

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, "Bond Counsel", under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes, and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest (and original issue discount) on the Bonds is exempt from State of California personal income tax. See "TAX EXEMPTION" herein.

**\$15,255,000**

**CITY OF SAN DIEGO/MTDB AUTHORITY**

**2003 Lease Revenue Refunding Bonds**

**(San Diego Old Town Light Rail Transit Extension Refunding)**

**Dated: Date of Delivery**

**Due: June 1, as shown below**

The Bonds will be issued in book-entry form only and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC") which will act as securities depository for the Bonds. Ownership interests in the Bonds will be in denominations of \$5,000 or any integral multiple thereof. Individual purchases of the Bonds will be made in book-entry form only. Purchasers of the Bonds will not receive certificates representing their ownership interests in the Bonds purchased. Interest on the Bonds is payable semiannually on June 1 and December 1, commencing December 1, 2003. Principal of, premium, if any, and interest on the Bonds will be paid by Wells Fargo Bank, National Association, Los Angeles, as trustee (the "Trustee") to DTC, which will in turn remit such principal, premium, if any, and interest to its participants for subsequent disbursement to beneficial owners of the Bonds as described herein. See "THE BONDS—Book-Entry System" herein.

The Bonds are subject to extraordinary and optional redemption prior to maturity as described herein.

The proceeds of the Bonds will be used to (i) refund the City of San Diego/MTDB Authority 1993 Lease Revenue Bonds (San Diego Old Town Light Rail Transit Extension) originally issued in \$19,515,000 aggregate principal amount to finance a portion of the acquisition, installation, equipping and construction of an extension to the San Diego Light Rail Transit System to Old Town San Diego (the "1993 Project"); (ii) to acquire a debt service reserve fund surety bond and a financial guaranty insurance policy for the Bonds, and (iii) to pay certain costs of issuance. The City of San Diego (the "City") concurrently will lease from the City of San Diego/MTDB Authority (the "Authority") the necessary right-of-way for the 1993 Project and a portion of a light rail transit system maintenance yard (collectively, the "Property"). The Bonds are payable solely from and secured solely by a pledge of Revenues, consisting primarily of lease payments (the "Lease Payments"), to be paid by the City and received by the Authority pursuant to the Amended and Restated Lease Agreement dated as of May 1, 2003 (the "Lease Agreement") by and between the City and the Authority, and certain other monies. Lease Payments are subject to abatement in the event of damage, destruction, condemnation or title defects of the Property as more particularly described herein. See "RISK FACTORS" herein. Upon payment or provision for payment of all Outstanding Bonds, the City's obligation under the Lease Agreement will terminate. The City has covenanted in the Lease Agreement to take such action as may be necessary to include and maintain all Lease Payments and Additional Lease Payments for the Property in its annual budgets and to make necessary annual appropriations therefor.

NEITHER THE OBLIGATION OF THE AUTHORITY TO PAY THE BONDS NOR THE OBLIGATION OF THE CITY TO MAKE LEASE PAYMENTS CONSTITUTES AN OBLIGATION OF THE AUTHORITY OR THE CITY FOR WHICH THE AUTHORITY OR CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION. NEITHER THE BONDS NOR THE OBLIGATION OF THE CITY TO MAKE LEASE PAYMENTS UNDER THE LEASE AGREEMENT CONSTITUTES AN INDEBTEDNESS OF THE CITY, THE AUTHORITY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

The scheduled payment of principal of and interest on the Bonds when due will be insured by a financial guaranty insurance policy to be issued concurrently with the delivery of the Bonds by Ambac Assurance Corporation, a Wisconsin-domiciled stock insurance corporation.

**Ambac**

The purchase of the Bonds involves certain risks which should be considered by investors. See "RISK FACTORS" for a discussion of certain risk factors that should be considered in addition to the other matters set forth herein.

*This cover page contains certain information for general reference only. It is not intended to be a summary of the security for or the terms of the Bonds. Investors are instructed to read the entire Official Statement to obtain information essential to the making of an informed investment decision.*

**Maturity Schedule**

<i>Maturity June 1</i>	<i>Principal Amount</i>	<i>Interest Rate</i>	<i>Yield/Price</i>	<i>Maturity June 1</i>	<i>Principal Amount</i>	<i>Interest Rate</i>	<i>Yield/Price</i>
2004	\$ 245,000.00	2.00%	1.05%	2014	\$ 770,000.00	4.00%	102.072 (c)
2005	345,000.00	2.00	1.30	2015	800,000.00	4.00	101.237 (c)
2006	615,000.00	2.00	1.55	2016	835,000.00	4.00	100.409 (c)
2007	630,000.00	2.00	1.00	2017	870,000.00	4.00	100
2008	645,000.00	2.50	2.35	2018	900,000.00	4.00	100
2009	655,000.00	3.00	2.70	2019	940,000.00	4.00	100
2010	675,000.00	3.00	3.05	2020	980,000.00	4.125	100
2011	700,000.00	3.25	3.30	2021	1,020,000.00	4.25	100
2012	720,000.00	3.50	3.45	2022	1,060,000.00	4.30	100
2013	745,000.00	3.50	3.60	2023	1,105,000.00	4.375	100

(c) Price to the optional redemption date of June 1, 2013 at par.

The Bonds are offered when, as and if issued, subject to the approval of legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, and to certain other conditions. Certain legal matters will be passed upon for the Authority by its General Counsel, and for the City by the City Attorney. It is expected that the Bonds will be made available for delivery through the DTC book-entry system on or about May 20, 2003.

**Banc of America Securities LLC**

Dated: April 30, 2003

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

This Official Statement is not to be construed as a contract with the purchasers of the 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.

This Official Statement and the information contained herein are subject to completion or amendment without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or any other parties described herein since the date hereof. These securities may not be sold nor may an offer to buy be accepted prior to the time the Official Statement is delivered in final form. This Official Statement is being submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose, unless authorized in writing by the City. All summaries of documents and laws are made subject to the provisions thereof and do not purport to be complete statements of any or all such provisions.

The Underwriter has provided the following sentence for inclusion in this Official Statement:

The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as a "plan," "expect," "estimate," "project," "budget" or similar words. Such forward-looking statements include, but are not limited to certain statements contained in the information under the caption APPENDIX A — "THE CITY OF SAN DIEGO."

**The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The City does not plan to issue any updates or revisions to the forward-looking statements set forth in this Official Statement. In evaluating such statements, potential investors should specifically consider the various factors which could cause actual events or results to differ materially from those indicated by such forward-looking statements.**

**IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE BONDS TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENT AND OTHERS 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 UNDERWRITER.**

**THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT AND HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.**

**CITY OF SAN DIEGO/MTDB JOINT POWERS AUTHORITY**

**MEMBERS OF THE AUTHORITY BOARD**

Harry Mathis, Chairman  
Frank Panarisi, Vice Chairman  
Leon Williams, Secretary

**CITY OF SAN DIEGO**

Dick Murphy,  
*Mayor*

Scott Peters <i>Councilmember, District 1</i>	Brian Maienshein <i>Councilmember, District 5</i>
Michael Zucchet <i>Councilmember, District 2</i>	Donna Frye <i>Councilmember, District 6</i>
Toni Atkins <i>Councilmember, District 3</i>	Jim Madaffer <i>Councilmember, District 7</i>
Charles Lewis <i>Councilmember, District 4</i>	Ralph Inzunza <i>Deputy Mayor, District 8</i>

---

**CITY OFFICIALS**

Michael T. Uberuaga,  
*City Manager*  
Casey Gwinn  
*City Attorney*

Ed Ryan,  
*City Auditor and Comptroller*

Mary E. Vattimo,  
*City Treasurer*  
Charles G. Abdelnour  
*City Clerk*

---

**MTDB OFFICIALS**

Tom Larwin,  
*General Manager, MTDB*

Jack Limber,  
*General Counsel, MTDB*

Deborah Gunn,  
*Secretary*

**FINANCIAL ADVISOR**

Public Resources Advisory Group  
New York, New York

**BOND COUNSEL**

Stradling Yocca Carlson & Rauth,  
a Professional Corporation  
Newport Beach, California

**TRUSTEE**

Wells Fargo Bank, National Association  
Los Angeles, California

**VERIFICATION AGENT**

McGladrey & Pullen, LLP  
Minneapolis, Minnesota

**ESCROW BANK**

U.S. Bank National Association  
Los Angeles, California

**(THIS PAGE LEFT BLANK INTENTIONALLY)**

INTRODUCTION.....	1
General.....	1
The Authority.....	1
The City.....	2
Security for the Bonds.....	2
Bond Insurance.....	3
Bonds Constitute Limited Obligations.....	3
The Bonds.....	3
Redemption.....	3
Bond Owners' Risks.....	3
Tax Matters.....	3
Continuing Disclosure.....	4
Professionals Involved in the Offering.....	4
Forward Looking Statements.....	4
Summaries Not Definitive.....	5
Additional Information.....	5
Changes Since the Preliminary Official Statement.....	5
THE REFUNDING PLAN.....	5
ESTIMATED SOURCES AND USES OF FUNDS.....	6
THE 1993 PROJECT.....	6
THE PROPERTY.....	7
THE BONDS.....	8
Authority for Issuance.....	8
General Provisions.....	8
Redemption.....	8
Notice of Redemption.....	9
Effect of Notice of Redemption.....	10
Partial Redemption of the Bonds.....	10
SECURITY AND SOURCES OF PAYMENT FOR THE BONDS.....	11
General.....	11
Additional Lease Payments.....	13
Reserve Fund.....	13
Option to Terminate the Lease Agreement.....	14
Abatement.....	14
Insurance.....	14
Substitution and Release of Property.....	15
BOND INSURANCE.....	16
Payment Pursuant to Financial Guaranty Insurance Policy.....	16
Ambac Assurance Corporation.....	17
Available Information.....	17
Incorporation of Certain Documents by Reference.....	18
The Surety Bond.....	18
RISK FACTORS.....	19
Lease Payments Not City Debt.....	20

Additional Obligations of the City.....	20
Default.....	21
Abatement Risk.....	21
Natural and Manmade Disasters .....	21
Hazardous Substances.....	22
Substitution and Removal of Property .....	22
Ability to Re-Let.....	22
Investment of Funds.....	23
Secondary Market .....	23
Limitation of Remedies and Bankruptcy .....	23
Loss of Tax Exemption .....	24
Economic Conditions in California.....	24
CONSTITUTIONAL LIMITATIONS ON TAXES AND APPROPRIATIONS.....	27
THE AUTHORITY .....	28
THE CITY .....	28
MTDB .....	28
Organization.....	28
The Regional Light Rail Transit Plan .....	29
TAX EXEMPTION.....	29
LEGAL MATTERS .....	31
CONTINUING DISCLOSURE .....	31
LITIGATION .....	32
RATINGS.....	32
FINANCIAL ADVISOR.....	32
UNDERWRITING.....	33
FINANCIAL STATEMENTS OF THE CITY .....	33
VERIFICATION OF MATHEMATICAL COMPUTATIONS .....	34
MISCELLANEOUS.....	35
APPENDIX A – THE CITY OF SAN DIEGO.....	A-1
APPENDIX B – CITY AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR ENDED JUNE 30, 2002 .....	B-1
APPENDIX C – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS .....	C-1
APPENDIX D – PROPOSED FORM OF BOND COUNSEL OPINION .....	D-1
APPENDIX E – FORM OF CONTINUING DISCLOSURE AGREEMENT .....	E-1
APPENDIX F – BOOK-ENTRY SYSTEM .....	F-1
APPENDIX G – SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY.....	G-1

**\$15,255,000**  
**CITY OF SAN DIEGO/MTDB AUTHORITY**  
**2003 Lease Revenue Refunding Bonds**  
**(San Diego Old Town Light Rail Transit Extension Refunding)**

**INTRODUCTION**

*This introduction contains only a brief summary of certain terms of the Bonds being offered and a brief description of the Official Statement. All statements contained in this Official Statement are qualified in their entirety by reference to the more detailed information included and referred to elsewhere in this Official Statement. References to, and summaries of, provisions of the Constitution and laws of the State of California and any documents referred to herein do not purport to be complete and such references are qualified in their entirety by reference to the complete provisions. The offering of the Bonds to potential investors is made only by means of the entire Official Statement. Capitalized terms used in this Official Statement and not otherwise defined herein shall have the respective meanings assigned to them in "APPENDIX C—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS." This Official Statement speaks only as of its date, and the information contained herein is subject to change.*

**General**

The purpose of this Official Statement, including the cover page and the Appendices hereto, is to provide certain information in connection with the sale and delivery of the City of San Diego/MTDB Authority 2003 Lease Revenue Refunding Bonds (San Diego Old Town Light Rail Transit Extension Refunding) (the "Bonds") in the aggregate principal amount of \$15,255,000. The Bonds, in book-entry form, are issued pursuant to a Trust Indenture dated as of May 1, 2003 (the "Indenture"), by and between the City of San Diego/MTDB Authority, a joint exercise of powers agency (the "Authority"), and Wells Fargo Bank, National Association, Los Angeles, California organized under the laws of the United States, as Trustee (the "Trustee").

The Indenture provides that the Trustee will apply Lease Payments (defined below) and other monies received by it for the benefit of the registered owners of the Bonds (the "Owners") and will perform certain other functions.

The Bonds are being issued (i) to refund \$16,005,000 aggregate principal amount of the City of San Diego/MTDB Authority 1993 Lease Revenue Bonds (San Diego Old Town Light Rail Transit Extension) originally issued in the aggregate principal amount of \$19,515,000 (the "1993 Bonds") to finance a portion of the acquisition, installation, equipping and construction of an extension to the San Diego Light Rail Transit System to Old Town San Diego (the "1993 Project"); (ii) to acquire a debt service reserve fund surety bond, and a financial guaranty insurance policy for the Bonds; and (iii) to pay certain costs of issuance. See "THE REFUNDING PLAN," "THE 1993 PROJECT" and "ESTIMATED SOURCES AND USES OF FUNDS."

**The Authority**

The Authority is a joint exercise of powers agency organized under the laws of the State of California (the "State") and composed of the City of San Diego (the "City") and the San Diego Metropolitan Transit Development Board ("MTDB"). The Authority was formed to assist in the

financing and refinancing of public capital improvements. The MTDB and the City are each sometimes referred to herein as a “Member” of the Authority. See “THE AUTHORITY” herein.

### **The City**

The City is a chartered city located in Southern California. San Diego is the seventh largest city in the United States, the second largest city in California and is one of the fastest growing cities in the State. For certain historical, statistical and financial information with respect to the City, see “APPENDIX A—THE CITY OF SAN DIEGO.” The audited financial statements of the City for Fiscal Year ended June 30, 2002 are attached hereto as “APPENDIX B—CITY AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR ENDED JUNE 30, 2002.” These financial statements, including the auditor’s report and notes thereto, should be read in their entirety.

### **Security for the Bonds**

The Bonds are limited obligations of the Authority payable solely from Revenues, consisting primarily of lease payments to be made by the City (the “Lease Payments”) for the use and occupancy of the right-of-way necessary to operate the 1993 Project and a portion of a light rail transit system maintenance yard (collectively, the “Property”) and other available monies, as provided in the Amended and Restated Lease Agreement, dated as of May 1, 2003, between the Authority and the City (the “Lease Agreement”). See “THE PROPERTY” herein. The Lease Payments are to be paid by the City as consideration for the rental of the Property. The Lease Payments due under the Lease Agreement are subject to abatement in the event of damage, destruction, condemnation or title defects substantially interfering with the use or right of possession by the City of the Property. The amount of such abatement shall be such that the resulting Lease Payments represent fair consideration for the use and possession of portions of the Property not destroyed, damaged, taken or subject to title defect. Such abatement shall continue for the period commencing with the date of such damage, destruction, condemnation or title defect and ending with the restoration of the Property to tenantable condition. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS.”

The City has covenanted under the Lease Agreement that, as long as the Property is available for the City’s use and occupancy, it will take such action as may be necessary to include the applicable Lease Payments and Additional Lease Payments due in each year in its annual budget and to make the necessary appropriations therefor. Said covenants on the part of the City are deemed by the City to be and shall be construed to be ministerial duties imposed by law. The City has also covenanted under the Lease Agreement subject to certain limitations to maintain certain levels of liability, property damage, casualty and rental interruption insurance in connection with the Property, some of which may be provided by self-insurance of the City or MTDB, and to obtain title insurance with respect to the Property. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS.”

Pursuant to the Indenture, a Reserve Fund is established as additional security for the Bonds and is required to be maintained at a level equal to the Reserve Requirement. The Reserve Requirement will initially be satisfied with a debt service reserve fund surety bond issued by Ambac Assurance Corporation. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS.”



## **Bond Insurance**

Concurrently with the execution and delivery of the Bonds, the Authority has arranged for Ambac Assurance Corporation (the “Insurer”) to deliver to the Trustee a financial guaranty insurance policy (the “Policy”). The Policy will guarantee the scheduled payments when due of the principal of and interest on the Bonds. See “BOND INSURANCE” herein.

## **Bonds Constitute Limited Obligations**

The Bonds are limited obligations of the Authority and are not secured by a legal or equitable pledge of, or charge or lien upon, any property of the Authority or any of its income or receipts, except the Revenues. Neither the full faith and credit of the Authority, the City, any Member of the Authority, the State of California, nor any political subdivision thereof is pledged for the payment of the interest on or principal of the Bonds nor for the payment of Lease Payments. Neither the payment of the principal of or interest on the Bonds nor the obligation to make Lease Payments constitutes a debt, liability or obligation of the Authority, the City, any Member of the Authority, the State of California, nor any political subdivision thereof for which any such entity is obligated to levy or pledge any form of taxation or for which any such entity has levied or pledged any form of taxation.

## **The Bonds**

Interest on the Bonds is payable semiannually on June 1 and December 1 of each year, commencing on December 1, 2003 (each an “Interest Payment Date”). See “THE BONDS—General Provisions” herein. The Bonds will be issued in book-entry form only and, when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”), which will act as securities depository for the Bonds. Individual purchases of the Bonds will be made in book-entry form only. Purchasers of the Bonds will not receive certificates representing their ownership interests in the Bonds purchased. The Bonds will be issued in the principal amount of \$5,000 and integral multiples thereof. Principal, premium, if any, and interest payments due on the Bonds are payable directly to DTC by the Trustee. Upon receipt of payment of principal, premium, if any, and interest, DTC will in turn distribute such payments to the beneficial owners of the Bonds. See “THE BONDS—General Provisions” and “APPENDIX F—BOOK-ENTRY SYSTEM.”

## **Redemption**

The Bonds are subject to extraordinary and optional redemption, as described herein. See “THE BONDS—Redemption.”

## **Bond Owners’ Risks**

Certain events could affect the ability of the City to make the Lease Payments when due. See “RISK FACTORS” for a discussion of certain factors that should be considered, in addition to other matters set forth herein, in evaluating an investment in the Bonds.

## **Tax Matters**

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California (“Bond Counsel”), under existing statutes, regulations, rulings and judicial

decisions, and assuming certain representations and compliance with certain covenants and requirements described herein, the interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, the interest (and original issue discount) on the Bonds is exempt from State of California personal income tax. See "TAX MATTERS" herein.

