the maintenance

and operation of the Leased Property which may arise or become due during the term of the Facility Lease will be paid by the City.

Amendments to Facility Lease and Support Agreement. The Facility Lease may be amended in writing as may be mutually agreed by the Authority and the City, subject to the written approval of the Trustee; *provided*, that no such amendment which materially adversely affects the rights of the Owners will be effective unless it will have been consented to by the Owners of more than 50% in value of the Bonds and Additional Bonds Outstanding, and *provided further*, that no such amendment will (a) extend the payment date of any Base Rental Payment, or reduce the interest, principal or prepayment premium component of any Base Rental Payment, without the prior written consent of the Owner of each Bond and Additional Bond so affected, or (b) reduce the percentage of the value of the Bonds and Additional Bonds Outstanding the consent of the Owners of which is required for the execution of any amendment of the Facility Lease.

The Facility Lease and the rights and obligations of the Authority and the City under the Facility Lease may also be amended or supplemented at any time by an amendment of the Facility Lease or supplement to the Facility Lease which will become binding upon execution without the written consents of any Owners, but only to the extent permitted by law and only for any one or more of the following purposes --

- (a) to add to the agreements, conditions, covenants and terms required by the Authority or the City to be observed or performed in the Facility Lease and other agreements, conditions, covenants and terms thereafter to be observed or performed by the Authority or the City, or to surrender any right or power reserved in the Facility Lease to or conferred in the Facility Lease on the Authority or the City, and which in either case will not materially adversely affect the interests of the Owners;
- (b) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained in the Facility Lease or in regard to questions arising under the Facility Lease which the Authority or the City may deem desirable or necessary and not inconsistent with the Facility Lease, and which will not materially adversely affect the interests of the Owners;
- (c) to effect a Substitution or Removal in accordance with the Facility Lease;
- (d) to facilitate the issuance of Additional Bonds as provided in the Facility Lease; or
- (e) to make any other addition, amendment or deletion which does not materially adversely affect the interests of the Owners.

Unless otherwise provided in this section, Ambac Assurance's consent will be required in addition to Owner consent, when required, for the execution and delivery of any amendment, supplement or change to or modification of the Facility Lease.

The City will not amend the Support Agreement in such a manner which materially adversely affect the rights of the Owners, unless it will have been consented to by the Owners of more than 50% in value of the Bonds and Additional Bonds Outstanding, *provided* that no such amendment will (a) extend the payment date of any payment due under the Support Agreement, or reduce the interest, principal or prepayment component of such payment, without the prior written consent of the Owner of each Bond and Additional Bond so affected, or (b) reduce the percentage of the value of Bonds and Additional Bonds Outstanding the consent of the Owners of which is required for the execution of any amendment of the Support Agreement.

The Support Agreement and the rights and obligations of the City thereunder may also be amended or supplemented at any time by an amendment thereof or supplement thereto which will become binding upon execution without the written consents of any Owners, but only to the extent permitted by law and only for any one or more of the following purposes --

(a) to add to the agreements, conditions, covenants and terms required by the City to be observed or performed in the Facility Lease and other agreements, conditions, covenants and terms thereafter to be observed or performed by the City, or to surrender any right or power reserved in the Facility Lease to or conferred in the Facility Lease on the City, and which in either case will not materially adversely affect the interests of the Owners;

(b) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained in the Facility Lease or in regard to questions arising thereunder which the City may deem desirable or necessary and not inconsistent therewith, and which will not materially adversely affect the interests of the Owners;

(c) to facilitate the issuance of Additional Bonds as provided in the Facility Lease; or

(d) to make any other addition, amendment or deletion which does not materially adversely affect the interests of the Owners.