### **Continuing Disclosure**

The City on behalf of the Authority will execute a Continuing Disclosure Agreement under which it will covenant for the benefit of Owners to provide, or cause to be provided, to each nationally recognized municipal securities information repository and any public or private repository or entity designated by the State as a state repository for purposes of Rule 15c2-12(b)(5) (the "Rule") adopted by the Securities and Exchange Commission (each, a "Repository") certain financial information and operating data relating to the City by no later than April 11 of each Fiscal Year, commencing with Fiscal Year 2004 and to provide notices of the occurrence of certain enumerated events, if material. These covenants have been made in order to assist the Underwriter in complying with the Rule. See "CONTINUING DISCLOSURE" herein and "APPENDIX E—FORM OF CONTINUING DISCLOSURE AGREEMENT" attached hereto for a description of the specific nature of the annual report and notices of material events and a summary description of the terms of the disclosure certificate pursuant to which such reports are to be made.

### **Professionals Involved in the Offering**

Wells Fargo Bank, National Association, Los Angeles, California, will act as Trustee with respect to the Bonds. The Bonds will be delivered subject to the approval as to their legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel. Certain legal matters will be passed upon for the City by the City Attorney and for the Authority by its General Counsel. U.S. Bank National Association, Los Angeles, California, will act as Escrow Bank with respect to the 1993 Bonds. Public Resources Advisory Group, New York New York, will serve as Financial Advisor to the City. The City's financial statements for the Fiscal Year ended June 30, 2002 included as APPENDIX B hereto have been audited by Calderon, Johan & Osborn, an Accountancy Corporation, San Diego, California. See caption "FINANCIAL STATEMENTS OF THE CITY."

### **Forward Looking Statements**

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "project," "budget" or other similar words. Such forward-looking statements include, but are not limited to, certain statements contained in the information under "APPENDIX A—THE CITY OF SAN DIEGO." Investors are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof.

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND

UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS.

### **Summaries Not Definitive**

Brief descriptions of the Bonds, the Authority, the City, the 1993 Project and the Property are included in this Official Statement, together with summaries of the Lease Agreement and the Indenture. Such descriptions and summaries do not purport to be comprehensive or definitive. All references herein to the Bonds, the Lease Agreement and the Indenture are qualified in their entirety by reference to the actual documents. See "APPENDIX C—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS" herein. Copies of the Lease Agreement and the Indenture are available for inspection at the corporate trust office of the Trustee at 707 Wilshire Blvd., 17th Floor, Los Angeles, California 90017.

### **Additional Information**

The City regularly prepares a variety of publicly available reports, including audits, budgets and related documents. Any Owner may obtain a copy of any such report, as available, from the City. The City may charge a fee for copying, handling and postage in connection with such requests. Additional information regarding this Official Statement may be obtained by contacting the City at the following address: Office of the City Treasurer, City of San Diego, 202 C Street, MS 7B, San Diego, CA 92101.

### **Changes Since the Preliminary Official Statement**

This Official Statement includes certain changes since the date of the Preliminary Official Statement, including: (i) the addition of the City's proposed budget for Fiscal Year 2004 under the caption "APPENDIX A—THE CITY OF SAN DIEGO—MUNICIPAL GOVERNMENT AND FINANCIAL INFORMATION—Fiscal Year 2004 (Proposed Budget)" and "—Five Year Summary of Financial Results—Table 14", (ii) the addition of actual total General Fund revenues for Fiscal Year 2002 presented in a budget format under the caption "APPENDIX A—THE CITY OF SAN DIEGO—MUNICIPAL GOVERNMENT AND FINANCING INFORMATION—Five Year Summary of Financial Results—Table 14" and "—Fiscal Year 2002 (Actuals)," and (iii) changes to "APPENDIX A—THE CITY OF SAN DIEGO—LITIGATION POTENTIALLY ADVERSELY AFFECTING THE GENERAL FUND OF THE CITY—City Voter Initiatives" to reflect the trial court's ruling in the litigation described therein.

## **THE REFUNDING PLAN**

The Bonds are being issued to provide for the refunding of the 1993 Bonds and the City's lease payment obligations relating to the 1993 Bonds. The proceeds of the 1993 Bonds financed a portion of the 1993 Project. A portion of the proceeds of the Bonds will be used to establish an irrevocable escrow (the "Escrow Fund") to be held by U.S. Bank National Association (the "Escrow Bank") pursuant to an Escrow Agreement dated as of May 1, 2003 by and among the Escrow Bank, the City and the Authority. Moneys in the Escrow Fund will be invested pursuant to instructions of

the City. Moneys on deposit in the Escrow Fund will be held as cash or invested solely in non-callable, direct general obligations of 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) (the "Escrowed Federal Securities"). The cash and Escrowed Federal Securities, and the interest accrued with respect thereto, will be held by the Escrow Bank on behalf of the Authority and for the benefit of the Owners and applied to redeem the outstanding 1993 Bonds in full on or about 30 days from the date of issuance of the Bonds, at a redemption price of one hundred one percent (101%) of the principal amount thereof, plus accrued interest. The amounts on deposit in the Escrow Fund shall secure and provide funds to pay or prepay all rental payments to become due under the Lease Agreement dated as of August 1, 1993 (the "1993 Lease") by and between the City and the Authority. The Escrow Bank, as agent of the City, is irrevocably committed to pay base rental payments under the 1993 Lease as due on and prior to June 1, 2003, and to cause redemption of the remaining rental payments, including the redemption premium applicable thereto on or about 30 days from the date of issuance of the Bonds. Upon the establishment of the Escrow Fund as described above, the lien of the trust indenture pursuant to which the 1993 Bonds were issued and the proceedings pursuant to which the 1993 Bonds were authorized and issued will cease, terminate and become void with respect to the 1993 Bonds, except for the rights of the owners of the 1993 Bonds to payments from the Escrow Fund. Upon the issuance of the Bonds, McGladrey & Pullen, LLP will deliver a report verifying the sufficiency of the moneys deposited in the Escrow Fund. See "VERIFICATION OF MATHEMATICAL COMPUTATIONS" herein.

### ESTIMATED SOURCES AND USES OF FUNDS

The proceeds to be received from the sale of the Bonds are anticipated to be applied as follows:

<b>Sources</b>	
Principal Amount of Bonds	\$ 15,255,000.00
Net Premium	51,988.45
1993 Bond Fund	418,176.25
1993 Debt Service Reserve Fund	<u>1,432,334.49</u>
	<u>\$ 17,157,499.19</u>
<b>Uses</b>	
Escrow Fund	\$ 16,608,358.23
Underwriter's Discount	170,318.07
Costs of Issuance <sup>(1)</sup>	<u>378,822.89</u>
	<u>\$ 17,157,499.19</u>

<sup>(1)</sup> Includes legal fees, financial advisor fees, trustee fees, escrow agent fees, financial guaranty insurance premium, debt service reserve fund surety premium, printing costs and other miscellaneous expenses.

### THE 1993 PROJECT

The Metropolitan Transit Development Board ("MTDB") adopted a plan for a regional light rail transit ("LRT") system which links downtown San Diego with various outlying communities. Part of this regional transit plan included an extension of the existing Blue Line LRT service from Cedar Street to Taylor Street in Old Town (the "1993 Project"). Although the Bond proceeds are being applied to refinance certain limited costs of the 1993 Project, only the Property is the subject of

the Lease Agreement; the Property is described more fully below. The 1993 Project is not the subject of the Lease Agreement, except to the extent the 1993 Project is located on the right of way comprising a portion of the Property. Subject to compliance with the conditions in the Lease Agreement and the Sublease Agreement (defined below), the City and MTDB may substitute other property for all or part of the Property, and all or part of the Property may be released from the lien thereof. See "APPENDIX C—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—Lease Agreement" and "—Sublease Agreement" herein.

The 1993 Project consists of a 3.5 mile extension north from Centre City San Diego (Cedar Street) to Taylor Street in the Old Town area. The LRT alignment is within an active Burlington Northern and Santa Fe ("BN&SF") Railway corridor that includes freight and passenger service. The BN&SF double tracks were shifted to the west to make room for the LRT double tracks.

The 1993 Project included three new stations. The first station constructed was the Middletown Station located at Palm Street. The second station was placed at Washington Street adjacent to the Mission Brewery in the Middletown area. Bus service is provided from this station to Mission Hills and Hillcrest.

The third station was the Old Town Transit Center at Taylor Street. This significant center is the largest transit interface in the MTDB area, with 15 bus bays connecting 11 bus routes with LRT. An 1871-era transit store in the old transit-station style was constructed with sufficient interior space for an information booth, ticket window, concessionaire, and waiting room. A 600 car parking lot is shared with the Old Town State Park to serve trolley patrons and State Park visitors. The Old Town State Park is a major tourist attraction in San Diego.

From the Old Town Transit Center, the 1993 Project connects with the other rail transit projects, including the existing Mission Valley West LRT Project, the Mission Valley East LRT Project currently under construction and the future Mid-Coast LRT Project.

The total cost for the 1993 Project was \$224 million which included 8 stations, 10 grade separations, 11 LRVs, and a 25-plus acre wildlife preserve for wetlands mitigation. In addition to proceeds of the 1993 Bonds contributed by the Authority, the extension was financed from monies received from the State of California, TransNet (the San Diego County Transportation Commission's one-half cent sales tax), the San Diego Unified Port District, the City of San Diego, and the County of San Diego.

## **THE PROPERTY**

The necessary right-of-way for the 1993 Project was acquired in 1991 by the MTDB for \$17.5 million. The Property, consisting of this right-of-way (the "Right of Way Portion"), along with a portion of a light rail transit system maintenance yard located at 1535 Newton Avenue in the City and acquired by MTDB in 1993 at a cost of \$5,548,500, (the "Maintenance Yard Portion"), is leased by the MTDB to the Authority under the Property Lease and is concurrently leased by the Authority to the City under the Lease Agreement.

Pursuant to a Sublease Agreement, dated as of May 1, 2003 (the "Sublease Agreement"), by and between the City and MTDB, the City agreed to sublet the Property to MTDB for the purpose of maintenance and operation of the Property in all respects. All costs of operation and maintenance of

the Property are being borne by MTDB pursuant to the Sublease Agreement, although the City is liable for such costs pursuant to the Lease Agreement. See “APPENDIX C—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS”.

## THE BONDS

### Authority for Issuance

The Bonds are being issued pursuant to the Marks-Roos Local Bond Pooling Act of 1985, as amended, constituting Article 4 (commencing with Section 6584), Chapter 5, Division 7, Title 1 of the Government Code of the State of California.

### General Provisions

The Bonds will be dated as of the date of delivery and shall bear interest from such date and semi-annually thereafter on June 1 and December 1 of each year, commencing on December 1, 2003. The Bonds will mature on the dates and in the principal amounts, and the interest with respect thereto shall be computed at the rates, all as set forth on the cover page of this Official Statement. Interest on the Bonds will be calculated on the basis of a 360-day year comprised of twelve 30-day months. The Bonds will be issued in denominations of \$5,000 or any integral multiple thereof. The Bonds will initially be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”), which will act as securities depository for the Bonds. Payments of principal, premium, if any, and interest on the Bonds will be paid by the Trustee to DTC which is obligated in turn to remit such principal, premium, if any, and interest on the Bonds to its DTC Participants for subsequent disbursement to the Beneficial Owners of the Bonds. See “APPENDIX F—BOOK-ENTRY SYSTEM” attached hereto.

### Redemption

*Extraordinary Redemption.* The Bonds are subject to extraordinary redemption, in whole or in part on any date pro rata from among each maturity as nearly as practicable, in amounts corresponding with Lease Payments prepaid by the City, as directed by the City on behalf of the Authority, and by lot within each maturity, in \$5,000 denominations or any integral thereof, without premium, at a price equal to the principal amount thereof plus accrued but unpaid interest, at least forty-five (45) days following deposit with the Trustee of funds from the following sources:

(a) proceeds of any insurance award, including the proceeds of any self-insurance fund, or the proceeds of any condemnation award remaining after payment therefrom of all expenses incurred in the collection thereof, which have not been applied to repairing or replacing the damaged, destroyed or taken portion of the Property (“Net Proceeds”);

(b) proceeds of title insurance received as a result of a title defect in respect of the Property, if the City determines that such title defect will result in an abatement of Lease Payments; and

(c) proceeds of damages or other payments received by the Trustee from the enforcement of any rights and powers of the Trustee under the Lease Agreement after payment of any fees of the Trustee and overdue interest and principal with respect to the Bonds.

*Optional Redemption.* The Bonds maturing on and after June 1, 2014, are subject to redemption, at the option of the Authority, in whole on any date or in part, on any date from and after June 1, 2013, from among each maturity at the direction of the City on behalf of the Authority, and by lot within each maturity, in \$5,000 denominations or any integral multiple thereof from amounts deposited with the Trustee by the Authority pursuant to the City's option to purchase all or any portion of the Property in accordance with the Lease Agreement and from any other amounts available therefor, at a redemption price equal to the sum of the principal amount of the Bonds to be redeemed, plus accrued interest, if any, to the date of redemption without premium.

### **Notice of Redemption**

When redemption is authorized or required pursuant to the Indenture, the Trustee shall give notice, at the expense of the Authority, of the redemption of the Bonds. Such notice shall specify: (a) that the Bonds or a designated portion thereof in an Authorized Denomination (in the case of redemption of a Bond in part but not in whole) are to be redeemed, (b) the Redemption Date, (c) the place or places where the redemption will be made, and (d) the redemption price. Such notice shall further state that on the Redemption Date there shall become due and payable with respect to each Bond the principal amount thereof plus accrued interest and premium, if any, thereon to the Redemption Date, and that from and after such date interest thereon shall cease to accrue and be payable.

Notice of such redemption shall be given, after the moneys therefor have been deposited in the Prepayment Account within the Bond Fund, to the respective Owners of Bonds designated for redemption at their addresses appearing on the Bond Register as of the close of business on the day before such notice is given. The Trustee shall give notice by mail at least thirty (30) but not more than sixty (60) days prior to the Redemption Date. Any notice shall, in addition to setting forth the above information, set forth, in the case of each Bond to be prepaid only in part, the portion of the principal thereof in an Authorized Denomination which is to be prepaid; provided that neither failure to receive such notice nor any defect in any notice so given shall affect the sufficiency of the proceedings for the redemption of such Bonds generally.

With respect to any notice of optional redemption of Bonds, such notice may state that such redemption shall be conditional upon the receipt by the Trustee on or prior to the date fixed for such redemption of moneys sufficient to pay the principal of, premium, if any, and interest with respect to such Bonds to be redeemed and that, if such moneys shall not have been so received, said notice shall be of no force and effect and the Trustee shall not be required to redeem such Bonds. In the event that such notice of redemption contains such a condition and such moneys are not so received, the redemption shall not be made, and the Trustee shall within a reasonable time thereafter give notice, in the manner in which the notice of redemption was given, that such moneys were not so received.

In addition to the foregoing notice, further notice shall be given by the Trustee as set out below, but no defect in said further notice nor any failure to give all or any portion of such further notice shall in any manner defeat the effectiveness of a call for redemption if notice thereof is given as above prescribed.

1. Each further notice of redemption given hereunder shall contain the information required above for an official notice of redemption plus (i) the date of issue of the Bonds as originally issued; (ii) the rate of interest borne by each Bond being redeemed; and (iii) any other descriptive information needed to identify accurately the Bonds being redeemed.

2. Each further notice of redemption shall be sent at least thirty-five (35) days before the redemption date by registered or certified mail or overnight delivery service to certain enumerated registered securities depositories and to any other registered securities depositories then in the business of holding substantial amounts of obligations of types comprising the Bonds and to one or more of the national information services listed below that disseminate notice of redemption of obligations such as the Bonds.

### **Effect of Notice of Redemption**

Notice of redemption having been given, and the moneys for the redemption (including the interest to the applicable date of redemption) having been set aside in the Prepayment Account of the Bond Fund, the Bonds to be redeemed shall become due and payable on such Redemption Date.

If on such Redemption Date moneys for the redemption of all the Bonds to be prepaid, together with interest to such Redemption Date, shall be held by the Trustee so as to be available therefor on such Redemption Date, and if notice of redemption thereof shall have been given as aforesaid, then from and after such Redemption Date interest with respect to the Bonds to be redeemed shall cease to accrue and become payable. All moneys held by or on behalf of the Trustee for the redemption of Bonds shall be held in trust without liability for interest thereon for the account of the Owners of the Bonds so to be redeemed.

All Bonds paid at maturity or redeemed prior to maturity shall be cancelled by the Trustee upon surrender thereof. All or any portion of a Bond purchased by the Authority shall be cancelled by the Trustee.

### **Partial Redemption of the Bonds**

Upon the surrender of any Bond redeemed in part only, the Trustee shall authenticate and deliver to the registered Owner thereof, at the expense of the Authority, a new Bond or Bonds of the same maturity and in \$5,000 denominations or any integral multiple thereof equal in aggregate principal amount to the unpaid portion of the Bond surrendered. Such partial redemption shall be valid upon payment of the amount required to be paid to such registered Owner, and the Authority and the Trustee shall be released and discharged thereupon from all liability to the extent of such payment.



## DEBT SERVICE SCHEDULE

The aggregate annual amounts of principal and interest payable to the Owners of the Bonds are set forth below for each annual period ending on June 1 of the years indicated:

<i>ANNUAL PERIOD</i>	<i>PRINCIPAL</i>	<i>INTEREST</i>	<i>TOTAL PAYMENT</i>
2004	\$ 245,000.00	\$ 565,825.24	\$ 810,825.24
2005	345,000.00	544,148.76	889,148.76
2006	615,000.00	537,248.76	1,152,248.76
2007	630,000.00	524,948.76	1,154,948.76
2008	645,000.00	512,348.76	1,157,348.76
2009	655,000.00	496,223.76	1,151,223.76
2010	675,000.00	476,573.76	1,151,573.76
2011	700,000.00	456,323.76	1,156,323.76
2012	720,000.00	433,573.76	1,153,573.76
2013	745,000.00	408,373.76	1,153,373.76
2014	770,000.00	382,298.76	1,152,298.76
2015	800,000.00	351,498.76	1,151,498.76
2016	835,000.00	319,498.76	1,154,498.76
2017	870,000.00	286,098.76	1,156,098.76
2018	900,000.00	251,298.76	1,151,298.76
2019	940,000.00	215,298.76	1,155,298.76
2020	980,000.00	177,698.76	1,157,698.76
2021	1,020,000.00	137,273.76	1,157,273.76
2022	1,060,000.00	93,923.76	1,153,923.76
2023	<u>1,105,000.00</u>	<u>48,343.76</u>	<u>1,153,343.76</u>
<b>TOTAL</b>	<b><u>\$15,255,000.00</u></b>	<b><u>\$ 7,218,821.68</u></b>	<b><u>\$22,473,821.68</u></b>

### SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

#### General

The Indenture provides that all of the amounts received by the Authority or the Trustee pursuant to or with respect to the Lease Agreement, including all of the Lease Payments (including both timely and delinquent payments, any late charges, and whether paid from any source but excluding any Additional Payments), and all interest, profits or other income derived from the investment of amounts in any fund or account established pursuant to the Indenture (other than the Rebate Fund) and any other amounts held in any fund or account established pursuant to the Indenture (other than the Rebate Fund) (collectively, the "Revenues") are pledged to secure the payment of the principal of and interest on the Bonds, subject only to the provisions of the Indenture permitting the application of Revenues for the purposes and on the terms and conditions set forth therein.

Lease Payments are payable by the City from any legally available funds. The City will receive a credit against the Lease Payment due to the extent funds are on deposit on the Lease Payment Date in the Lease Payment Account in the Bond Fund.

Pursuant to the Lease Agreement, the City is required to pay to the Trustee specified amounts for use and occupancy of the Property, which are scheduled, in both time and amount, to equal the principal and interest due on the Bonds. The amounts payable to the Trustee are to be used to pay the principal and interest on the Bonds and for certain other purposes as specified therein. Neither the obligation of the Authority to pay the Bonds nor the obligation of the City to make Lease Payments constitutes an obligation of the Authority or the City for which the Authority or the City is obligated to levy or pledge any form of taxation.