Discharge of City. Upon the payment to the Owners of all Outstanding Bonds and Additional Bonds in accordance with the defeasance provisions of the Indenture, all of the obligations of the City under the Facility Lease will thereupon cease, terminate and become void and will be discharged and satisfied; *provided, however,* if any Outstanding Bonds and Additional Bonds will be deemed to have been paid by virtue of a deposit contemplated by the defeasance provisions of the Indenture, then the obligation of the City under the Facility Lease to make Base Rental Payments will continue in full force and effect until all Outstanding Bonds and Additional Bonds have in fact been paid, but such payments will be made solely and exclusively from moneys and securities deposited with the Trustee as contemplated by the defeasance provisions of the Indenture, and that will be the sole source of satisfaction of the City's obligation to make Base Rental Payments. The time period for giving notice by the City to the Authority and the Trustee specified in the provision of the Facility Lease relating to the prepayment of Base Rental Payments will not apply incident to the payment to the Owners of all Outstanding Bonds and Additional Bonds in accordance the defeasance provisions of the Indenture.

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APPENDIX D

FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement"), dated as of September 1, 1998, is executed and delivered by the City of San Diego (the "City") and BNY Western Trust Company (the "Trustee") in connection with the issuance of \$205,000,000 Convention Center Expansion Financing Authority Lease Revenue Bonds, Series 1998A (the "Bonds"). The Bonds are being issued pursuant to an Indenture, dated as of September 1, 1998 (the "Indenture"), between the Convention Center Expansion Financing Authority (the "Authority"), a public entity and agency duly organized and existing pursuant to a joint exercise of powers agreement between the City and the San Diego Unified Port District, and the Trustee. The Bonds will be payable from base rental payments to be made by the City pursuant to a Convention Center Facility Lease, dated as of September 1, 1998 (the "Facility Lease"), between the Authority and the City. Pursuant to Section 6.14 of the Indenture and Section 4.03 of the Facility Lease, the City and the Trustee covenant and agree as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the City and the Trustee for the benefit of the Owners and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with the Rule (defined below). The City and the Trustee acknowledge that the Authority has undertaken no responsibility with respect to any reports, notices or disclosures provided or required under this Disclosure Agreement, and has no liability to any person, including any Owner or Beneficial Owner of the Bonds, with respect to the Rule.

SECTION 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Agreement 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 Agreement.

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

"Disclosure Representative" shall mean the City Manager of the City or his or her designee, or such other officer or employee as the City shall designate in writing to the Trustee from time to time.

"Dissemination Agent" shall mean the Financial and Technical Services Business Center Manager of the City, acting in his or her capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the City and which has filed with the Trustee a written acceptance of such designation.

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

“National Repository” shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently approved by the Securities and Exchange Commission are set forth in Exhibit B.

“Participating Underwriter” shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Repository” shall mean each National Repository and the State Repository, if any.

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

“State” shall mean the State of California.

“State Repository” shall mean any public or private repository or entity designated by the State as the state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Agreement, there is no State Repository.

SECTION 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than 285 days after the end of the City’s fiscal year (which fiscal year presently ends June 30), commencing with the report for the 1997-98 Fiscal Year, provide to each Repository and to Ambac Assurance (so long as the Municipal Bond Insurance Policy shall be in full force and effect and so long as Ambac Assurance is not in default under its Municipal Bond Insurance Policy) an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. If by such date the Trustee has not received a copy of the Annual Report, the Trustee shall contact the City and the Dissemination Agent to inquire if the City is in compliance with the first sentence of this subsection (a). The Trustee shall have no duty or obligation to review such Annual Report. In each case, the Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement; *provided* that the audited financial statements of the City may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the City’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(f).

(b) Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to the Repositories, the City shall provide the Annual Report to the Dissemination Agent (if other than the City or an employee of the City).

(c) If the Trustee is unable to verify that an Annual Report has been provided to the Repositories by the date required in subsection (a), the Trustee shall send a notice to each Repository, Ambac Assurance (so long as the Municipal Bond Insurance Policy shall be in full force and effect and so long as Ambac Assurance is not in default under its Municipal Bond Insurance Policy) and the Municipal Securities Rulemaking Board and the State Repository, if any, in substantially the form attached as Exhibit A.

(d) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and the State Repository, if any; and

(ii) file a report with the City, the Authority and (if the Dissemination Agent is not the Trustee) the Trustee certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided.

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

(1) The audited financial statements of the City for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated from time to time by the Financial Accounting Standards Board or as otherwise required by applicable State law. If the City's 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 financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(2) Updates of information contained in tabular form in the Official Statement under the caption "San Diego Convention Center" and in the following tables in Appendix A to the Official Statement, dated September 1, 1998, relating to the Bonds:

(a) Table 7 – Transient Occupancy Tax.