If on any Lease Payment Date, the amount of the principal, premium and interest then due and unpaid on the Bonds exceeds the amount on hand in the Lease Payment Account within the Bond Fund, after transfer of monies in the Reserve Fund, the Trustee shall apply monies on hand in the Bond Fund first to the payment, pro rata if necessary, of interest past due with respect to all Bonds, and second to the payment, pro rata if necessary, of the unpaid principal balance with respect to each Bond which is then past due. See "APPENDIX B—DEFINITIONS OF CERTAIN TERMS AND SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—INDENTURE—Funds and Accounts."

NEITHER THE BONDS NOR THE OBLIGATION OF THE CITY TO MAKE LEASE PAYMENTS UNDER THE LEASE AGREEMENT CONSTITUTES AN INDEBTEDNESS OF THE CITY, THE AUTHORITY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION. THE CITY HAS NOT PLEDGED THE FULL FAITH AND CREDIT OF THE CITY, THE COUNTY OF SAN DIEGO, THE STATE OR ANY AGENCY OR DEPARTMENT THEREOF TO THE PAYMENT OF SUCH LEASE PAYMENTS.

FOR INFORMATION REGARDING THE CITY, INCLUDING FINANCIAL INFORMATION, SEE APPENDIX A—THE CITY OF SAN DIEGO". THE CITY'S AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2002 ATTACHED HERETO AS APPENDIX B SHOULD BE READ IN THEIR ENTIRETY. SEE ALSO "RISK FACTORS" HEREIN.

As provided in the Lease Agreement, the covenants of the City under the Lease Agreement shall be deemed to be and shall be ministerial duties imposed by law, and it shall be the duty of each and every public official of the City to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the City to carry out and perform the covenants and agreements agreed to by the City in the Lease Agreement to be carried out and performed.

Should the City default under the Lease Agreement, the Trustee, as assignee of the Authority, may terminate the Lease Agreement, re-lease the Maintenance Yard Portion of the Property or may retain the Lease Agreement and hold the City liable for all Lease Payments thereunder on an annual basis. The Right of Way Portion of the Property is not subject to entry, re-entry, or re-letting by the Authority or the Trustee. Under no circumstances will the Trustee have the right to accelerate Lease Payments. The exercise of the remedies provided to the Trustee is subject to various limitations on the enforcement of remedies against public agencies. See "RISK FACTORS—Default" herein.

## **Additional Lease Payments**

In addition to the Lease Payments, under the Lease Agreement, the City shall pay an amount or amounts (the "Additional Lease Payments") equivalent to the sum of the following:

(i) All taxes and assessments of any nature whatsoever, including, but not limited to, excise taxes, ad valorem taxes, ad valorem and specific lien special assessment and gross receipts taxes, if any, levied upon the Property, upon the Authority's interest therein, upon the Authority's operation thereof or the Authority's rental income derived therefrom.

(ii) All expenses (not otherwise paid or provided for out of the proceeds of the sale of Bonds) incidental to the sale and delivery of the Bonds and all administrative costs of the Authority, including without limiting the generality of the foregoing, salaries, wages, expenses, compensation and indemnification of the Trustee and its consultants under the Indenture, the Property Lease and the Lease Agreement (including costs related to the City's default thereunder, if any) fees and charges of auditors, accountants, architects, attorneys and engineers, and all other necessary administrative charges of the Authority or charges required to be paid by it in order to comply with the terms of the Bonds or of the Indenture and to indemnify and defend the Authority and its members.

(iii) Insurance premiums, if any, on all insurance required or permitted under the Lease Agreement.

(iv) All costs and expenses which the Authority or its assignee may incur in consequence of or because of any default by the City under the Lease Agreement, including reasonable attorneys' fees and costs of suit in equity or action at law to enforce the terms and conditions of the Lease Agreement.

(v) All other payments required to be paid by the District under the provisions of the Lease Agreement or the Indenture, including amounts due under the Reserve Fund Surety Bond to the extent such amounts are not includable as a part of the Lease Payments due under the Lease Agreement.

Each Additional Lease Payment payable under the Lease Agreement shall be paid by the City within thirty-five (35) days after notice in writing from the Authority to the City stating the amount of Additional Lease Payment then due and payable and the purpose thereof and shall be paid directly to the person or persons to whom such amounts are due or, if not so paid, shall be paid to the Trustee for application in accordance with the Indenture.

## **Reserve Fund**

The Reserve Fund will initially be funded with a debt service reserve fund surety bond (the "Surety Bond") issued by the Insurer in an amount equal to, as of any date of calculation, the lesser of (a) maximum annual debt service remaining on the Bonds; (b) 125% of average annual debt service on the Bonds; and (c) 10% of the original proceeds of the Bonds (the "Reserve Requirement"). If at the close of business on the Business Day prior to any Interest Payment Date, Principal Payment Date or Redemption Date, amounts on deposit in the Bond Fund are less than the principal and interest payments due with respect to the Bonds on any such date, then the Trustee shall transfer from the Reserve Fund for credit to the Lease Payment Account or the Prepayment Account,

as appropriate, of the Bond Fund an amount sufficient to make up such deficiency. Upon receipt of any delinquent Lease Payments with respect to which monies have been advanced from the Reserve Fund, such Lease Payment (together with any Additional Lease Payments made for such purpose, subject in each case to the abatement provisions of the Lease Agreement) shall be applied to pay principal and interest owing to the Insurer with respect to such Surety Bond advance and shall thereafter be deposited to the Reserve Fund to the extent of such advance.

### **Option to Terminate the Lease Agreement**

Pursuant to the Lease Agreement, the City may at any time terminate the Lease Agreement by paying an amount equal to the principal amount of, applicable premium, if any, and accrued but unpaid interest on the Outstanding Bonds to the applicable redemption date, plus all Additional Lease Payments due. If the City elects to purchase the Property prior to the first Redemption Date, the City will deposit funds sufficient to defease the Bonds due up to and including the first Redemption Date.

Upon the City's exercise of its option to terminate the Lease Agreement and the redemption or defeasance of all the Bonds, all obligations of the City under the Lease Agreement shall cease and terminate. The City will exercise its option by giving notice thereof to the Trustee not later than thirty (30) days in advance of the date on which it desires to purchase the Property and deposit of the Purchase Option Price not later than the Business Day immediately prior to the redemption date selected by the Trustee.

### **Abatement**

Lease Payments and, as provided in the Lease Agreement, Additional Lease Payments are paid by the City in each rental payment period for and in consideration of the right of use and occupancy of the Property during each such period for which said rental is to be paid. Lease Payments and Additional Lease Payments will be abated during any period in which by reason of damage, destruction, condemnation or title defect, there is substantial interference with the use and occupancy by the City of the Property or any portion thereof. The amount of such abatement will be an amount agreed upon by the City and the Authority such that the resulting Lease Payments represent fair consideration for the use and occupancy of the portions of the Property not damaged or destroyed. Such abatement will continue for the period commencing with such damage or destruction and ending with the substantial completion of the work of repair or reconstruction. In the event of any such damage or destruction, the Lease Agreement will continue in full force and effect and the City waives any right to terminate the Lease Agreement by virtue of any such damage and destruction.

Notwithstanding the foregoing, there will be no abatement of Lease Payments to the extent that the proceeds of rental interruption insurance or amounts in the Redemption Fund, the Bond Fund or the Reserve Fund are available to pay Lease Payments which would otherwise be abated. See "APPENDIX C—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—THE LEASE AGREEMENT" attached hereto.

### **Insurance**

The City has covenanted in the Lease Agreement to maintain or cause to be maintained by MTDB pursuant to the Sublease Agreement certain levels of liability, property damage and casualty insurance with respect to the Property, and to obtain title insurance in connection with the Property as

set forth in the Lease Agreement. In addition, the City has covenanted to maintain or cause to be maintained by MTDB pursuant to the Sublease Agreement rental interruption or use and occupancy insurance, in an amount equal to not less than the largest aggregate Lease Payments to be paid in any 24 month period by the City to cover loss of use of the Property. Earthquake insurance is not required to be maintained. There can be no assurance that the coverage afforded by such insurance will be adequate to prevent a reduction in Lease Payments, as a result of abatement, below levels necessary to make timely payment of the Bonds. See “APPENDIX A—CITY OF SAN DIEGO—INSURANCE” and “APPENDIX C—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS” herein.

### **Substitution and Release of Property**

Pursuant to the Lease Agreement, the City shall have the option at any time and from time to time during the term of the Lease Agreement, to substitute other land, facilities and improvements (a “Substitute Property”) for any of the Property or any portion thereof (a “Former Property”), provided that the City shall satisfy all of the following requirements which are conditions precedent to such substitution:

(a) The City shall file with the Authority and the Trustee and cause to be recorded an amended property description to the Property Lease which adds thereto a description of such Substitute Property and deletes therefrom the description of such Former Property as provided in the Lease Agreement;

(b) The City shall give notice to the Insurer and certify in writing to the Authority, the Insurer and the Trustee that the estimated fair market value, according to an independent MAI appraisal performed by an appraiser reasonably acceptable to the City and not objected to by the Trustee, of such Substitute Property is at least equal to the principal amount of the Bonds then Outstanding;

(c) The City shall certify in writing to the Authority, the Insurer and the Trustee that such Substitute Property serves the public purposes of the City and constitutes property which the City is permitted to lease under the laws of the State of California;

(d) The City shall certify in writing to the Authority and the Trustee that the estimated useful life of such Substitute Property at least extends to the date on which the final Lease Payment becomes due and payable;

(e) Such Substitution shall not cause the City to violate any of its covenants, representations and warranties made in the Lease Agreement or in the Indenture;

(f) The City shall give written notice to the Rating Agencies upon such Substitution; and

(g) The City shall provide evidence to the Authority, the Trustee and the Insurer that, in the opinion of the City Attorney, the City has the authority to lease the Substitute Property.

From and after the date on which all of the foregoing conditions precedent to such substitution are satisfied, the term of the Lease Agreement shall cease with respect to the Former Property and shall be continued with respect to the Substitute Property. The City shall not be entitled

to any reduction, diminution, extension or other modification of the Lease Payments whatsoever as a result of such substitution.

## **BOND INSURANCE**

*The following information has been furnished by the Insurer for use in this Official Statement. Such information has not been independently confirmed or verified by the City or the Authority. No representation is made herein by the City or Authority as to the accuracy or adequacy of such information subsequent to the date hereof, or that the information contained and incorporated herein by reference is correct. Reference is made to Appendix G for a specimen of the Insurer's Financial Guaranty Insurance Policy.*

### **Payment Pursuant to Financial Guaranty Insurance Policy**

The Insurer, Ambac Assurance Corporation, has made a commitment to issue the Financial Guaranty Insurance Policy relating to the Bonds effective as of the date of issuance of the Bonds. Under the terms of the Financial Guaranty Insurance Policy, the Insurer will pay to The Bank 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 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 Financial Guaranty Insurance Policy). The Insurer 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 the Insurer shall have received notice of Nonpayment from the Trustee. The insurance will extend for the term of the Bonds and, once issued, can not be cancelled by the Insurer.

The Financial Guaranty Insurance Policy will insure payment only on stated maturity dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Bonds become subject to mandatory prepayment and insufficient funds are available for prepayment of all outstanding Bonds, the Insurer will remain obligated to pay principal of and interest with respect to outstanding Bonds on the originally scheduled interest and principal payment dates. In the event of any acceleration of the principal of the 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 the Bonds which has become Due for Payment and which is made to a beneficial owner of such Bond by or on behalf of the City has been deemed 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 beneficial owner will be entitled to payment from the Insurer to the extent of such recovery if sufficient funds are not otherwise available.

The Financial Guaranty Insurance Policy does not insure any risk other than Nonpayment, as defined in the Policy. Specifically, the Financial Guaranty Insurance Policy does not cover:

1. payment on acceleration, as a result of a call for prepayment (other than mandatory sinking fund prepayment) or as a result of any other advancement of maturity;
2. payment of any prepayment or acceleration premium; and

3. nonpayment of principal or interest caused by the insolvency or negligence of the Trustee or payment agent, if any.

If it becomes necessary to call upon the Financial Guaranty Insurance Policy, payment of principal requires surrender of Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Bonds to be registered in the name of the Insurer to the extent of the payment under the Financial Guaranty Insurance Policy. Payment of interest pursuant to the Financial Guaranty Insurance Policy requires proof of beneficial owner entitlement to interest payments and an appropriate assignment of the beneficial owner's right to payment to the Insurer.

Upon payment of the insurance benefits, the Insurer will become the owner of the Bond, appurtenant coupon, if any, or right to payment of principal or interest with respect to such Bond and will be fully subrogated to the surrendering beneficial owner's rights to payment.

In the event that the Insurer 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.

#### **Ambac Assurance Corporation**

The Insurer 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 \$6,115,000,000 (unaudited) and statutory capital of approximately \$3,703,000,000 (unaudited) as of December 31, 2002. Statutory capital consists of the Insurer's policyholders' surplus and statutory contingency reserve. Standard & Poor's Credit Markets Services, a division of The McGraw-Hill Companies, Inc., Moody's Investors Service and Fitch, Inc. have each assigned a triple-A financial strength rating to the Insurer.

The Insurer has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by the Insurer will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by the Insurer under policy provisions substantially identical to those contained in its Financial Guaranty 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 Bonds. No representation is made by the Insurer regarding federal income tax treatment of payments that are made by the Insurer under the terms of the Policy due to nonappropriation of funds by the City.

The Insurer makes no representation regarding the Bonds or the advisability of investing in the Bonds and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by the Insurer and presented under the caption "BOND INSURANCE."

#### **Available Information**

The parent company of the Insurer, 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 "SEC"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc. (the "NYSE"), 20 Broad Street, New York, New York 10005.

Copies of the Insurer's financial statements prepared in accordance with statutory accounting standards are available from the Insurer. The address of the Insurer's administrative offices and its telephone number are One State Street Plaza, 19th 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 SEC (File No. 1-10777) are incorporated by reference in this Restated Official Statement:

1. The Company's Current Report on Form 8-K dated January 23, 2003 and filed on January 24, 2003;
2. The Company's Current Report on Form 8-K dated February 25, 2003 and filed on February 28, 2003;
3. The Company's Current Report on Form 8-K dated February 25, 2003 and filed on March 4, 2003;
4. The Company's Current Report on Form 8-K dated March 18, 2003 and filed on March 20, 2003;
5. The Company's Current Report on Form 8-K dated March 19, 2003 and filed on March 26, 2003;
6. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002 and filed on March 28, 2003; and
7. The Company Current Report on Form 8-K dated March 25, 2003 and filed on March 31, 2003.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in "Available Information."

### **The Surety Bond**

The following information has been furnished by the Insurer for use in this Official Statement.



The Indenture requires the establishment of a Reserve Fund in an amount equal to the Reserve Requirement. The Indenture authorizes the Authority to obtain a Surety Bond in the place of fully funding the Reserve Fund. Accordingly, application has been made to the Insurer for the issuance of a Surety Bond for the purpose of funding the Reserve Fund. The Bonds will only be delivered upon the issuance of such Surety Bond. The premium on the Surety Bond is to be fully paid at or prior to the issuance and delivery of the Bonds. The Surety Bond provides that upon the later of (i) one (1) day after receipt by the Insurer of a demand for payment executed by the Trustee certifying that provision for the payment of principal of or interest on the Bonds when due has not been made or (ii) the interest payment date specified in the Demand for Payment submitted to the Insurer, the Insurer will promptly deposit funds with the Trustee sufficient to enable the Trustee to make such payments due on the Bonds, but in no event exceeding the Surety Bond Coverage, as defined in the Surety Bond.

Pursuant to the terms of the Surety Bond, the Surety Bond Coverage is automatically reduced to the extent of each payment made by the Insurer under the terms of the Surety Bond and the City is required to reimburse the Insurer for any draws under the Surety Bond with interest at a market rate. Upon such reimbursement, the Surety Bond is reinstated to the extent of each principal reimbursement up to but not exceeding the Surety Bond Coverage. The reimbursement obligation of the City is subordinate to the City's obligations to pay Lease Payments.

In the event the amount on deposit, or credited to the Reserve Fund, exceeds the amount of the Surety Bond, any draw on the Surety Bond shall be made only after all the funds in the Reserve Fund have been expended. In the event that the amount on deposit in, or credited to, the Reserve Fund, in addition to the amount available under the Surety Bond, includes amounts available under a letter of credit, insurance policy, surety bond or other such funding instrument (the "Additional Funding Instrument"), draws on the Surety Bond and the Additional Funding Instrument shall be made on a pro rata basis to fund the insufficiency. The Indenture provides that the Reserve Fund shall be replenished in the following priority: (i) principal and interest on the Surety Bond shall be paid from first available Lease Payments and Additional Lease Payments; (ii) after all such amounts are paid in full, amounts necessary to fund the Reserve Fund to the required level, after taking into account the amounts available under the Surety Bond shall be deposited from next available Lease Payments.

The Surety Bond does not insure against nonpayment caused by the insolvency or negligence of the Trustee.

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

None of the City, the Authority, nor the Underwriter makes any representation as to the ability of the Insurer to meet its obligations under the Financial Guaranty Insurance Policy or the Surety Bond.

## **RISK FACTORS**

The following factors, which represent material risk factors that have been identified at this time, should be considered along with all other information in this Official Statement by potential

investors in evaluating the Bonds. There can be no assurance made that other risk factors will not become evident at any future time. See also “APPENDIX A—THE CITY OF SAN DIEGO—LIMITATIONS ON TAXES AND APPROPRIATIONS” herein.

### **Lease Payments Not City Debt**

THE CITY HAS NOT PLEDGED THE FULL FAITH AND CREDIT OF THE CITY, THE COUNTY OF SAN DIEGO, THE STATE OR ANY AGENCY OR DEPARTMENT THEREOF TO THE PAYMENT OF THE LEASE PAYMENTS OR ANY OTHER PAYMENTS DUE UNDER THE LEASE AGREEMENT. In the event the City’s revenue sources are less than its total obligations, the City could choose to fund other municipal services before making Lease Payments and other payments due under the Lease Agreement. The City’s General Fund revenues come from a variety of sources and are subject to a variety of risks including legislative action and general economic conditions. See APPENDIX A—THE CITY OF SAN DIEGO.”

Although the Lease Agreement does not create a pledge, lien or encumbrance upon the funds of the City, the City is obligated under the Lease Agreement to pay Lease Payments from any source of legally available funds (subject to certain exceptions) and the City has covenanted in the Lease Agreement that, for as long as the Property is available for its use and possession, it will make the necessary annual appropriations within its budget for all Lease Payments. The City is currently liable on other obligations payable from general revenues. See “APPENDIX A—THE CITY OF SAN DIEGO—BONDED AND OTHER INDEBTEDNESS” herein.