(b) Table 11 - Building Permit Valuation and Number of Dwelling Units.

(c) Table 12 - Balance Sheet for the General Fund.

(d) Table 13 - Statement of Revenues, Expenditures and Changes in Fund Balance for the General Fund.

(e) Table 14 - Operating Budget Summary (Actual, Adopted).

- (f) Table 15 - Assessed Valuation.
- (g) Table 16 - Secured Tax Levies and Collections.
- (h) Table 17 - Principal Property Taxpayers.
- (i) Information under the caption "Labor Relations."
- (j) Information under the caption "Pension Plan."
- (k) Table 18 - Annual Liability Claims Expenses and Settlement Costs.
- (l) Table 19 - Pooled Investment Fund.
- (m) Table 20 - General Obligation and General Fund Lease Obligations.
- (n) Table 21 - Short-Term Borrowings.
- (o) Table 22 - Future Minimum Rental Payments General Fund Operating Lease Commitments.
- (p) Table 23 - Statement of Direct and Overlapping Bonded Debt.
- (3) Updates of information under the caption "The Expansion Project – Budget; Design/Build Contract" so as to provide a summary report of bid procedures including, the award of bids and the amounts thereof with respect to the Expansion Project, expenses in excess of the not-to-exceed amount, if any, and a summary of steps taken to address any such deficiency, including, but not limited to, cost saving measures, owner or City contributions, the removal of "deductive alternatives" from the Expansion Project, design revisions, budget revisions, negotiations, and the like, and the caption "The Expansion Project – Prospective Environmental Remediation" so as to provide a statement of costs of remediation in excess of budget, if any, which the City would expect not to be covered by the "owner's discretionary amount" as summarized thereunder or for which the City has elected to appropriate additional funding; *provided, however*, that in each case, such information shall be provided only in each Annual Report covering periods at or prior to the substantial completion of the Expansion Project.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or debt issues with respect to which the City is an "obligated person" (as defined by the Rule), which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The City shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

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

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults;
- (iii) modifications to rights of Bondholders;
- (iv) optional, contingent or unscheduled bond calls;
- (v) defeasances;
- (vi) rating changes;
- (vii) adverse tax opinions or events adversely affecting the tax-exempt status of the Bonds;
- (viii) unscheduled draws on the debt service reserves reflecting financial difficulties;
- (ix) unscheduled draws on credit enhancements reflecting financial difficulties;
- (x) substitution of credit or liquidity providers, or their failure to perform;
- (xi) release, substitution or sale of property securing repayment of the Bonds.

(b) The Dissemination Agent shall, as soon as reasonably practicable after obtaining actual knowledge of the occurrence of any of the Listed Events, contact the Disclosure Representative, inform such person of the event, and request that the City promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to subsection (f) and promptly direct the Dissemination Agent whether or not to report such event to the Bondholders. In the absence of such direction, the Dissemination Agent shall not report such event unless otherwise required to be reported by the Dissemination Agent to the Bondholders under the Indenture. The Dissemination Agent may conclusively rely upon such direction (or lack thereof). For purposes of this Disclosure Agreement, "actual knowledge" of the occurrence of such Listed Events shall mean actual knowledge by the Dissemination Agent if other than the Trustee, and if the Dissemination Agent is the Trustee, then by the officer at the corporate trust office of the Trustee with regular responsibility for the administration of matters related to the Indenture. The Dissemination Agent shall have no responsibility to determine the materiality of any of the Listed Events.

may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the City or the Trustee, as the case may be, to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Indenture or the Facility Lease,

and the sole remedy under this Disclosure Agreement in the event of any failure of the City or the Trustee to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 11. Duties, Immunities and Liabilities of Trustee and Dissemination Agent. Article VII of the Indenture is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Indenture and the Trustee shall be entitled to the protections, limitations from liability and indemnities afforded the Trustee thereunder. The Dissemination Agent (if other than the Trustee or the Trustee in its capacity as Dissemination Agent) and the Trustee shall have only such duties as are specifically set forth in this Disclosure Agreement, and the City agrees to indemnify and save the Dissemination Agent and the Trustee, their officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of their 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 Trustee 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 Authority, or the Bondholders or any other party. The Trustee shall not have any liability of any kind whatsoever related to or arising from this Disclosure Agreement. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 12. Notices. Any notices or communications to or among any of the parties to this Disclosure Agreement may be given as follows:

To the City:

City of San Diego
Financial and Technical Services Business Center
202 C Street, M.S. 9-B
San Diego, California 92101-3868
Attention: Ms. Patricia Frazier, Deputy City Manager
Telephone/Fax: (619) 236-6070/(619) 236-7344

To the Trustee:

BNY Western Trust Company
700 South Flower Street, 2nd Floor
Los Angeles, California 90017
Attention: Corporate Trust Department
Telephone/Fax: (213) 630-6409/(213) 630-6442

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

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

SECTION 14. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Date: September 1, 1998.

CITY OF SAN DIEGO

By _____
City Manager or designee

BNY WESTERN TRUST COMPANY,
as Trustee

By _____
Authorized Officer

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Obligated Person: City of San Diego

Name of Bond Issue: Convention Center Expansion Financing Authority
Lease Revenue Bonds, Series 1998A

Date of Issuance: _____, 1998

NOTICE IS HEREBY GIVEN that the City of San Diego has not provided an Annual Report with respect to the above-named Bonds as required by Section 6.14 of the Indenture, dated September 1, 1998, between the Convention Center Expansion Financing Authority and BNY Western Trust Company and Section 4.03 of the Convention Center Facility Lease, dated as of September 1, 1998, between the City and the Convention Center Expansion Financing Authority. [The City anticipates that the Annual Report will be filed by _____.]

Dated: _____

BNY WESTERN TRUST COMPANY,
on behalf of the City of San Diego

By: _____
Authorized Officer

cc: City of San Diego
Ambac Assurance Corporation

EXHIBIT B

NATIONALLY RECOGNIZED MUNICIPAL SECURITIES INFORMATION REPOSITORIES

Nationally Recognized Municipal Securities Information Repositories approved
by the Securities and Exchange Commission as of the date of this Disclosure Agreement:

Bloomberg Municipal Repository

P.O. Box 840
Princeton, NJ 08542-0840
Internet address: MUNIS@bloomberg.doc
(609) 279-3200
FAX (609) 279-3235 (609) 279-5963
Contact: Dave Campbell

JJ Kenny Information Services

The Repository
65 Broadway, 16th Floor
New York, NY 10006
(212) 770-4595
FAX (212) 797-7994
Contact: Joan Horai, Repository

Thomson NRMSIR

Secondary Market Disclosure
395 Hudson Street, 3rd Floor
New York, New York 10014
Internet Address: Disclosure@muller.com
(212) 807-5001 or (800) 689-8466
FAX (212) 989-2078
Contact: Carolyn Chin

DPC Data, Inc.

One Executive Drive
Fort Lee, N.J. 07024
Internet address: nrmsir@dpcdata.com
(201) 346-0701
FAX (201) 346-0107
Contact: Dick Stout

1998A Bonds are credited, which may or may not be the Beneficial Owners. The 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 Cede & Co. If less than all of the 1998A Bonds within an issue are being prepaid, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be prepaid.

Neither DTC nor Cede & Co. will consent or vote with respect to the 1998A Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority 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 1998A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal and interest with respect to the 1998A Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on a payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on a payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, the City or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the 1998A Bonds at any time by giving reasonable notice to the Authority or the Trustee, or the Authority may decide to discontinue use of the system of book-entry transfers through DTC. Under such circumstances, in the event that a successor securities depository is not obtained, certificates are required to be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Authority and the City believe to be reliable, but neither the Authority nor the City takes any responsibility for the accuracy thereof. The Authority and the City cannot and do not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (i) payments of interest, principal or premium, if any, with respect to the 1998A Bonds, (ii) certificates representing ownership interest in or other confirmation or ownership interest in the 1998A Bonds, or (iii) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the 1998A Bonds, or that they will do so on a timely basis or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Official Statement. The current "Rules"

applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

Discontinuation of Book-Entry System; Payment to Beneficial Owners. In the event that the book-entry system described above is no longer used with respect to the 1998A Bonds, the following provisions will govern the payment, registration, transfer, exchange and replacement of the 1998A Bonds.