Certain taxes, assessments, fees and charges presently imposed by the City could be subject to the voter approval requirements of Article XIII C and Article XIII D of the State Constitution. Based upon the outcome of an election by the voters, such fees, charges, assessments and taxes might no longer be permitted to be imposed, or may be reduced or eliminated and new taxes, assessments, fees and charges may not be approved. The City has assessed the potential impact on its financial condition of the provisions of Article XIII C and Article XIII D of the State Constitution respecting the imposition and increase of taxes, fees, charges and assessments and does not believe that an election by voters to reduce or eliminate the imposition of certain existing fees, charges, assessments and taxes would substantially affect its financial condition. However, the City believes that in the event that the initiative power was exercised so that all local taxes, assessments, fees and charges which may be subject to the provisions of Article XIII C and Article XIII D of the State Constitution are eliminated or substantially reduced, the financial condition of the City, including its General Fund, could be materially adversely affected. Although the City does not currently anticipate that the provisions of Article XIII C and Article XIII D of the State Constitution would adversely affect its ability to pay the Lease Payments related to the Bonds as and when due and its other obligations payable from the General Fund, no assurance can be given regarding the ultimate interpretation or effect of Article XIII C and Article XIII D of the State Constitution on the City’s finances. See “APPENDIX A—THE CITY OF SAN DIEGO—LIMITATIONS ON TAXES AND APPROPRIATIONS” herein.

### **Additional Obligations of the City**

The City has the capability to enter into other obligations which may constitute additional charges against its revenues. To the extent that additional obligations are incurred by the City, the funds available to make Lease Payments may be decreased.

The Lease Payments and Additional Lease Payments due under the Lease Agreement are payable from funds lawfully available to the City. In the event that the amounts which the City is obligated to pay in a fiscal year exceed the City's revenues for such year, the City may choose to make some payments rather than making other payments, including Lease Payments and Additional Lease Payments, based on the perceived needs of the City. The same result could occur if, because of California Constitutional limits on expenditures, the City is not permitted to appropriate and spend all of its available revenues or is required to expend available revenues to preserve the public health, safety and welfare.

### **Default**

In the event of a default, there is no remedy of acceleration of the total Lease Payments due over the term of the Lease Agreement and the Trustee is not empowered to sell the Property and use the proceeds of such sale to prepay the Bonds or pay debt service thereon. The City will be liable only for Lease Payments on an annual basis, and the Trustee would be required to seek a separate judgment each year for that year's defaulted Lease Payments. Any such suit for money damages would be subject to limitations on legal remedies against cities in the State of California, including a limitation on enforcement of judgments against funds of a fiscal year other than the fiscal year in which the Lease Payments were due and against funds needed to serve the public welfare and interest. Following a default, at the direction of the Insurer, the Trustee may elect either to terminate the Lease Agreement and seek to collect damages from the City or to maintain the Lease Agreement in effect and seek to collect the Lease Payments as they become due. The Lease Agreement further provides that so long as an event of default exists under the Lease Agreement, the Trustee may re-enter the Maintenance Yard Portion of the Property for the purpose of taking possession of any portion of the Maintenance Yard Portion of the Property, subject to Permitted Encumbrances, and to re-let the Maintenance Yard Portion of the Property and, in addition, at its option, with or without such entry to terminate the Lease Agreement as described therein. Pursuant to the Lease Agreement, neither the Authority nor the Trustee has right to enter, re-enter, or re-let the Right of Way Portion of the Property. See "APPENDIX C—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—LEASE AGREEMENT—Remedies on Default."

### **Abatement Risk**

During any period in which, by reason of material damage, destruction, condemnation or title defect, there is substantial interference with the use and possession by the City of any portion of the Property, rental payments due under the Lease Agreement with respect to the Property will be abated proportionately, and the City waives any and all rights to terminate the Lease Agreement by virtue of any such interference and the Lease Agreement shall continue in full force and effect. The method for calculating the amount of abatement is described in "SECURITY FOR THE BONDS—Abatement" herein.

### **Natural and Manmade Disasters**

The occurrence of natural disasters, including earthquakes, fires or floods, or manmade disasters such as arson or acts of terrorism, affecting the Property could result in substantial damage to the Property, and could lead to reduced values for such property.

As required by the Alquist-Priolo Earthquake Fault Zoning Act, the State geologist in 1973 initiated a program to delineate the State's earthquake fault zones and to compile and distribute maps

of these zones. Earthquake fault zones are delineated along known active faults. Cities and counties affected by the zones must regulate certain development projects with the zones. As of June 1, 1997, 539 official maps of earthquake fault zones have been issued. The City is not among the 97 California cities affected by the earthquake fault zones.

The most dominant source of potential ground motion at the Site is from the Rose Canyon fault. Earthquakes from this source are expected to have a potential for seismic ground shaking with a maximum credible magnitude of 7.0 and a maximum probable magnitude of 6.25. The “maximum credible earthquake” is defined as the maximum earthquake that appears capable of occurring under the presently known tectonic framework, while the “maximum probable earthquake” is the maximum earthquake that is considered likely to occur during a 100-year time interval.

The City is not required to obtain earthquake insurance under the Lease Agreement. See “SECURITY FOR THE BONDS—Insurance” herein. In the event that any portion of the Property is destroyed by an earthquake or other natural disaster, an abatement could occur and result in the Trustee having inadequate funds to pay the principal and interest with respect to the Bonds as and when due.

### **Hazardous Substances**

The City knows of no existing hazardous substances which require remedial action on or near the Property. However, it is possible that such substances do currently or potentially exist and that the City is not aware of them. The City does not currently carry insurance covering the risks of hazardous substances. Owners and operators of real property may be required by law to remedy conditions of the property relating to releases or threatened releases of hazardous substances. The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as “CERCLA” or the “Superfund Act,” is the most well known and widely applicable of these laws, but California laws with regard to hazardous substances are also stringent and similar. Under many of these laws, the owner (or operator) is obligated to remedy a hazardous substance condition of property whether or not the owner (or operator) has anything to do with creating or handling the hazardous substance. Further, such liabilities may arise not simply from the existence of a hazardous substance but from the method of handling it. All of these possibilities could significantly and adversely affect the operations and finances of the City and/or the value of the Property.

### **Substitution and Removal of Property**

The Authority and the City may, under the terms of the Lease Agreement, substitute alternate real property for any portion of the Property or release a portion of the Property from the Lease Agreement, upon compliance with all of the conditions set forth in the Lease Agreement. After a substitution or release, the portion of the Property for which the substitution or release has been effected shall be released from the leasehold encumbrance of the Lease Agreement. See “SECURITY FOR THE BONDS—Substitution of Properties.”

### **Ability to Re-Let**

**Pursuant to the Lease Agreement, neither the Authority nor the Trustee has the right to enter, re-enter, or re-let the Right of Way Portion of the Property.** If the City defaults on its obligations to make Lease Payments, the Trustee may have limited ability to re-let the Maintenance

Yard Portion of the Property to provide a source of payments sufficient to meet the principal and interest with respect to the Bonds and preserve the tax-exempt nature of the interest component of the Lease Payments and the Bonds. The re-letting or sale of the Property is subject to market conditions and applicable City zoning requirements. See “THE PROPERTY.”

### **Investment of Funds**

The Reserve Account and all other funds held under the Indenture are required to be invested in Qualified Investments as provided under the Indenture. See Appendix C attached hereto for a summary of the definition of Qualified Investments. All investments, including the Qualified Investments and those authorized by law from time to time for investments by municipalities, contain a certain degree of risk. Such risks include, but are not limited to, a lower rate of return than expected, decline in market value and loss or delayed receipt of principal. The occurrence of these events with respect to amounts held under the Indenture or the funds and accounts held by the City could have a material adverse affect on the security for the Bonds, and/or the financial condition of the City. See (i) “APPENDIX A—THE CITY OF SAN DIEGO” and (ii) the audited financial statements of the City for the Fiscal Year ended June 30, 2002 attached hereto as Appendix B for information concerning the City’s investment policy and portfolio of investments.

### **Secondary Market**

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

### **Limitation of Remedies and Bankruptcy**

The enforcement of any remedies provided in the Lease Agreement and Indenture could prove both expensive and time consuming. In the event of a default, there is no remedy of acceleration of the total Lease Payments due over the term of the Lease Agreement and neither the Authority nor the Trustee is empowered to sell its leasehold interest in the Property and use the proceeds of such sale to prepay the Bonds or pay debt service thereon. Although the Lease Agreement provides that if the City defaults the Authority may reenter the Maintenance Yard Portion of the Property and relet it, such portion of the Property may not be easily recoverable, and even if recovered, could be of little value to others because of the Property’s specialized nature.

Alternatively, the Authority may terminate the Lease Agreement and proceed against the City to recover damages pursuant to the Lease Agreement. Any suit for money damages would be subject to limitations on legal remedies against public agencies in the State, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest.

In addition to the limitations on remedies contained in the Lease Agreement and the Indenture, the rights and remedies provided in the Indenture and the Lease Agreement may be limited by and are subject to provisions of federal bankruptcy laws, as now or hereafter enacted, and to other laws or equitable principles that may affect creditors’ rights. If the City were to file a

petition under Chapter 9 of the Bankruptcy Code (Title 11, United States Code), the Owners, the Trustee and the Authority could be prohibited or severely restricted from taking any steps to enforce their rights under the Lease Agreement and from taking any steps to collect amounts due from the City under the Lease Agreement.

All legal opinions rendered upon the delivery of the Bonds as to the enforceability of the Lease Agreement and the Indenture will be expressly subject to a qualification that enforcement of such agreements may be limited by bankruptcy, reorganization, insolvency, moratorium or other similar laws affecting creditors' rights generally, by limitations on remedies against cities in California and by applicable principles of equity if equitable remedies are sought.

### **Loss of Tax Exemption**

As discussed under the caption "TAX MATTERS" below, interest on the Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the Bonds were issued as a result of future acts or omissions of the Authority or the City in violation of their respective covenants in the Lease Agreement and the Indenture. Should such an event of taxability occur, the Bonds are not subject to a special redemption and will remain outstanding until maturity or until redeemed under the redemption provisions contained in the Indenture.

The Internal Revenue Service (the "IRS") has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the Bonds will be selected for audit by the IRS. It is also possible that the market value of the Bonds might be affected as a result of such an audit of the Bonds (or by an audit of similar bonds).

### **Economic Conditions in California**

Since early 2001, the State has been faced with severe financial challenges, which may continue for several years. The State experienced an economic recession in 2001 and is currently in a sluggish recovery. The major forces in the State's economic downturn were decline in the high technology, internet and telecommunications sectors, lower demand for exports, and large stock market declines. These adverse fiscal and economic factors have resulted in a serious erosion of the State's General Fund tax revenues. The bulk of the revenue declines were from personal income taxes, principally from reduced capital gains realizations and stock option income.

This revenue drop resulted in a shortfall between State revenues and anticipated spending demands for the 2001-02 and 2002-03 fiscal years which at the time that the State's 2002 Budget Act (the "2002-03 Budget") was enacted was an estimated \$23.6 billion. The shortfall estimated at the time of the 2002-03 Budget was ultimately closed with a combination of expenditure reductions, revenue enhancements, and one-time budgetary actions, such as fund transfers and loans, expenditure deferrals, bond issuances and other actions. Total revenue receipts reported by the State Controller's Office for the three major revenue sources (personal income tax, sales tax and corporation tax) for the first five months of fiscal year 2002-03 have been below the revenue projections included within the 2002-03 Budget. These reduced revenues have led to the proposed mid-year budget reductions discussed below.

In mid-November, 2002, the Legislative Analyst issued a report (the "LAO Report") indicating the State is facing dire fiscal conditions. The LAO Report was prepared to provide the Legislature with a baseline from which budget decisions could be made. The LAO Report updated

economic conditions, and revenue and expenditure projections based on more recent actual results since the time of the enactment of the 2002-03 Budget. The LAO Report projected that, absent corrective actions, the State General Fund would have a budget deficit of about \$6.1 billion by the end of the 2002-03 fiscal year (compared to the 2002-03 Budget which predicted a reserve balance of \$1 billion) and a cumulative budget deficit over \$21 billion by the end of the 2003-04 fiscal year. Furthermore, even given accelerating economic growth in 2003 and beyond (which is not assured), unless corrective actions are taken, in the Legislative Analyst's view, there would continue to be a substantial deficit between revenues and expenditures, in a potential range from \$12-16 billion annually, for several years after fiscal year 2003-04.

The principal causes of the continuing fiscal difficulty were identified in the LAO Report as (i) the use of so many one-time budget solutions to resolve the shortfall projected at the time of the 2002-03 Budget, without enough emphasis on closing the "structural deficit" between ongoing revenue sources (taxes) and ongoing expenditure commitments; (ii) the likelihood that some of the assumptions in the 2002-03 Budget would not be met; and (iii) a significant downward revision in revenue estimates for the period through June 30, 2004. The LAO Report estimated that items (i) and (ii) above would result in a cumulative \$10 billion gap between revenues and expenditures (absent further actions) by the end of the 2003-04 fiscal year, consistent with projections the Legislative Analyst had made in the summer of 2002.

In the summer of 2002, the Governor notified all State agencies to prepare 2003-04 budget proposals for a minimum of 20 percent cut in funding. On November 21, 2002, the Governor announced his call for a special session of the Legislature, which began on December 9, 2002, to address needed budget actions, and he further directed State agencies to take immediate action to reduce any non-critical or non-essential activities by not filling any vacant positions, to cancel, postpone or amend contracts, grants, purchase orders and similar commitments, to eliminate additional non-essential vacant positions, to delay construction or signing of new leases for space, to cancel or postpone non-essential trips, and to generate new proposals for current year program reductions. The Governor stated that he would propose spending reductions, recaptures and other changes to accomplish savings over the period through June 30, 2004. The Governor also stated that he believed the budget shortfall would be higher than the \$21 billion estimated by the LAO Report.

On December 6, 2002, the Governor released his mid-year spending reduction proposals for consideration at the special session of the Legislature with his proposed reductions and adjustments totaling \$10.2 billion for fiscal years 2002-03 and 2003-04. On December 18, 2002, the Governor announced that the estimated budget shortfall through June 30, 2004 is \$34.8 billion.

On January 10, 2003, the Governor released his proposed budget for fiscal year 2003-04 (the "Governor's Proposed 2003-04 Budget") in which he addressed deficits under the 2002 Budget Act and 2003-04 fiscal year budget shortfalls—a combined \$34.6 billion gap between projected revenues and expenditures over the 2002-03 and 2003-04 fiscal years. To close the balance of the \$34.6 billion budget gap, the Governor proposed additional measures that are expected to address the estimated \$24.4 billion budget shortfall not addressed in the Governor's December 2002 mid-year spending reductions proposals. The following table shows the additional measures by the Governor; Proposed 2003-04 Budget and the mid-year spending reduction proposals announced in December 2002, which together comprise the Governor's overall solution to closing the entire predicted \$34.6 billion budget shortfall:

**ADDRESSING THE OVERALL \$34.6 BILLION GAP  
(Dollars in Millions)**

	<i>December Revision</i>	<i>Additional Measures</i>	<i>Total</i>	<i>Percentage</i>
Cuts/Savings	\$ 8,966.4	\$ 11,761.9	\$ 20,728.3	59.9%
State-Local Realignment	191.6	7,962.4	8,154.0	23.6%
Fund Shifts	815.6	1,087.1	1,902.7	5.5%
Transfers/Other Revenue	199.7	1914.6	2,114.3	6.1%
Loans/Borrowing	<u>25.4</u>	<u>1,657.9</u>	<u>1,683.3</u>	<u>4.9%</u>
<b>Total</b>	<u><b>\$ 10,198.7</b></u>	<u><b>\$ 24,383.9</b></u>	<u><b>\$ 34,582.6</b></u>	<u><b>100.0%</b></u>

Source: Governor's Budget Summary 2003-04.

The Governor's Proposed 2003-04 Budget includes: (i) increasing personal income tax margins up to 10% and 11% for high-income taxpayers (which according to the Governor is expected to generate approximately \$2.6 billion in additional revenues during fiscal year 2003-04), (ii) raising sales and use taxes by one cent (which according to the Governor is expected to generate approximately \$4.6 billion in additional revenues during fiscal year 2003-04) and increasing the cigarette tax \$1.10 per pack (which according to the Governor is expected to generate approximately \$1.2 billion in additional revenues during fiscal year 2003-04). The Governor's Proposed 2003-04 Budget shifts to counties roughly \$8 billion of health, child care and social service programs for which the State is currently responsible and reduces State General Fund support to the trial courts by \$300 million. To offset the financial impact of the proposed state-local realignment measures, \$8.2 billion in revenue increases assumed by the Governor as a result of the tax generating measures described above will be utilized to provide funding to counties and courts for the aforementioned programs and services.

The Governor's Proposed 2003-04 Budget proposes restoration of Executive Branch authority to make mid-year adjustments to the budget when revenues fall significantly below budgeted forecasts. The Governor's Proposed 2003-04 Budget contemplates the creation of a special budget reserve for proceeds from extraordinary revenue growth to be used for one-time expenditures.

The LAO, in a report issued on January 15, 2003, contends that the Governor's Proposed 2003-04 Budget overstates both baseline costs and budget program savings in numerous areas of the budget and understates tax revenues. The LAO notes that approximately \$8 billion in the difference between the LAO Report November, 2002 projection of a \$21.1 billion deficit and the Governor's \$34.6 billion deficit prediction is attributable to forecasting differences of revenues and program caseloads that drive expenditures. The balance of the discrepancy between the two agencies' projections, according to the LAO, is attributable to definitional differences relating to the baseline used for analyzing expenditure reductions; according to the LAO, the Governor's baseline in some cases reflects additional spending that would be required to achieve the administration's policy goals as well as proposals that have not yet been adopted. The LAO does predict that based on more up-to-date information about revenues and caseload trends and other factors affecting spending, it will update its estimate of the budget shortfall to the \$26-plus billion range.



The LAO issued another report on the Governor's Proposed 2003-04 Budget on February 19, 2003, in which it goes into further analysis of the Governor's Proposed 2003-04 Budget and the State's economy. The LAO estimated that the adoption of the Governor's Proposed 2003-04 Budget would result in a positive reserve of about \$1.6 billion at the conclusion of 2003-04 and would address the long-term structural imbalance in the State's budget with revenues and expenditures roughly balancing in fiscal year 2004-05. The LAO notes that there are a number of key risk factors that could consume the projected \$1.6 billion reserve including a failure to reach agreement on \$1.5 billion of revenues from Indian gaming and a reduction in existing federal funding reimbursements. The LAO states that a restoration of California's fiscal health will occur only if the Legislature either (i) adopts the major savings and revenue proposals included in the Governor's Proposed 2003-04 Budget or (ii) finds alternative solutions of similar magnitude that are real and largely ongoing in nature. Absent this, the modest positive fiscal balance that the LAO has projected would, in its view, be quickly transformed into a large deficit.

On March 18, 2003, the Governor signed into law legislation passed at the special session of the Legislature regarding mid-year budget costs for fiscal year 2002-03. The legislation approves approximately \$3.3 billion of spending reductions and budget adjustments for fiscal year 2002-03 and provides \$23 million in savings for fiscal year 2003-04. These reductions and budget adjustments did not have a material impact on the City's General Fund.

Final action on budget adjustments for fiscal year 2002-03 and enactment of the 2003 Budget Act will occur following negotiations between the Legislature and the Governor over the coming months. Additional estimates and proposals will be contained in the May Revision to the 2003-04 Governor's Budget, to be released on May 14, 2003.

The Governor's Proposed 2003-04 Budget proposes to reduce the vehicle license fee backfill to cities and counties by approximately \$1.3 billion in fiscal year 2002-03 and \$3.0 billion in fiscal year 2003-04. See "APPENDIX A—THE CITY OF SAN DIEGO—MUNICIPAL GOVERNMENT AND FINANCIAL INFORMATION—State Budget Deficit" and "—Vehicle License Fee Reduction" for a discussion of the potential impact of the Governor's Proposed 2003-04 Budget on City revenues and expenditures.

The City cannot predict whether the Legislature will adopt the Governor's Proposed 2003-04 Budget or what actions will be taken in the future by the State Legislature and the Governor to address the State's current or future budget deficits. Future State budgets will be affected by national and state economic conditions and other factors over which the City will have no control. To the extent that the State budget process results in reduced revenues or increased expenses for the City, the City will be required to make adjustments to its budget.

## **CONSTITUTIONAL LIMITATIONS ON TAXES AND APPROPRIATIONS**

For a discussion of the constitutional limitations on taxes and appropriations potentially affecting the City and its ability to make lease payments, see "APPENDIX A—THE CITY OF SAN DIEGO—LIMITATIONS ON TAXES AND APPROPRIATIONS."

## THE AUTHORITY

The Authority is a joint powers agency created pursuant to the provisions of Chapter 5 of Title 1, Division 7 of the Government Code of the State of California. It was created by means of a joint exercise of powers agreement between the City and the MTDB originally executed in September of 1987, and as subsequently amended. It is governed by a 3-member Board of Directors, two of whom are appointees of the City Council of the City and one of whom is appointed by the Board of the MTDB. Its powers include the power to issue bonds and to acquire, construct, manage, maintain and operate public transit facilities and related capital improvements to carry out its purposes. The City Treasurer, Auditor and Comptroller, and Deputy City Manager are its principal financial officers, and the City Attorney of the City serves as its legal counsel ("General Counsel").

## THE CITY

For a description of the City, see "APPENDIX A--THE CITY OF SAN DIEGO."

## MTDB

The following information regarding MTDB has been furnished by MTDB for general information purposes only. MTDB has no liability on the Bonds or for Lease Payments under the Lease Agreement, although it owns the Property, which it has leased to the Authority under the Property Lease for concurrent lease to the City pursuant to the Lease Agreement. Pursuant to the Sublease Agreement, MTDB has leased back the Property for purposes of maintenance and operation.

### Organization

MTDB was created effective January 26, 1976 pursuant to the Mills-Deddeh Transit Development Act to provide the policy setting and overall managing agency for a public transportation system covering two million people residing in the 750 square miles of San Diego County. In 1985 the organization's original 8-member Board of Directors was increased to 15 members. The Board currently includes four representatives from the City of San Diego and individual representatives from the Cities of Chula Vista, Coronado, El Cajon, Imperial Beach, La Mesa, Lemon Grove, National City, Poway and Santee. A representative is also appointed by the San Diego County Board of Supervisors. The Board members elect a representative who, pursuant to the Board's enabling legislation, serves as the Board's chair.

MTDB was initially charged with the responsibility to plan and construct public mass transit guideways with special emphasis on cost effective transit systems. MTDB's operating philosophy, as reflected in its initial enabling legislation, focuses priority consideration on presently available and proven technology, implementation of its public transit system in affordable increments and the minimization of construction costs through the use of existing public transportation rights-of-way. Since its inception, MTDB has acquired San Diego Transit Corporation ("SDTC"), a bus operating system, and the San Diego and Arizona Eastern railway ("SD&AE") covering over 108 miles of track right-of-way. MTDB has also developed an LRT system operated by San Diego Trolley, Inc. (SDTI). MTDB is effectively the umbrella agency and owns the assets of SDTC, SD&AE and SDTI.

MTDB's responsibilities cover six areas: (a) LRT development, (b) short range metropolitan area transit planning, (c) the preparation of the region's five-year Transportation Improvement Program, (d) fund administration for claims made by local operators for various state and federal funds, (e) provision of overall regional transit services directly or by contract with public or private operators and (f) coordination of regional transit fares, transfer, and services with various local operators. The transit system within the MTDB's planning and development sphere includes 15 express routes, 82 local/urban routes, and several dial-a-ride services. In Fiscal Year 2002, approximately 79,375,805 million passengers were carried over 32,065,825 million vehicle service miles through MTDB's transit providers.

### **The Regional Light Rail Transit Plan**

The 1993 Project consists of a portion of MTDB's overall Regional LRT Development Plan (the "LRT Plan"). The LRT Plan anticipates an ultimate regional LRT system consisting of 112 miles of track. To date, MTDB has planned, designed and built two LRT lines covering a total of 46.8 miles. The current LRT system consists of a 25.2 mile Blue Line that began operation in July of 1981 with total development costs of \$454.6 million. The Blue Line includes 31 stations and spans the distance from the International Border with Mexico, to Rancho Mission Road in Mission Valley. The Orange Line extends 21.6 miles from downtown San Diego to provide transit service to the eastern communities of Lemon Grove, La Mesa, El Cajon and Santee. Service to these communities began in March of 1986, with the final portion of the line to Santee completed in August of 1995. The total cost of the Orange Line, \$298.6 million, was funded through a combination of federal grants and State gas and sales tax revenues. The balance of the cost was covered through local funds.

The Mission Valley East LRT extension is currently under construction with an estimated completion date of May 2005. Once online, the system will include 5.8 miles of track with 4 new stations and San Diego's first subway – two-thirds of a mile of track underneath San Diego State University leading to an underground station. Mission Valley East will close the gap between the existing Blue and Orange Lines, providing direct connections between East County communities and the shopping, employment and entertainment centers in Mission Valley and Old Town. Once Mission Valley East opens, a new Green Line will operate from Santee to the Old Town Transit Center, the Orange Line will operate from Santee to downtown San Diego and Blue Line service will extend from the International Border to Qualcomm Stadium.

Finally, the LRT Plan includes a phased 10.4 mile northern extension of the LRT system to North University City (the "Mid-Coast Line"). LRT alignment has been approved for final design purposes for the initial 3.4 mile segment from the Old Town Transit Center to Balboa Avenue. In addition, MTDB has adopted an initial alignment, for planning purposes, for an LRT extension from Balboa Avenue to North University City.

### **TAX EXEMPTION**

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California ("Bond Counsel"), under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the

federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest on the Bonds is exempt from State of California personal income tax. Bond Counsel notes that, with respect to corporations, interest on the Bonds may be included as an adjustment in the calculation of alternative minimum taxable income which may affect the alternative minimum tax liability of such corporations.

The difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of the same series and maturity is to be sold to the public) and the stated redemption price at maturity with respect to such Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bond Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by the Bond Owner will increase the Bond Owner's basis in the Bond. In the opinion of Bond Counsel, the amount of original issue discount that accrues to the owner of the Bond is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State of California personal income tax.

Bond Counsel's opinion as to the exclusion from gross income of interest (and original issue discount) on the Bonds is based upon certain representations of fact and certifications made by the Authority, the City and others and is subject to the condition that the Authority complies with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Bonds to assure that interest (and original issue discount) on the Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause the interest (and original issue discount) on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The Authority and the City have covenanted to comply with all such requirements.

The amount by which a Bond Owner's original basis for determining loss on sale or exchange in the applicable Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable Bond premium, which must be amortized under Section 171 of the Code; such amortizable Bond premium reduces the Bond Owner's basis in the applicable Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of Bond premium may result in a Bond Owner realizing a taxable gain when a Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the Owner. Purchasers of the Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable Bond premium.

Bond Counsel's opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Bond Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Indenture and the Tax Certificate relating to the Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. Bond Counsel expresses no opinion as to the exclusion from gross income of interest (and original issue discount) on the Bonds for federal income tax purposes with respect to any Bond if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth.

Although Bond Counsel has rendered an opinion that interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes provided that the Authority continues to comply with certain requirements of the Code, the ownership of the Bonds and the accrual or receipt of interest (and original issue discount) with respect to the Bonds may otherwise affect the tax liability of certain persons. Bond Counsel expresses no opinion regarding any such tax consequences. Accordingly, before purchasing any of the Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the Bonds.

A copy of the proposed form of opinion of Bond Counsel is attached hereto as Appendix D.

Should the interest with respect to the Bonds become includable in gross income for federal income tax purposes, the Bonds are not subject to early redemption and will remain outstanding until maturity or until redeemed in accordance with the Indenture.

Bond Counsel's opinion may be affected by action taken (or not taken) or events occurring (or not occurring) after the date hereof. Bond Counsel has not undertaken to determine, or to inform any person, whether any such actions are taken or events are taken or do occur. Although Bond Counsel has rendered an opinion that interest on the Bonds is excluded from gross income for federal income tax purposes provided that the Authority continues to comply with certain requirements of the Code, the accrual or receipt of interest on the Bonds may otherwise affect the tax liability of the recipient. The extent of these other tax consequences will depend upon the recipient's particular tax status and other items of income or deductions. Bond Counsel expresses no opinion regarding any such consequences. Accordingly, all potential purchasers should consult their tax advisors before purchasing any of the Bonds.

## **LEGAL MATTERS**

Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, will render an opinion with respect to the validity of the City's obligations under the Lease Agreement and as to the validity of the Bonds, the form of which is included as Appendix D. Copies of such approving opinion will be available at the time of delivery of the Bonds. Certain legal matters will be passed upon for the Authority by its General Counsel and for the City by the City Attorney. Bond Counsel's compensation is contingent upon the issuance and sale of the Bonds.

## **CONTINUING DISCLOSURE**

In the Continuing Disclosure Agreement, the City covenants for itself and on behalf of the Authority for the benefit of holders and beneficial owners of the Bonds to provide certain financial information and operating data relating to the City by not later than April 11 of each Fiscal Year, commencing with Fiscal Year 2004 (the "Annual Report") and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed with each Nationally Recognized Municipal Securities Information Repository and with any then existing State Repository (collectively, the "Repositories"). Currently, there is no State Repository. The notices of material events will be filed with the Repositories. The specific nature of the information to be contained in the Annual Report and the notices of material events is described in "APPENDIX E—FORM OF CONTINUING DISCLOSURE AGREEMENT" attached hereto. These covenants will be made in order to assist the Underwriter in complying with Rule 15c2-12(b)(5) promulgated under the

Securities and Exchange Act of 1934, as amended. 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. For a detailed description of the City's responsibilities under the Continuing Disclosure Agreement, see "APPENDIX E—FORM OF CONTINUING DISCLOSURE CERTIFICATE."

## LITIGATION

To the City's or the Authority's knowledge, there is no litigation pending or threatened in any way to restrain or enjoin the issuance, execution or delivery of the Bonds, to contest the validity of the Bonds, the Indenture, the Lease Agreement, or any proceeding of the City or the Authority with respect thereto. To the knowledge of the Authority and its counsel, there are no lawsuits or claims pending against the Authority which will materially affect the Authority's finances so as to impair its ability to pay the principal of, premium (if any) and interest on the Bonds when due. To the knowledge of 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 expected insurance and self-insurance reserves expected to be available to pay liability arising from such actions, the City does not expect any or all such claims to impair its ability to make Lease Payments when due. See "APPENDIX A—THE CITY OF SAN DIEGO—LITIGATION POTENTIALLY ADVERSELY AFFECTING THE GENERAL FUNDS OF THE CITY" for a discussion of pending Litigation against the City.

## RATINGS

It is expected that Fitch Ratings ("Fitch") will assign the Bonds a rating of "AAA," Moody's Investors Service ("Moody's") will assign the Bonds a rating of "Aaa" and Standard & Poor's Corporation ("S&P") will assign the Bonds a rating of "AAA," based upon the issuance of the Financial Guaranty Insurance Policy by the Insurer. Fitch, Moody's and S&P have assigned underlying ratings to the Bonds without respect to the issuance of the Financial Guaranty Insurance Policy of "AA+," "Aa3" and "AA-," respectively. Any desired explanation of the significance of such ratings should be obtained from the respective rating agencies. The Authority furnished to such rating agencies certain information and materials respecting the Bonds, the Authority and the City. Generally, rating agencies base their ratings on the information and materials so furnished to them and on their investigations, studies and assumptions. There is no assurance that such ratings will continue for any given period of time or that they will not be lowered or withdrawn entirely if, in the judgment of the respective rating agency, circumstances so warrant. Any such change in or withdrawal of such ratings could have an adverse effect on the market price of the Bonds.

## FINANCIAL ADVISOR

Public Resources Advisory Group of New York, New York has entered into a contract to serve as financial advisor to the City with respect to the sale of the Bonds. The financial advisor assisted the City in the preparation of this Official Statement and in other matters relating to the planning, structuring, and issuance of the Bonds. The financial advisor will receive a fee for the

above services payable from proceeds of the Bonds, which is contingent upon the issuance of the Bonds. The financial advisor will not participate in the initial underwriting of the Bonds.

## **UNDERWRITING**

The Bonds were purchased at competitive sale for re-offering by Banc of America Securities, LLC (the "Underwriter"). The Underwriter has agreed to purchase the Bonds at a price of \$15,136,670.38, which is equal to the par value of the Bonds less an underwriter's discount of \$170,318.07, plus net original issue premium of \$51,988.45. The Underwriter will purchase all of the Bonds if any are purchased. The Underwriter may offer and sell Bonds to certain dealers and others at a price lower than the offering price stated on the cover page though the offering price may be changed from time to time by the Underwriter.

## **FINANCIAL STATEMENTS OF THE CITY**

Included herein as Appendix B are the audited financial statements of the City as of and for the year ended June 30, 2002, together with the report thereon dated November 27, 2002 of Calderon, Johan & Osborn, an Accountancy Corporation, Certified Public Accountants (the "Auditor"). Such audited financial statements have been included herein in reliance upon the report of the Auditor. The Auditor has not undertaken to update the audited financial statements of the City or its report or to take any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in this Official Statement, and no opinion is expressed by the Auditor with respect to any event subsequent to its report dated November 27, 2002.

The Governmental Accounting Standards Board (GASB) published its Statement No. 34 "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments" on June 30, 1999. Statement No. 34 provides guidelines to auditors, comptrollers, and financial officers on requirements for financial reporting for all governmental agencies in the United States.

The requirements of Statement No. 34 are effective in three phases based on a government's total annual revenues in the first fiscal year ending after June 15, 1999. Governments with total annual revenues (excluding extraordinary items) of \$100 million or more (phase 1) were required to apply Statement No. 34 for periods beginning after June 15, 2001. Governments with at least \$10 million but less than \$100 million in revenues (phase 2) are required to apply Statement No. 34 for periods beginning after June 15, 2002. Governments with less than \$10 million in revenues (phase 3) are required to apply Statement No. 34 for periods beginning after June 15, 2003. Governments that elect early implementation of Statement No. 34 for periods beginning before June 15, 2000, should also implement GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions, at the same time. If a primary government chooses early implementation of Statement No. 34, all of its component units also should implement this standard early to provide the financial information required for the government-wide financial statements.

Prospective reporting of general infrastructure assets is required at the effective dates of Statement No. 34. Retroactive reporting of all major general governmental infrastructure assets is encouraged at that date. For phase 1 and phase 2 governments, retroactive reporting is required four

years after the effective date on the basic provisions for all major general infrastructure assets that were acquired or significantly reconstructed, or that received significant improvements, in fiscal years ending after June 30, 1980. Phase 3 governments are encouraged to report infrastructure retroactively, but may elect to report general infrastructure prospectively only.

The City has implemented the provisions of Statement No. 34 for the fiscal year ending June 30, 2002.

#### **VERIFICATION OF MATHEMATICAL COMPUTATIONS**

Upon delivery of the Bonds, McGladrey & Pullen, LLP, Minneapolis, Minnesota, will deliver a report verifying the mathematical accuracy of certain computations concerning (i) the adequacy of the maturing principal amounts of and interest on the Escrowed Federal Securities to redeem the outstanding 1993 Bonds in full on June 1, 2003, as described herein, and (ii) the yield on the Bonds and on such Escrowed Federal Securities considered by Bond Counsel in its determination that the portion of Lease Payments designated as and comprising interest and received by owners of the Bonds is excluded from gross income for federal income tax purposes.



## MISCELLANEOUS

Included herein are brief summaries of certain documents and reports, which summaries do not purport to be complete or definitive, and reference is made to such documents and reports for full and complete statements of the contents thereof. Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the City and the purchasers or Owners of any of the Bonds.

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

CITY OF SAN DIEGO/MTDB AUTHORITY



By: /s/ Harry Mathis  
Chairman

**(THIS PAGE LEFT BLANK INTENTIONALLY)**

## 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.*

### INTRODUCTION

With a total population of approximately 1.3 million in 2002, and a land area of 330 square miles, the City of San Diego (the "City") is the seventh 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.

Based on estimates published by the California Department of Finance in May 2002, the City's population grew by 9.7% between 1993 and 2002, with an average increase of approximately 12,300 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 its diversified economy. Recent growth has been concentrated in four major areas: high tech manufacturing and research (including electronics, telecommunications, scientific instruments, drugs, and biomedical equipment); professional services; tourism; and international trade. Historically, the City has also benefited 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.

## 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 affected by changes in economic conditions.*

### Population

As set forth in Table 1 below, between January 1, 1993, and January 1, 2002, the City's population has increased by 111,000 (or by approximately 12,300 new residents annually during this period).

**Table 1**  
**POPULATION GROWTH<sup>(1)</sup>**  
*Calendar Years 1993 through 2002*

<u>Calendar Year<sup>(2)</sup></u>	<u>City of San Diego</u>	<u>Annual Growth Rate</u>	<u>County of San Diego</u>	<u>Annual Growth Rate</u>	<u>State of California</u>	<u>Annual Growth Rate</u>
1993	1,144,700	0.9%	2,594,100	0.8%	31,150,000	1.4%
1994	1,144,200	0.0%	2,604,400	0.4%	31,418,000	0.9%
1995	1,145,400	0.1%	2,613,100	0.3%	31,617,000	0.6%
1996	1,146,900	0.1%	2,621,100	0.3%	31,837,000	0.7%
1997	1,159,100	1.1%	2,653,400	1.2%	32,207,000	1.2%
1998	1,176,900	1.5%	2,702,800	1.9%	32,657,000	1.4%
1999	1,200,800	2.0%	2,751,000	1.8%	33,140,000	1.5%
2000	1,221,200	1.7%	2,805,900	2.0%	33,753,000	1.8%
2001	1,240,200	1.6%	2,859,900	1.9%	34,385,000	1.9%
2002	1,255,700	1.2%	2,918,300	2.0%	35,037,000	1.9%

(1) In May 2002, the California Department of Finance published revised population estimates for the years 1991 through 1999 in order to account for the 1990 Census undercount. These revised estimates increased the population estimates for the City, the County, and the State of California in the year 1991 and reduced the annual rates of growth in subsequent years.

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

Source: State of California, Department of Finance

As indicated in the following table, attendance in kindergarten through grade 12 in the San Diego Unified School District shows a moderate overall growth in the five-year period from 1998-1999 to 2002-2003 school years. However, there has been a slight decline in enrollment in the last two school years. The San Diego Unified School District's boundaries include 85% of the City of San Diego's land area.

**Table 2**  
**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**ENROLLMENT<sup>(1)</sup>**  
*School Year 1998-1999 through 2002-2003*

<u>School Year</u>	<u>Enrollment</u>
1998-1999	138,974
1999-2000	142,021
2000-2001	143,244
2001-2002	142,430
2002-2003	140,717

(1) Enrollment is defined as the total number of students enrolled on a survey date in late September/early October of the school year.

Source: San Diego Unified School District, Pupil Accounting

**Employment Summary**

As seen in Table 3, the City's unemployment rate for calendar year 2002 averaged 4.4%, up from a rate of 3.3% during calendar year 2001. The City's 2002 unemployment rate was below both the national rate of 5.8% and the State's rate of 6.7%. During 2002, average employment in the City was up by approximately 10,710 from 2001 levels. Preliminary data for March 2003, the latest available data, indicates that the City's unemployment rate was 4.3%. Data for 2001 and 2002 reflect estimates, which will be revised at a future date.