The principal with respect to the 1998A Bonds will be payable in lawful money of the United States of America upon presentation and surrender of the 1998A Bonds at the principal corporate trust office of the Trustee. Interest on the 1998A Bonds will be paid by the Trustee by check mailed to the person whose name appears on the registration books of the Trustee as the registered owner, and to that person's address appearing on the registration books as of the close of business on the last day of the month immediately preceding the Interest Payment Date.

Any 1998A Bond may be exchanged at the principal corporate trust office of the Trustee for a like aggregate principal amount of 1998A Bonds. A 1998A Bond may be transferred on the registration books by the person in whose name it is registered, in person or by his or her duly authorized attorney, upon surrender of the 1998A Bond at the principal corporate trust office of the Trustee together with an assignment executed by the registered owner or by a person legally empowered to do so in a form satisfactory to the Trustee. Upon such transfer, the Authority shall execute and the Trustee shall authenticate and deliver a new 1998A Bond of a like aggregate principal amount.

The Trustee shall not be required to register the transfer or exchange of any 1998A Bond (i) during any period commencing on the day which is five Business Days before the date on which 1998A Bonds are to be selected for redemption and ending on such date of selection, or (ii) which has been selected for redemption in whole or in part. For every transfer and exchange of the 1998A Bonds, the Trustee may charge the Beneficial Owner a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto.

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APPENDIX F

PROPOSED OPINION OF CO-BOND COUNSEL

ORRICK, HERRINGTON & SUTCLIFFE LLP

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Los Angeles, California 90017

ALVARADO, SMITH, VILLA & SANCHEZ

4 Park Plaza, Suite 1200

Irvine, California 92614

Convention Center Expansion Financing Authority

c/o City of San Diego

202 C Street

San Diego, California 92101

Convention Center Expansion Financing Authority

Lease Revenue Bonds, Series 1998A

(Final Opinion)

Ladies and Gentlemen:

We have acted as co-bond counsel in connection with the issuance by the Convention Center Expansion Financing Authority (the "Issuer") of \$205,000,000 aggregate principal amount of Convention Center Expansion Financing Authority Lease Revenue Bonds, Series 1998A (the "Bonds"), issued pursuant to Article 4 (commencing with Section 6584 of the California Government Code) and pursuant to the Indenture, dated as of September 1, 1998 (the "Indenture"), between the Issuer and BNY Western Trust Company, as trustee (the "Trustee"). Capitalized terms not otherwise defined herein shall have the meanings set forth in the Indenture.

In such connection, we have reviewed the Indenture, the Existing Center Lease, dated as of September 1, 1998 and the Expansion Lease, dated as of September 1, 1998 (collectively, the "Ground Lease"), each between the Issuer and the San Diego Unified Port District (the "District"); the Convention Center Facility Lease, dated as of September 1, 1998 (the "Facility Lease"), between the Issuer and the City of San Diego (the "City"); the Assignment Agreement, dated as of September 1, 1998 (the "Assignment Agreement"), between the Issuer and the Trustee; certificates of the Issuer, the City, the Trustee and others; opinions of counsel to the Issuer, the City and others; and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

Certain agreements, requirements and procedures contained or referred to in the Indenture, the Ground Lease, the Facility Lease, the Assignment Agreement and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set

forth in such documents. No opinion is expressed herein as to any Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than ourselves.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine or to inform any person, whether any such actions are taken or omitted or events do occur. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this opinion. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Issuer and the City. We have not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture and the Tax Certificate, including without limitation covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Indenture, the Ground Lease, the Facility Lease, the Assignment Agreement and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public entities in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum or waiver provisions contained in the foregoing documents nor do we express any opinion with respect to the state or quality of title to any of the real or personal property described in or subject to the lien of the Ground Lease, the Facility Lease or the Assignment Agreement or the accuracy or sufficiency of the description of any such property contained therein. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

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

1. The Bonds constitute the valid and binding limited obligations of the Issuer.
2. The Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Issuer. The Indenture creates a valid pledge, to secure the payment of the principal of and interest on the Bonds, of the Revenues and any other amounts (including proceeds of the sale of the Bonds) held by the Trustee in any fund or account established pursuant to the Indenture, except the Rebate Fund, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein.
3. The Ground Lease, the Facility Lease and the Assignment Agreement have been duly executed and delivered by, and constitute the valid and binding obligations of, the Issuer.