**Table 3**  
**ESTIMATED AVERAGE ANNUAL EMPLOYMENT AND**  
**UNEMPLOYMENT OF CITY OF SAN DIEGO RESIDENT LABOR FORCE**  
*Calendar Years 1998 through 2002*

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001<sup>(1)</sup></u>	<u>2002<sup>(1)</sup></u>
<b>Civilian Labor Force</b>					
City of San Diego					
Employed	584,100	604,700	623,200	633,620	644,330
Unemployed	21,700	19,600	19,600	21,620	29,410
<b>Unemployment Rates</b>					
City	3.6%	3.1%	3.1%	3.3%	4.4%
County	3.5%	3.1%	3.0%	3.2%	4.3%
California	5.9%	5.2%	4.9%	5.3%	6.7%
United States	4.5%	4.2%	4.0%	4.8%	5.8%

(1) Subject to future revision.

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

Table 4 provides the California Employment Development Department's estimates of total annual nonagricultural wage and salary employment by major industry in the County from calendar years 1998 through 2002. 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 139,200 new jobs during this period. During calendar year 2002, employment in San Diego County increased by 23,100 new jobs over the prior year.

**Table 4**  
**SAN DIEGO COUNTY**  
**WAGE AND SALARY EMPLOYMENT**  
*Calendar Years 1998 through 2002*

INDUSTRY CATEGORY	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001<sup>(1)</sup></u>	<u>2002<sup>(1)</sup></u>
Mining	300	300	400	300	300
Construction	61,800	67,000	70,400	73,400	75,500
Manufacturing	127,600	128,100	129,700	130,600	128,300
Nondurable Goods	35,800	36,500	37,800	37,500	37,600
Durable Goods	91,800	91,600	91,900	93,100	90,700
Transportation, Communications, Utilities <sup>(2)</sup>	47,000	51,300	50,900	52,000	50,500
Trade	249,400	256,500	267,800	271,100	278,000
Wholesale	48,300	50,300	52,300	50,300	50,200
Retail	201,100	206,100	215,500	220,800	227,800
Finance, Insurance, Real Estate	65,300	68,700	69,800	70,800	72,300
Services	359,600	381,700	400,600	409,500	420,500
Government	194,500	199,300	206,800	213,900	219,400
Federal	43,300	42,500	42,600	40,100	40,000
State and Local	151,200	156,800	164,200	173,800	179,400
TOTAL NONAGRICULTURAL <sup>(3)</sup>	<u>1,105,500</u>	<u>1,152,900</u>	<u>1,196,500</u>	<u>1,221,600</u>	<u>1,244,700</u>

(1) Subject to future revision.

(2) Includes trucking and transit services, telephone and broadcast/cable services, and gas and electric services.

(3) 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, Software and Biotechnology may not fall into a single employment sector alone. For example, some telecommunications firms appear in Manufacturing, while others appear in Services.

Several key industry categories exhibited strong employment growth in calendar year 2002. The Services sector (+11,000) alone represented approximately half of total employment growth for the County. Within the Services sector, Health Services recorded the largest net gain, up by 2,500 jobs, followed by an increase of 1,400 jobs in Engineering and Management and an increase of 1,200 jobs in Business Services. Other key employment growth sectors during calendar year 2002 included Construction (+2,100), Wholesale and Retail Trade (+6,900), and Government (+5,500). Among the

sectors that showed a decline in jobs in the calendar year 2002 were the Manufacturing sector (-2,300) and the Transportation, Communications, and Utilities Sector (-1,500).

The increase in the Government sector, which accounted for 18% of the total nonagricultural wage and salary employment in the County in 2002, occurred in State and local government agencies. Almost all of the increase in State and local government agencies is due to gains in public education and the Other Local Government category, which includes Special Districts and Indian Tribal Governments.

### Taxable Sales

Taxable transactions at retail and other outlets in the City at the end of the First Quarter of 2002, the most recent data available from the California State Board of Equalization, totaled \$3.9 billion, up 0.23% from the end of the First Quarter of 2001. Taxable transactions in the City during calendar year 2001 totaled approximately \$16.4 billion, up 1.7% from 2000, and up 32.1% from 1997. The slight increase in taxable sales from calendar years 2000 to 2001 can be attributed to the general slow down of the economy. Table 5 provides annual sales information by type of outlet for calendar years 1997 through 2001.

**Table 5**  
**CITY OF SAN DIEGO**  
**TAXABLE TRANSACTIONS**  
*Calendar Years 1997 through 2001*  
*(in thousands)*

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001<sup>(1)</sup></u>
<b>RETAIL STORES</b>					
Apparel	\$485,551	\$530,734	\$542,041	\$588,012	\$613,179
General Merchandise	1,354,698	1,436,535	1,597,102	1,794,468	1,861,711
Food	554,625	582,183	622,909	662,346	673,384
Eating and Drinking	1,380,894	1,496,032	1,603,968	1,772,507	1,851,358
Home Furnishings and Appliances	444,930	469,158	546,746	619,383	684,858
Building Materials and Farm Implements	603,365	716,231	809,022	944,386	1,093,716
Auto Dealers & Supplies	1,189,462	1,331,411	1,519,137	1,745,186	1,868,692
Service Stations	673,078	614,156	742,143	977,675	966,913
Other	1,686,807	1,790,441	1,948,871	2,173,098	2,114,389
<b>Total Retail Stores</b>	<b><u>\$8,373,410</u></b>	<b><u>\$8,966,881</u></b>	<b><u>\$9,931,939</u></b>	<b><u>\$11,277,061</u></b>	<b><u>\$11,731,149</u></b>
All Other Outlets	4,024,433	4,343,598	4,563,715	4,822,132	4,640,363
<b>TOTAL ALL OUTLETS</b>	<b><u>\$12,397,843</u></b>	<b><u>\$13,310,479</u></b>	<b><u>\$14,495,654</u></b>	<b><u>\$16,099,193</u></b>	<b><u>\$16,371,512</u></b>

(1) Data for calendar year 2001 were calculated by adding quarterly reports published by the California State Board of Equalization, and may be subject to future revision.

Source: California State Board of Equalization

## Tourism

Based on year-end data for 2002 from Smith Travel Research, San Diego outperformed most major markets, ranking third highest among the top 25 hotel markets in terms of average occupancy rate during 2002 and sixth highest in terms of average daily room rate. For January 2003, due to activity related to the San Diego's hosting of Super Bowl XXXVII, the region far outperformed the other top 25 markets, with room revenues up 33.2% from January 2002.

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 \$5.04 billion in 2002, up 7.2% from 1998 but down 1.6% from 2001. According to the San Diego Convention and Visitors Bureau, a decline in business spending, weakening consumer confidence, and the threat and the subsequent outbreak of war in Iraq have had an impact on the tourism industry nationwide. The San Diego Convention and Visitor's Bureau also reported that there were 7.5 million passenger arrivals at Lindberg Field in 2002, down by approximately 1.5% from 2001.

**Table 6**  
**SAN DIEGO COUNTY**  
**TOTAL VISITOR SPENDING<sup>(1)</sup>**  
*Calendar Years 1998 through 2002*  
*(in billions)*

<u>Calendar Year</u>	<u>Amount</u>
1998	\$4.70
1999	\$4.88
2000	\$5.23
2001	\$5.12
2002	\$5.04

(1) Visitor spending is an estimate of total direct and indirect visitor expenditures as derived from the Visitor Activity Model/Visitor Profile Study prepared by CIC Research, Inc. for the San Diego Convention and Visitors Bureau.

Source: San Diego Convention and Visitors Bureau

As shown in Table 7, the City's Transient Occupancy Tax ("TOT") revenues have grown approximately 17% between Fiscal Year 1998 and Fiscal Year 2002, an average annual increase of 4.1%. In the Fiscal Year 2002 TOT revenues decreased by 9.8% from the prior year due in part to the effects of a weak economy and the events of September 11, 2001. The latest available data shows that fiscal year-to-date TOT receipts as of February 2003 totaled approximately \$70 million, showing an increase of 10% from the same period in 2002.



**Table 7**  
**CITY OF SAN DIEGO**  
**TRANSIENT OCCUPANCY TAX<sup>(1)</sup>**  
*Fiscal Years 1998 through 2002*  
*(in thousands)*

<u>Fiscal Year</u>	<u>Amount</u>
1998	\$ 85,088
1999	\$ 92,128
2000	\$ 96,821
2001	\$ 109,879
2002	\$ 99,161

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

Source: City of San Diego Comprehensive Annual Financial Report

The City is the focal point for tourism in the County. The Convention Center, approximately 70% of the County's hotel and motel rooms, and most 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.

In addition to the many permanent attractions available to visitors, the City has also been host to a number of major events. The City annually hosts the Buick Invitational, a Professional Golfers' Association Tour Event played at the Torrey Pines Golf Course, a world-renowned golf course, owned and operated by the City of San Diego. In addition, since 1978, the City has annually hosted the Holiday Bowl, a post season contest of elite college football teams.

The City also hosted the America's Cup in 1992 and 1995, the Super Bowl and World Series in 1998, and more recently the Super Bowl in 2003. In addition, the City was the site for the Republican National Convention held in August 1996. The Torrey Pines' South Course is scheduled to play host to the United States Open Golf Tournament in 2008.

In September 2001, the San Diego Convention Center expansion was completed, doubling the size of the existing facility to 2.6 million total gross square feet. According to the San Diego Convention Center Corporation, in Fiscal Year 2002 the Convention Center generated approximately \$363 million in direct delegate spending and an estimated \$880 million in total regional economic impact (direct and indirect spending).

## **Military**

Military and related defense spending is the second most important component of the San Diego economy, with only manufacturing making a larger contribution to San Diego County's Gross Regional Product. Prior to 1990, San Diego's civilian defense contractors were primarily concentrated in aerospace manufacturing. During the 1990's, the focus of local defense contracting shifted from aerospace manufacturing to research and development, with shipbuilding and repair remaining an important component. This transformation received additional impetus with the relocation of the Space and Naval Warfare Systems Command (SPAWAR) to San Diego from Virginia, in 1997. SPAWAR is responsible for administering contracts to meet the Navy's continuing need for state-of-the-art command and communications systems.

According to the San Diego Chamber of Commerce, defense related expenditures (active duty payroll and retirement benefits, base expenditures, and defense contracts) in the County during the federal Fiscal Year ended September 30, 2001, totaled approximately \$10.0 billion, up from \$9.8 billion in 2000. With a total active duty military and civilian payroll of \$3.8 billion in the federal Fiscal Year 2001, San Diego continued to lead all counties in the nation in terms of combined military and civilian payrolls. In addition to active duty and civilian payroll, retirement benefits totaled \$1.1 billion. Total defense contracts awarded to County-based businesses totaled \$3.8 billion during the federal Fiscal Year 2001, of which \$2.8 billion were awarded to procurement contracts and another \$0.9 billion to various classified contracts and subcontracts of less than \$25,000 each. According to the San Diego Chamber of Commerce estimate of June 1, 2001, active duty military personnel in the County totaled 103,982 and the civilian employment totaled 20,500.

## **International Trade**

The value of exports presented in the table below is from RAND California, *Merchandise Exports from U.S. Customs District* series. In prior years, exports were reported based on Metropolitan Areas as reported by the International Trade Administration. The Customs District classification has been adopted because of the availability of more current data. Export values reflect exports of merchandise grown, produced, or manufactured in the U.S as well as re-exports of foreign merchandise. The total value of exports from San Diego Customs District grew approximately 31% in the five-year period from 1998 to 2002. While there was a slight decline in annual exports from 2000 to 2001, the latest data indicates a turnaround. At the end of calendar year 2002, the value of exports totaled approximately \$12.9 billion, up 4.3% from calendar year 2001.

**Table 8**  
**VALUATION OF EXPORTS**  
**ORIGINATING IN SAN DIEGO**  
*Calendar Years 1998 through 2002*  
*(in billions)*

<u>Calendar Year</u>	<u>Total Exports</u>
1998	\$ 9.8
1999	\$10.8
2000	\$12.7
2001	\$12.3
2002	\$12.9

Source: RAND California, Business and Economic Statistics

### **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 lists the City's major employers. The list is compiled from information gathered by the City of San Diego. All of the businesses listed in the 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<sup>(1)</sup>**  
*As of April 2002*

<b>Employer</b>	<b>Product/Service</b>
<b>10,000 or More Employees:</b>	
San Diego Unified School District	Education
Sharp Health Care	Health Care
University of California, San Diego	Higher Education
<b>5,000 - 9,999 Employees:</b>	
Kaiser Permanente	Health Care
Qualcomm	Wireless Communications
San Diego Community College District	Higher Education
Scripps Health	Health Care
Sempra Energy	Utility
<b>3,000 - 4,999 Employees:</b>	
ADDECO Employment Services	Employment Services
Children's Hospital and Health Care	Health Care
Cubic Corporation	Electronic Systems
Palomar Pomerado Health System	Health Care
Samsung	Electronics
San Diego State University	Higher Education
SBC/Pacific Bell	Utility
Science Applications International Corporation	Research and Development
Seaworld of California	Entertainment
Solar Turbines	Gas Turbine Manufacturing
Sony Technology Center	Electronics
UCSD Health Care	Health Care
United Parcel Service	Delivery Service
University of San Diego	Higher Education
<b>2,000 - 2,999 Employees:</b>	
Jack in the Box Inc.	Restaurants
Hewlett Packard Company	Electronic Instruments
Manpower Temporary Services	Employment Services
National Steel & Shipbuilding Company	Shipbuilding, Repair
Nordstrom	Department Store
Scripps Research Institute	Biomedical Research
YMCA of San Diego County	Family Recreation
Zoological Society of San Diego	Entertainment

(1) Does not include various major public employers, including the City, the County, and the federal government with a combined total county employment of 116,100 as of April 2002.

Source: City of San Diego

## 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 1997 through 2001.

**Table 10**  
**PER CAPITA EFFECTIVE BUYING INCOME<sup>(1)</sup>**  
*Calendar Years 1997 through 2001*

<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>
1997	\$15,804	\$15,618	\$15,797	\$16,281
1998	\$16,291	\$16,101	\$16,299	\$16,895
1999	\$17,443	\$17,270	\$17,245	\$17,691
2000	\$19,238	\$19,498	\$19,081	\$18,426
2001	\$19,723	\$19,092	\$18,652	\$18,491

(1) Effective Buying Income is defined as the aggregate of wages, salaries, interest earnings, and all forms of public assistance income (such as Social Security and unemployment compensation) less personal tax payments, contributions to Social Security, and the value of income "in kind" from food stamps, public housing subsidies, medical care etc. Effective Buying Income is a proxy for "disposable" or "after-tax" income.

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

## 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 1998 through 2002. 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, 1998 through 2002*

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
<b>Valuation (in thousands)</b>					
Residential	\$890,476	\$857,747	\$1,185,999	\$1,181,385	\$1,244,917
Nonresidential	576,170	783,106	960,479	693,687	854,831
Total	<u>\$1,466,646</u>	<u>\$1,640,853</u>	<u>\$2,146,478</u>	<u>\$1,875,072</u>	<u>\$2,099,748</u>
<b>Number of New Dwelling Units:</b>					
Single Family	3,032	2,612	2,084	2,075	2,347
Multiple Family	<u>3,018</u>	<u>2,856</u>	<u>5,662</u>	<u>3,829</u>	<u>4,000</u>
Total	<u>6,050</u>	<u>5,468</u>	<u>7,746</u>	<u>5,904</u>	<u>6,347</u>

Source: City of San Diego, Planning and Development Review Department

## **Business Development Program**

The City actively supports economic development and job creation activities. A key element of these activities is the Business Expansion and Retention Program (BEAR Program), a proactive effort on the part of the City to work directly with businesses to retain local firms and help them expand their investment and job growth. This program was created in 1995 by integrating the City's existing business development activities to provide centralized coordination and data management, and to expand operational relationships with partnership agencies such as the San Diego Regional Economic Development Corporation, Sempra Energy, the San Diego Science and Technology Commission, and the San Diego Workforce Partnership. BEAR Program components include business incentives, targeted assistance, and sales and use tax rebates through the Business Cooperation Program, Business Outreach Program, and Business Finance Program.

A further element of the City's overall business development effort has focused on streamlining the permitting process and, when feasible, eliminating or reducing fees and permits. A major component of this streamlining effort has been to reduce development permit processing time by one-half.

The City also operates the Office of Small Business, which provides a broad range of assistance programs for the many small businesses in the City. In 1995, the City Council reduced the annual Business License Tax for all businesses with 12 or fewer employees to a flat fee of \$34 per business with no per employee charge. The City charges an annual fee of \$125 plus \$5 per employee for businesses with 13 or more employees.

## **Transportation**

San Diego has a well-developed 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 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 1996. This 3.6-mile extension connects the cities of El Cajon and Santee. The trolley also provides service from downtown San Diego to the waterfront area, including the Convention Center. An extension providing additional service from downtown to the historical Old Town section of the City was completed in 1996. In addition, the Mission Valley extension, which connects Old Town with Qualcomm Stadium and the Mission Valley shopping area, ending at the Mission San Diego, opened in 1997.

Construction is in progress on the 6-mile Mission Valley East Trolley Extension. The project, scheduled for completion in 2004, will extend east from Qualcomm Stadium connecting Mission Valley with San Diego State University, La Mesa, and East County. The extension will include four new trolley stops, including a subterranean station at San Diego State University. The project is estimated to cost approximately \$435 million, including \$330 million in appropriations from the federal government.

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

Recently, MTDB granted the rights to operate an east-west rail line to the Carrizo Gorge Railway. It is anticipated that the line, which will connect San Diego and northern Baja California with the rest of Mexico and the United States, will open and begin shipping freight in calendar year 2003. This additional rail line will complement already existing rail service coming into San Diego County from the north and reduce shipping rates and times for companies moving products between San Diego, Mexico, and the Southwest.

In November 1987, voters approved Proposition A which, authorized a one-half cent increase to the local sales tax to fund transportation improvements for the San Diego region. The City's budget for Fiscal Year 2003 included \$25.8 million in Proposition A funds. The one-half cent increase to the local sales tax, authorized by Proposition A, is scheduled to expire in 2008.

In June 1990, voters approved State Propositions 108, 111, and 116 which, 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. The City's budget for Fiscal Year 2003 included \$22.9 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 entities. The City's Governmental 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 and Pension 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. Agency Funds also use the accrual basis of accounting to recognize receivables and payables.

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 180 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, 2002, were audited by Calderon, Jaham & Osborn, CPAs.

## **Budgetary Process**

The City's annual budget, which is adopted in July and published in October, 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 Financial Management Department. 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 by their first meeting in May.

During May and June, the Mayor and City Council conduct budget meetings to review the Proposed Budget. Public comment is received at this time. The budget 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 City Council meeting in August.

The Financial Management Department 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.

## **Five Year Summary of Financial Results**

Tables 12 and 13 present the Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balance of the City's General Fund for Fiscal Years 1998 through 2002 in the format presented in the Comprehensive Annual Financial Report (CAFR). Effective as of the Fiscal Year ending June 30, 2002, there has been a change in the reporting system of CAFR. The City Auditor and Comptroller has implemented accounting and reporting requirements known as GASB Statement No. 34 (GASB 34). GASB 34 requires the preparation of Government-wide statements, which are intended to complement the fund financial statements. The Government-wide statements are prepared on a full-accrual basis, rather than modified accrual basis. GASB 34 requires expense classifications to be presented by major functional activities performed by the government, regardless of the fund in which the activity was accounted for. To satisfy this requirement, the City Auditor and Comptroller re-analyzed the services provided by different departments/divisions and re-grouped them by the function/activity that best describes those services.



**Table 12**  
**CITY OF SAN DIEGO**  
**BALANCE SHEET FOR THE GENERAL FUND**  
*Fiscal Years Ended June 30, 1998 through 2002*  
*(in thousands)*

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
<b>ASSETS</b>					
Cash or Equity in Pooled Cash & Investments	\$23,516	\$16,005	\$24,708	\$48,777	\$34,245
Receivables:					
Taxes – Net	27,739	27,491	30,182	32,431	44,277
Accounts – Net	26,392	29,856	32,805	38,016	42,129
Claims – Net	41	9	36	16	48
Notes	--	--	--	--	--
Accrued Interest	2,451	1,745	2,744	3,011	1,810
From Other Funds	82,923	94,547	109,686	87,135	76,147
From Other Agencies	613	1,068	1,068	1,635	68
Advances to Other Funds	4,570	6,771	9,920	10,628	12,517
Advances to Other Agencies	350	350	350	350	350
Prepaid and Reimbursable Items & Deposits	<u>357</u>	<u>302</u>	<u>1,161</u>	<u>152</u>	<u>74</u>
<b>Total Assets</b>	<u>\$168,952</u>	<u>\$178,144</u>	<u>\$212,660</u>	<u>\$222,151</u>	<u>\$211,665</u>
<b>LIABILITIES</b>					
Accounts Payable	2,135	2,461	\$2,927	\$2,057	\$3,739
Accrued Wages and Benefits	14,793	16,598	21,923	27,445	27,547
Due to other Funds	--	--	--	--	--
Deferred Revenue	29,590	30,934	33,904	37,942	37,376
Contracts and Notes Payable	<u>82,000</u>	<u>88,500</u>	<u>99,500</u>	<u>77,000</u>	<u>73,000</u>
<b>Total Liabilities</b>	<u>\$128,518</u>	<u>\$138,493</u>	<u>\$158,254</u>	<u>\$144,444</u>	<u>\$141,662</u>
<b>FUND EQUITY</b>					
Reserves:					
Reserved for Encumbrances	\$9,181	\$9,542	\$11,628	\$11,150	\$13,431
Reserved for Advances & Deposits	4,920	7,121	10,270	10,978	12,867
Unreserved:					
Designated for Unrealized	396	--	--	2,287	1,176
Designated for Subsequent Years' Expenditures	1,936	1,818	2,972	2,132	1,768
Undesignated	<u>24,001</u>	<u>21,170</u>	<u>29,536</u>	<u>51,160</u>	<u>40,761</u>
<b>Total Fund Equity</b>	<u>\$40,434</u>	<u>\$39,651</u>	<u>\$54,406</u>	<u>\$77,707</u>	<u>\$70,003</u>
<b>Total Liabilities &amp; Fund</b>	<u>\$168,952</u>	<u>\$178,144</u>	<u>\$212,660</u>	<u>\$222,151</u>	<u>\$211,665</u>

Source: City of San Diego Comprehensive Annual Financial Report

**Table 13**  
**CITY OF SAN DIEGO**  
**STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCE FOR THE GENERAL FUND**  
*Fiscal Years Ended June 30, 1998 through 2002 (in thousands)*

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
<b>REVENUES:</b>					
Property Taxes	\$123,012	\$130,624	\$144,288	\$158,585	\$169,976
Sales Taxes <sup>(1)</sup>	117,985	128,339	130,240	142,069	139,197
Other Local Taxes	83,796	86,968	94,809	109,151	115,416
Licenses and Permits	19,272	20,630	20,693	22,154	22,062
Fines, Forfeitures and Penalties	16,170	23,613	28,410	29,776	24,250
Revenues from Use of Money and Property	30,789	29,940	34,429	40,841	34,697
Revenues from Federal Agencies	2,081	2,026	1,644	787	1,931
Revenues from Other Agencies	51,522	55,697	83,821	87,262	88,027
Charges for Current Services	67,825	70,244	77,469	84,156	89,936
Other Revenue	<u>2,871</u>	<u>2,526</u>	<u>2,777</u>	<u>2,606</u>	<u>3,291</u>
<b>Total Revenues</b>	<b><u>\$515,323</u></b>	<b><u>\$550,607</u></b>	<b><u>\$618,580</u></b>	<b><u>\$677,387</u></b>	<b><u>\$688,783</u></b>
<b>EXPENDITURES:</b>					
<b>Current:</b>					
General Government	\$64,725	\$67,405	\$69,400	\$79,800	\$132,312 <sup>(2)</sup>
Community and Economic Development	13,967	14,740	14,661	19,778	-- <sup>(3)</sup>
Neighborhood Services	--	--	--	--	28,626
Public Safety	295,762	315,231	348,869	369,607	382,133
Libraries	20,677	21,824	22,820	26,494	--
Parks, Recreation and Culture	41,561	44,910	49,850	56,748	89,442 <sup>(4)</sup>
Public Works	66,931	70,413	76,300	80,999	-- <sup>(5)</sup>
Employee Relations and Special Projects	633	723	637	548	-- <sup>(6)</sup>
Development Services	--	--	--	--	--
Transportation	--	--	--	--	19,196
Sanitation and Health	--	--	--	--	34,535
Miscellaneous and Unallocated	2,260	2,505	1,881	1,367	--
<b>Debt Service:</b>					
Principal Retirement	--	--	--	--	1,553
Interest	3,683	4,894	5,213	4,616	1,157
<b>Total Expenditures</b>	<b><u>\$510,199</u></b>	<b><u>\$542,645</u></b>	<b><u>\$589,631</u></b>	<b><u>\$639,957</u></b>	<b><u>\$688,954</u></b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b><u>\$5,124</u></b>	<b><u>\$7,962</u></b>	<b><u>\$28,949</u></b>	<b><u>\$37,430</u></b>	<b><u>(\$171)</u></b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers from Proprietary/ Fiduciary Funds	\$1,918	\$1,574	\$2,117	\$4,074	\$2,409
Transfers from Other Funds	37,729	28,369	30,511	29,236	27,551
Transfers from Component Unit	554	588	324	86	22
Transfers to Proprietary Funds	(8,352)	(15,816)	(18,976)	(14,274)	(6,699)
Transfers to Other Funds	(25,592)	(24,365)	(27,520)	(32,601)	(32,082)
Transfers to Component Unit	(900)	(900)	(650)	(650)	(650)
Proceeds from Capital Leases	--	--	--	--	1,916
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b><u>\$5,357</u></b>	<b><u>(\$10,550)</u></b>	<b><u>(\$14,194)</u></b>	<b><u>(\$14,129)</u></b>	<b><u>(\$7,533)</u></b>
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES</b>	<b>\$10,481</b>	<b>(\$2,588)</b>	<b>\$14,755</b>	<b>\$23,301</b>	<b>(\$7,704)</b>
<b>FUND BALANCE AT JULY 1</b>	<b><u>\$28,514</u></b>	<b><u>\$40,434</u></b>	<b><u>\$39,651</u></b>	<b><u>\$54,406</u></b>	<b><u>\$77,707</u></b>
Cumulative Effect of a Change in Accounting Principle	314	--	--	--	--
Residual Equity Transfers from Other Funds	1,125	1,805	--	--	--
<b>FUND BALANCE AT FOLLOWING JUNE 30</b>	<b><u>\$40,434</u></b>	<b><u>\$39,651</u></b>	<b><u>\$54,406</u></b>	<b><u>\$77,707</u></b>	<b><u>\$ 70,003</u></b>

(1) Includes Proposition 172 Safety Sales Tax.

(2) Beginning Fiscal Year 2002, General Government is reclassified as General Government and Other Support Services. Other Support Services include Engineering & Capital Projects, Employee Relations/Special Projects, and Miscellaneous/Unallocated Expenditure categories.

(3) Beginning Fiscal Year 2002, Community and Economic Development expenditures have been reclassified under Neighborhood Services.

(4) Beginning Fiscal Year 2002, Parks, Recreation, Culture and Leisure is reclassified to include Libraries.

(5) Beginning Fiscal Year 2002, Transportation, which was under Public Works in prior years, is classified separately.

(6) Beginning Fiscal Year 2002, Sanitation and Health, which was under Public Works, is classified separately.

Source: City of San Diego Comprehensive Annual Financial Report

The following table presents the operating budget summary for Fiscal Years 2001 through 2004.

**Table 14**  
**CITY OF SAN DIEGO**  
**OPERATING BUDGET SUMMARY**  
*Fiscal Years 2001 - 2004<sup>(1)</sup>*

	Actual Results in A Budget Format Fiscal Year 2001	Actual Results in A Budget Format Fiscal Year 2002	Adopted Budget Fiscal Year 2003	Proposed Budget Fiscal Year 2004
<b>REVENUE SOURCES:</b>				
Property Tax	\$158,367,521	\$169,814,877	\$188,600,000	\$199,750,958
Sales Tax <sup>(2) (3)</sup>	142,069,527	139,196,712	134,451,875	128,203,737
Transient Occupancy Tax	58,733,401	52,142,966	56,676,190	57,998,226
Property Transfer Tax	5,709,842	7,033,670	6,300,000	8,472,719
Licenses and Permits	22,110,499	22,027,597	21,627,271	24,522,914
Fines, Forfeitures and Penalties	29,611,951	23,935,666	26,887,569	27,295,786
Interest Earnings	13,270,685	8,986,088	5,900,000	1,200,223
Franchises	42,708,007	56,239,380	54,234,644	52,086,577
Other Rents and Concessions	26,702,597	28,156,640	27,814,150	29,047,278
State Motor Vehicle License Fees	67,188,011	69,895,140	72,200,000	74,893,491
Other Revenue from Agencies <sup>(4)</sup>	22,406,303	22,277,905	7,595,553	10,413,422
Charges for Current Services	84,785,317	90,541,973	68,646,721	71,334,584
Transfers from Other Funds	35,025,604	27,724,113	38,123,581	42,407,502
Other Revenue	1,285,035	1,905,079	872,968	1,337,968
Prior Year Fund Balance	<u>15,750,000</u>	<u>31,700,000</u>	<u>19,400,000</u>	<u>10,881,568</u>
Total General Fund Revenues	<u>\$725,724,300</u>	<u>\$751,577,806</u>	<u>\$729,330,522</u>	<u>\$739,846,953</u>
<b>EXPENDITURES:</b>				
Public Safety	\$362,687,096	\$382,551,446	\$382,585,564	\$398,745,726
Parks and Recreation	58,687,361	62,084,484	68,082,120	66,713,917
Sanitation and Health	37,202,991	39,675,102	40,107,961	42,770,700
Transportation <sup>(5)</sup>	28,775,023	28,417,405	12,440,187	12,500,339
Library	27,313,908	31,301,457	36,650,651	35,627,407
Neighborhood Services	30,186,177	32,736,355	31,514,492	28,504,798
Operations Support	101,020,862	109,958,971	111,228,996	107,476,923
Internal Support/Management	<u>40,361,228</u>	<u>43,294,866</u>	<u>46,720,551</u>	<u>47,507,143</u>
Total General Fund Expenditures	<u>\$686,234,646</u>	<u>\$730,020,086</u>	<u>\$729,330,522</u>	<u>\$739,846,953</u>

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

(2) Includes Proposition 172 Safety Sales Tax.

(3) In Fiscal Years 2003 and 2004 General Fund support for the Street Division Operating Fund is funded directly through a sales tax allocation rather than through a General Fund transfer.

(4) The City budgets for Tobacco Settlement Revenues one year in arrears, and these revenues appear in the category "Other Revenue from Agencies" in the actual results column, and are included in the Prior Year Fund Balance in the budget columns. Fiscal Year 2001 actual results also include approximately \$4.4 million in revenues from the State for local fiscal relief. The City did not budget for, nor receive such revenues in Fiscal Years 2002, 2003, and 2004.

(5) In Fiscal Years 2003 and 2004, General Fund support for the Street Division Operating Fund is funded directly through a sales tax allocation rather than through a General Fund transfer.

Source: City of San Diego, Financial Management Department

## **Fiscal Year 2002 (Actuals)**

The actual total General Fund revenues, presented in a budget format equivalent to Table 14, for Fiscal Year 2002 equaled \$751.6 million, which represents an increase of \$25.9 million or 3.6% more than the actual results for Fiscal Year 2001, and \$24.2 million or 3.3% more than the adopted budget for Fiscal Year 2002. The following table shows the change in actual major revenue sources for Fiscal Year 2002 over Fiscal Year 2001.

### **Change in Major Revenue Sources Actual Results Fiscal Year 2002 over Fiscal Year 2001<sup>(1)</sup>**

• Property Tax	+ 7.3%
• Sales Tax	+ 3.6%
• Transient Occupancy Tax	- 9.8%
• Motor Vehicle License Fees	+ 4.0%

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

Source: City of San Diego, Financial Management Department

Actual total General Fund expenditures, presented in a budget format equivalent to Table 14, for Fiscal Year 2002 equaled \$730 million, an increase of \$43.8 million or 6.4% more than the actual results for Fiscal Year 2001, and \$2.7 million or 0.4% more than the adopted budget for Fiscal Year 2002.

## **Fiscal Year 2003 (Adopted Budget)**

Under the City's Fiscal Year 2003 adopted budget, General Fund revenues total \$729.3 million, up \$2.0 million or 0.3%, from the Fiscal Year 2002 adopted budget. The adopted budget assumed that San Diego will experience modest economic growth in Fiscal Year 2003. The Fiscal Year 2003 adopted budget also anticipated the City to realize additional revenues from hosting the Super Bowl in January 2003. In Fiscal Year 2002, the City did not receive any revenues from the State for local fiscal relief, and does not include any such revenues in its adopted budget for Fiscal Year 2003. The City assumes that the State General Fund will continue to offset a fee reduction on motor vehicle license registration originally enacted in 1999, through Fiscal Year 2003 (see "**Vehicle License Fee Reduction**" below). In addition, the City's adopted budget includes the transfer of \$5.2 million from the State to compensate for booking fees the City makes to the County of San Diego for incarcerating criminals. Presented below are budgeted growth rates for the major revenues.

### Fiscal Year 2003 Budget Growth Rates<sup>(1)</sup>

• Property Tax	+ 9.0%
• Sales Tax	+ 4.0%
• Transient Occupancy Tax	+ 6.0%
• Motor Vehicle License Fees <sup>(2)</sup>	+ 4.0%

(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 'Vehicle License Fee Reduction' below for a discussion of the potential impact on revenues from this source based on the Governor's budget proposal for Fiscal Years 2003 and 2004.

Source: City of San Diego, Financial Management Department

To date, Fiscal Year 2003 General Fund revenue receipts reflect slow economic recovery. Economic activity continues to affect revenue growth rates and the receipts received from major revenue categories in Fiscal Year 2003. Since the economy is not recovering at a pace as was expected earlier, revenues are projected to fall short of budget estimates, not including potential impacts from the State budget deficit. Property Tax, Sales Tax, and Transient Occupancy Tax receipts are projected to have deficits in Fiscal Year 2003 at a combined total of approximately \$10 million compared to the budgeted levels. In addition to the major General Fund revenues, another revenue source to the General Fund, Franchise Fees, is expected to be approximately \$10 million less than the Fiscal Year 2003 adopted budget. The projected reduction is primarily attributable to a decline in the SDG&E franchise fees due to the unexpected drop in natural gas prices. In Fiscal Year 2003, in order to accommodate revenues not meeting budget expectations and to ensure a balanced budget, measures are being taken to reduce expenditures in the General Fund. Most General Fund departments reduced their budgets by two percent over Fiscal Year 2002 levels in developing the Fiscal Year 2003 Budget. In addition, most General Fund departments have identified additional savings amounting to approximately three percent of their Fiscal Year 2003 budget due to the projected revenue shortfall.

### Fiscal Year 2004 (Proposed Budget)

Under the City's Fiscal Year 2004 proposed budget, General Fund revenues total \$739.8 million, a net increase of \$10.5 million or 1.4% from the Fiscal Year 2003 adopted budget. The proposed budget revenue estimates reflect an uncertain economy that continues to experience the effects of declining consumer confidence, higher unemployment trends, a weak national economy and potential impacts from the State's budget crisis. Even though San Diego's economy continues to outperform the State and national economies, the recovery remains slower than anticipated. The potential State impact on the City's finances may be significant, although no conclusive information is available as to these impacts. For this reason, the proposed budget excludes any action the State may take that could impact the City's budget. In Fiscal Year 2003, the City did not receive any revenues from the State for local fiscal relief, and does not include any such revenues in its proposed budget for Fiscal Year 2004. Presented below are estimated growth rates for the major revenues.

**Projected Change in Major Revenue Sources**  
*Proposed Budget Fiscal Year 2004 over Adopted Budget Fiscal Year 2003<sup>(1)</sup>*

• Property Tax	+	8.0%
• Sales Tax	+	3.0%
• Transient Occupancy Tax	+	5.5%
• Motor Vehicle License Fees	+	3.0%

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

Source: City of San Diego, Financial Management Department

The General Fund expenditure growth amounted to a total of approximately \$46 million, largely a result of annualization of FY 2003 and FY 2004 negotiated salaries and benefits (\$20.7 million), retirement contributions (\$11.0 million), and workers compensation (\$5.8 million). As the General Fund revenues are not projected to grow at the same pace as the expenditure requirements, corresponding reductions to City operations are required. Most General Fund departments reduced their Fiscal Year 2004 budgets, which amounted to approximately \$30 million. Further expenditure reductions were made through departmental reorganization and cuts in non-discretionary accounts.

The proposed budget does not include the use of reserves to balance the General Fund. Service levels have been impacted and some City facilities will see reduced hours of operation.

### **State Budget Deficit**

The State of California's projected budget deficit is between \$26 and \$35 billion through Fiscal Year 2004. In his budget proposal, Governor Gray Davis included budget savings involving major program reductions and tax increases. The proposal includes discontinuing the State backfill of motor vehicle license fees for an impact of approximately \$51.6 million to the City in the Fiscal Year 2004 General Fund budget. Other impacts proposed by the Governor in Fiscal Year 2004 would include an estimated reduction for libraries of approximately \$565,000, \$2.5 million for local road maintenance, \$2.0 million for the 6 to 6 Program, and the elimination of \$5.2 million in booking fees reimbursement. In addition, a property tax increment shift to the Educational Revenue Augmentation Fund (ERAF) could result in a \$5.8 million loss for the City of San Diego's Redevelopment Agency (the "Redevelopment Agency"). The State Legislature, however, has not yet approved these proposals.

The City cannot predict what actions will be taken in the future by the State Legislature and the Governor to address the State's current and future budget deficits. Future State Budgets could be affected by national economic conditions and the factors over which the City will have no control. To the extent that the State budget process results in reduced revenues or increased expenses to the City, the City will be required to make adjustments to its budget.

### **Vehicle License Fee Reduction**

The State's Vehicle License Fee ("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. VLF revenues are distributed by the State to cities and counties. Approximately three-fourths of 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. Under the State of California's Vehicle License Fee Law, beginning January 1, 1999, the vehicle license fee was permanently reduced from 2.0% to 1.5%. The law also provided for a one-year reduction to 1.3% for vehicles with a payment due date during calendar year 2000. Subsequently, the law was amended to reduce the rate to 0.65% through calendar year 2002. Beginning in 2003, the vehicle license fee was scheduled to be reduced permanently to 0.65%.

To ensure that local governments are not impacted by the fee reductions, State law provides for an offset from the State's General Fund equal to the amount of the reduction. Under the offset provisions, the State's General Fund pays local governments for lost VLF revenues on a dollar per dollar matching basis, from state General Fund revenues. The repayment funds are continuously appropriated, and do not need to be approved in the annual budget process. A statutory, continuous appropriation, however, is not a firm guarantee of a continuing replacement and the repayment is subject to the availability of monies for transfer from the State's General Fund.