4. The Facility Lease has been duly executed and delivered by, and constitutes the valid and binding obligation of, the City.

5. The obligation of the City to make Base Rental Payments during the term of the Facility Lease constitutes a valid and binding obligation of the City, payable from funds of the City lawfully available therefor, and does not constitute a debt of the City or of the State of California within the meaning of any constitutional or statutory debt limit or restriction, and does not constitute an obligation for which the City or the State of California is obligated to levy or pledge any form of taxation or for which the City or the State of California has levied or pledged any form of taxation.

6. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from California personal income taxes. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest, on the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP ALVARADO, SMITH, VILLA & SANCHEZ

per

per

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APPENDIX G

FORM OF MUNICIPAL BOND INSURANCE POLICY

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Ambac

Municipal Bond Insurance Policy

Ambac Assurance Corporation
c/o CT Corporation Systems
44 East Mifflin Street, Madison, Wisconsin 53703
Administrative Office:
One State Street Plaza, New York, New York 10004
Telephone: (212) 668-0340

Issuer:

Policy Number:

Bonds:

Premium:

Ambac Assurance Corporation (Ambac) A Wisconsin Stock Insurance Company

in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to United States Trust Company of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of Bondholders, that portion of the principal of and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Ambac will make such payments to the Insurance Trustee within one (1) business day following notification to Ambac of Nonpayment. Upon a Bondholder's presentation and surrender to the Insurance Trustee of such unpaid Bonds or appurtenant coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Bonds and coupons and shall be fully subrogated to all of the Bondholder's right to payment.

In cases where the Bonds are issuable only in a form whereby principal is payable to registered Bondholders or their assigns, the Insurance Trustee shall disburse principal to a Bondholder as aforesaid only upon presentation and surrender to the Insurance Trustee of the unpaid Bond, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to the Insurance Trustee, duly executed by the Bondholder or such Bondholder's duly authorized representative, so as to permit ownership of such Bond to be registered in the name of Ambac or its nominee. In cases where the Bonds are issuable only in a form whereby interest is payable to registered Bondholders or their assigns, the Insurance Trustee shall disburse interest to a Bondholder as aforesaid only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Bond and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to the Insurance Trustee, duly executed by the claimant Bondholder or such Bondholder's duly authorized representative, transferring to Ambac all rights under such Bond to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all the Bondholders' rights to payment on registered Bonds to the extent of the insurance disbursements so made.

In the event the trustee or paying agent for the Bonds has notice that any payment of principal of or interest on a Bond which has become Due for Payment and which is made to a Bondholder by or on behalf of the Issuer of the Bonds has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Bondholder" means any person other than the Issuer who, at the time of Nonpayment, is the owner of a Bond or of a coupon appertaining to a Bond. As used herein, "Due for Payment", when referring to the principal of bonds, is when the stated maturity date or a mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Bonds, is when the stated date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all principal of and interest on the Bonds which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Bonds prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Bond, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.



President



Secretary

Effective Date:

Authorized Representative

UNITED STATES TRUST COMPANY OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.


Authorized Officer

Ambac

Ambac Assurance Corporation
c/o CT Corporation Systems
44 East Mifflin Street, Madison, Wisconsin 53703
Administrative Office:
One State Street Plaza, New York, New York 10004
Telephone: (212) 668-0340

Endorsement

Policy for:

Attached to and forming part of Policy No.:

Effective Date of Endorsement:

In the event that Ambac Assurance Corporation were to become insolvent, any claims arising under the Policy would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

Nothing herein contained shall be held to vary, alter, waive or extend any of the terms, conditions, provisions, agreements or limitations of the above mentioned Policy other than as above stated.

In Witness Whereof, Ambac has caused this Endorsement to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

Ambac Assurance Corporation



President



Secretary

Authorized Representative