As noted above, the Governor has proposed to reduce the vehicle license fee backfill to cities and counties by approximately \$1.3 billion in Fiscal Year 2003 and the Governor's proposed budget for Fiscal Year 2004 indicates a possible reduction of the backfill by \$3.0 billion in Fiscal Year 2004. VLF is the third largest General Fund revenue source for the City (after property taxes and sales taxes). In Fiscal Year 2002, the City received approximately \$69.9 million in VLF revenues, a 4.0% increase over the prior year's actual receipts, representing approximately 9.9% of the total General Fund Revenues. For Fiscal Year 2003, VLF revenues are budgeted at \$72.2 million. The State Controller has stated that a provision in existing law will trigger an increase in the VLF fees due to the lack of available State revenues to pay the backfill amount. This interpretation may be challenged in court, and no assurance can be given that an increase will be triggered automatically to replace the backfill amount. If the Governor's proposed budget for Fiscal Year 2004 is enacted as proposed and the State Legislature does not continue to backfill the VLF revenues, or does not increase vehicle license fees, or an increase in the VLF fees is not triggered under existing law, the City forecasts that it would lose approximately \$51.6 million in VLF revenues for Fiscal Year 2004 and for each year thereafter. As of the date of this Official Statement, the State has continued to backfill VLF revenues for Fiscal Year 2003. As of March 2003, the City had received approximately \$46 million in VLF revenues in Fiscal Year 2003.

### **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 January 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 interests 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 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 the assessed valuation within the City for each of the last ten Fiscal Years.

**Table 15**  
**ASSESSED VALUATION<sup>(1) (2)</sup>**  
*Fiscal Years Ended June 30, 1994 through 2003*  
*(in thousands except for percentages)*

<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>Exemption</u> <sup>(3)</sup>	<u>Net</u> <u>Assessed</u> <u>Valuations</u> <sup>(4)(5)</sup>	<u>Annual Assessed</u> <u>Valuation</u> <u>%Change</u>
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%
2000	\$75,788,751	\$5,852,822	\$81,641,573	\$2,987,620	\$78,653,953	10.79%
2001	\$82,195,239	\$6,347,101	\$88,542,340	\$3,249,480	\$85,292,860	8.44%
2002	\$89,259,317	\$6,838,926	\$96,098,243	\$3,572,188	\$92,526,055	8.48%
2003	\$96,534,652	\$6,959,602	\$103,494,254	\$3,189,764	\$100,304,49	8.41%

(1) The official date of assessment is the first day of January preceding the fiscal year during which taxes are levied. For example, January 1, 2002 is the official assessment date for property taxes due during Fiscal Year 2003. The City receives preliminary estimates from the County Assessor in March and final assessment estimates in late June, or early July.

(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.

(5) The City does not participate in the Teeter Plan.

Source: City of San Diego Comprehensive Annual Financial Report, Fiscal Year 2002.

Table 16 shows the City's secured tax collections for each of the ten Fiscal Years.

**Table 16**  
**SECURED TAX LEVIES AND COLLECTIONS**  
*Fiscal Years Ended June 30, 1993 through 2002*  
*(in thousands except for percentages)*

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Tax Levy</u> <sup>(1)</sup>	<u>Current Year</u> <u>Collections</u>	<u>Current Year</u> <u>Collections as</u> <u>Percentage of</u> <u>Current Tax Levy</u>	<u>Total Tax</u> <u>Collections</u>	<u>Total Collections</u> <u>as Percentage of</u> <u>Current Tax Levy</u> <sup>(2)</sup>
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%
1999	\$127,846	\$124,267	97.20%	\$126,923	99.28%
2000	\$141,963	\$137,859	97.11%	\$140,225	98.78%
2001	\$155,060	\$150,900	97.32%	\$153,406	98.93%
2002	\$167,077	\$163,357	97.77%	\$165,446	99.02%

(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: FY 1993 – 2001: City of San Diego Comprehensive Annual Financial Report  
 FY 2002: County of San Diego

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

**Table 17**  
**PRINCIPAL PROPERTY TAXPAYERS IN CITY OF SAN DIEGO<sup>(1)</sup>**  
*Tax Roll for Fiscal Year 2002-2003*  
*(in thousands, except for percentages)*

<u>Taxpayers</u>	<u>Type of Business</u>	<u>Assessed Valuation</u> <sup>(2)(3)</sup>	<u>Percentage of Net Assessed Valuation</u> <sup>(3)</sup>	<u>Amount of Tax</u> <sup>(4)</sup>
Kilroy Realty LP	Real Estate	\$566,110	0.57%	\$5,976
Fashion Valley Mall LLC	Shopping Center	530,665	0.54	5,485
Qualcomm, Inc.	Electronics	465,566	0.47	5,178
Sea World, Inc.	Entertainment	280,063	0.28	3,111
Pacific Gateway, LTD	Developer	250,319	0.25	2,780
ERP Operating LTD Partnership	Developer/ Property Manager	239,426	0.24	2,709
University Towne Centre LLC	Shopping Center	226,350	0.23	2,514
Irvine Co	Developer	248,194	0.25	2,484
Horton Plaza LLC	Shopping Center	192,079	0.19	2,173
Pardee Construction Co.	Developer	<u>142,520</u>	<u>0.14</u>	<u>2,163</u>
<b>TOTAL</b>		<u>\$3,141,292</u>	<u>3.16%</u>	<u>\$34,573</u>

- (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 \$98,917,185,000, which excludes homeowners' exemptions.
- (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 addition, legislation enacted by the California Legislature to implement Article XIII A provides that all taxable property is shown at full assessed value as described above. In conformity with this procedure, all taxable property value included in this Official Statement (except as noted) is shown at 100% of assessed value and all general tax rates reflect the \$1 per \$100 of taxable value.

On June 3, 1986, California voters approved an amendment to Article XIII A, which added an additional exemption to the 1% tax limitation imposed by Article XIII A. Under this amendment to Article XIII A, local governments and school districts may increase the property tax rate above 1% for the period necessary to retire new general obligation bonds, if two-thirds of those voting in a local election approve the issuance of such bonds and the money raised through the sale of the bonds is used exclusively to purchase or improve real property. Later amendments allow for property tax increases to pay for certain school district general obligation bonds approved by 55% of those voting in a local election.

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. Since 1990, the voters have approved several other minor exemptions from the reassessment provisions of Article XIII A.

### **Article XIII A Litigation**

In June 1978, Article XIII A of the California Constitution was amended by Proposition 13 to limit, among other things, a County assessor's ability to adjust for inflation to 2% per year (see "**Constitutional and Statutory Limitations on Taxes and Appropriations—Article XIII A of the California Constitution**" discussed previously). In a Minute Order issued on November 2, 2001 in *County of Orange v. Orange County Assessment Appeals Board No. 3*, case no. 00CC03385, the Orange County Superior Court held that where a home's taxable value did not increase for two years, due to a flat real estate market, the Orange County assessor violated the two percent inflation adjustment provision of Article XIII A, when the assessor tried to "recapture" the tax value of the property by increasing its assessed value by 4% in a single year. The assessors in most California Counties, including San Diego County, use a similar methodology in raising the taxable values of property beyond 2% in a single year. The State Board of Equalization has approved this methodology for increasing assessed values. On December 12, 2002, the Orange County Superior Court certified the lawsuit as a class action lawsuit and the case has been submitted on appeal to the State's Fourth District Court of Appeal.

The County of San Diego has advised the City that comparable claims by landowners within the County were rejected by the San Diego County Assessment Appeals Board for the Fiscal Year 2000/01 property tax levy and that such landowners have at least three years from the date of such rejection in which to further prosecute their claims. In another matter, a taxpayer initiated a declaratory relief action in Superior Court seeking comparable relief. In that case, *Linda Pintzuk v. Gregory J. Smith*, case no. GIC 790102, the trial court sustained the County's demurrer without leave to amend and dismissed the action on September 25, 2002. The plaintiff did not file an appeal of the trial court's decision.

The City cannot predict the outcome of the Orange County litigation, nor whether the landowners whose claims were rejected by the San Diego County Assessment Appeals Board, or other landowners, will further prosecute claims against the County of San Diego. Currently, the trial court's ruling in the Orange County litigation applies only to assessments levied in Orange County. The City cannot predict the effect, if any, that the outcome of either the Orange County litigation or the further prosecution of claims against the County of San Diego would have on property tax revenues to be received by the City, although the effect would be adverse.

### **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 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. The City's appropriations limit for Fiscal Year 2003 is established at \$684,004,095. It is estimated that the City will be under the Gann Limit by approximately \$127.8 million. The impact of the appropriations limit on the City's financial needs in the future is unknown.

### **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 raise revenues for certain programs and obligations.

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 imposed, extended, or increased any such taxes which are currently in effect.

Article XIII C also expressly extends the initiative power to give voters the power to reduce or repeal local taxes, assessments, fees and charges, regardless of the date such taxes, assessments, fees and charges were imposed. Article XIII C expands the initiative power to include reducing or repealing assessments, fees, and charges, which had previously been considered administrative rather than legislative matters and therefore beyond the initiative power. This extension of the initiative power is not limited by the terms of Article XIII C to fees imposed after November 6, 1996 and absent other legal authority could result in the retroactive reduction in any existing taxes, assessments, or fees and charges. In addition, certain City Charter amendments, if effective, could further constrain the City in this area (see "**LITIGATION POTENTIALLY ADVERSELY AFFECTING THE GENERAL FUNDS OF THE CITY- City Voter Initiatives**" below).

The voter approval requirements of Article XIII C 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.

Article XIII D 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 a 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, public rights-of-way, streetlights, parks,

and other enhanced services and improvements. 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 Article XIII D, the City is unable to predict whether it will be able to continue to collect assessment revenues for these programs. 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. To date, the City has conducted 34 mail ballot assessment elections, of which all but one were approved by the property owners.

In addition, 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, 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.

In addition to the enterprise funds discussed above, the City's stormwater program is funded with fees, which may ultimately be determined to be property related for purposes of Articles XIII C and D. The City is a co-permittee under a National Pollution Discharge Elimination System Permit ("NPDES Permit") for its stormwater program. Pursuant to the NPDES Permit, the City is obligated to undertake substantial capital improvements and implement new operations and maintenance procedures for its stormwater program ("NPDES Permit Requirements"). At the present time, the City is working on a plan of finance for such NPDES Permit Requirements. If the City is not able to increase its stormwater fees to pay for the NPDES Permit Requirements, or if such fees are reduced pursuant to the exercise of the

initiative power of Article XIII C, the City will have to identify a plan of finance for same. Such plan of finance may include General Fund moneys not previously identified.

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.

Both Articles XIII A and XIII B, as well as Articles XIII C and XIII D described above, 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.

### **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 on 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 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 authorized prior to the date of the decision is also undecided.

Following the Santa Clara decision, several actions were filed challenging taxes imposed by public agencies after the adoption of Proposition 62. On June 4, 2001, the California Supreme Court rendered its opinion in *Howard Jarvis Taxpayers Association v. City of La Habra, et al.* (2001) 25 Cal. 4th 809 holding that an action brought in 1996 challenging the imposition of a 1992 utility users tax imposed for general purposes, without voter approval, was not barred by a three year statute of limitations period because the continued imposition and collection of the tax was an ongoing violation upon which the statute of limitations period begins anew with each collection. However, the court noted that the case did not concern bond issues or other governmental actions that, by state law, are made subject to the accelerated validation procedures of Code of Civil Procedure sections 860 through 870.5.



The Santa Clara decision did not decide the question of the applicability of Proposition 62 to charter cities such as the City. Two (2) cases decided by the California Courts of Appeals in 1993, *Fielder v. City of Los Angeles* (1993) 14 Cal. App. 4th 137 (rev. den. May 27, 1993), and *Fisher v. County of Alameda* (1993) 20 Cal. App. 4th 120 (rev. den. Feb. 24, 1994), had held that Proposition 62's restriction on property transfer taxes did not apply to charter cities because charter cities derive their power to enact such taxes under Article XI, Section 5 of the California Constitution relating to public affairs.

Proposition 62, as an initiative statute, does not have the same level of authority as a constitutional initiative, but is analogous to legislation adopted by the State Legislature, except that it may be amended only by a vote of the State's electorate. However, Proposition 218, as a constitutional amendment, is applicable to charter cities and supersedes many of the provisions of Proposition 62.

Since the enactment of Proposition 62 in 1986, the City has instituted certain tax increases, and pursuant to such increases has collected approximately \$309.3 million through June 30, 2002. The City did not increase existing taxes or impose new taxes during Fiscal Year 2002 or to-date in Fiscal Year 2003.

While in the opinion of the City Attorney the provisions of Proposition 62 do not apply to charter cities, this position is being challenged by various groups in other jurisdictions and may be the subject of future litigation. If ultimately found valid and applicable to charter cities, 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.

## **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 2,276 employees; The Municipal Employees Association (the "MEA") and unrepresented employees (who are a part of the MEA bargaining unit for contract purposes) represents approximately 4,935 employees; The Police Officers Association (the "POA") represents approximately 2,073 employees; and the International Association of Firefighters (Local 145) represents approximately 991 employees.

Labor agreements are in place with Local 127, MEA, and Local 145 through June 30, 2005. MEA and Local 127 will receive the following pay increases: 1% effective December 2002, 2% effective December 2003, 2% effective June 2004, 3 % effective December 2004, and 3% effective June 2005. Local 145 will receive the following pay increases: 1% effective July 2002, 2% effective July 2003, 2% effective December 2003, 4% effective July 2004, and 2% effective December 2004. In addition to increases in paid compensation, MEA, Local 127, and Local 145 will also receive increases in the amount of employee retirement contributions paid by the City on behalf of the employees. Including these retirement benefit increases, over the three-year period of the labor agreements total compensation will increase by 12.6% for MEA and Local 127, and by 15.7% for Local 145.

A labor agreement with POA is in place through June 30, 2003. POA received a 2% pay increase and a 1.7% increase in retirement compensation effective July 2002.

## PENSION PLAN

All benefited 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 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, safety (police and fire), and legislative 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, 2002 stated the funding ratio (Valuation of Assets available for Benefits to Total Actuarial Accrued Liability), of the CERS fund to be 77.3%. The CERS fund has an Unfunded Actuarial Accrued Liability (UAAL) of \$720.7 million as of June 30, 2002, which represents a \$436.8 million increase in the UAAL since the previous actuarial calculation dated June 30, 2001. The UAAL is the difference between total actuarial accrued liabilities of \$3.169 billion and assets allocated to funding of \$2.448 billion. The increase in the UAAL as of June 30, 2002, results primarily from the lower than anticipated investment returns. 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, 2002, there were 19 years remaining in the amortization period. See "**LITIGATION POTENTIALLY AFFECTING THE GENERAL FUNDS OF THE CITY- Other Litigations and Claims**" for a discussion of a pending litigation relating to the funding of the UAAL.

## INSURANCE, CLAIMS, AND LITIGATION

### **Workers' Compensation And Long-Term Disability**

The City is self-insured for Workers' Compensation and Long-term Disability. The City's self-insured liability for Workers' Compensation and Long-term Disability is accounted for in the Self Insurance Fund. The Self Insurance Fund for Workers' Compensation and Long-Term Disability is supported by contributions from each of the City's operating funds. These contributions are determined by multiplying an annually established rate by the gross salaries payable from each of the City's operating funds. As of June 30, 2002, there is a fund equity deficit in the Self Insurance Fund of approximately \$29.3 million. It is anticipated that individual claim settlements will be funded through participating operating fund contributions subsequent to the filing of a claim and prior to its settlement.

### **Employee Group Health Insurance**

Employee Group Health coverage is provided to employees and retirees by third party group health insurance carriers through an annual "cafeteria plan" selection process.

### **Public Liability Insurance**

The City carries public liability insurance in the amount of \$54 million in excess of the City's \$1 million self-insured retention. This means that the City may pay up to the first \$1 million in any one insured public liability loss and that insured losses above \$1 million and up to \$54 million are paid by the City's public liability insurance. The City's public liability insurance is purchased in layers, jointly

with a number of counties in the California State Association of Counties – Excess Insurance Authority (“CSAC-EIA”), however, there is no sharing of policy limits with other members of CSAC-EIA for public liability claims. The City budgets for public liability claims on an annual basis. The City has incurred total annual liability claims and liability insurance premium payments as shown below in Table 18.

**Table 18**  
**CITY OF SAN DIEGO**  
**LIABILITY CLAIMS<sup>(1)</sup> AND PREMIUMS**  
*Fiscal Years ended June 30, 1998 through 2002*

Fiscal Year	Liability Claims Expenses And Settlement Costs	Liability Premium Payments
1998	\$ 9,970,097	\$ 1,209,474
1999	\$ 7,202,644	\$ 1,103,009
2000	\$ 9,639,750	\$ 1,105,678
2001	\$ 13,394,697	\$ 1,071,330
2002	\$ 8,479,308	\$ 1,520,560

(1) The City’s portion of settlement and investigation expenses for third party public liability claims, and other litigation expenses.

Source: City of San Diego, Risk Management

**Property Insurance**

The City participates in the joint purchase of property insurance including rental interruption and flood insurance through the CSAC-EIA pool; this does not include Earthquake insurance. This joint purchase of the City’s “all risk” property insurance, insuring approximately \$2 billion of City property, provides coverage for loss to City property up to approximately \$400 million per occurrence, with a \$25,000 deductible. This limit of insurance includes coverage for rental interruption for lease financed locations. The City also carries boiler and machinery coverage. There is no sharing of limits among the City and member counties of the CSAC-EIA pool, unless the City and member counties are mutually subject to the same loss. Limits and coverages may be adjusted periodically in response to requirements of bond financed projects and in response to changes in the insurance marketplace.

The City’s “all risk” property insurance policy effective March 31, 2003, through March 31, 2004, will cost approximately \$6 million. This represents an increase of 30% from the prior year, due to several factors including the events of September 11, 2001, a hardening insurance market and a loss of reinsurance capacity.

**Earthquake Insurance**

Earthquake coverage is provided for designated buildings/structures and certain designated City lease financed locations in the amount of \$75 million, including coverage for rental interruption caused by Earthquake at certain designated locations. Earthquake coverage is subject to the greater of a 5% or \$50,000 per unit deductible, effective through March 31, 2004. The City’s earthquake coverage is purchased jointly and shared with the member counties in the CSAC-EIA pool. Due to the potential for geographically concentrated earthquake losses, the CSAC-EIA pool is geographically diverse to minimize any potential sharing of coverage in the case of an earthquake. Depending upon the availability and affordability of such earthquake insurance, the City may elect not to purchase such coverage in the future, or the City may elect to increase the deductible or reduce the coverage from present levels.

## **Employee Dishonesty and Faithful Performance Insurance**

The City is a public agency subject to liability for the dishonest acts, and negligent acts or omissions of its officers and employees acting within the scope of their duty (“employee dishonesty” and “faithful performance”). The City participates in the joint purchase of insurance covering employee dishonesty and faithful performance through the CSAC-EIA pool. Coverage is provided in the amount of \$10 million per occurrence subject to a \$25,000 deductible.

## **LITIGATION POTENTIALLY ADVERSELY AFFECTING THE GENERAL FUNDS OF THE CITY**

### **No Pending Litigation**

There is no litigation against the City pending or, to the knowledge of the officers of 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 securities; (ii) questioning or affecting the validity of the securities; or (iii) questioning or affecting the validity of any of the proceedings for the authorization, sale, execution or delivery of the securities. To the knowledge of 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 repay the securities when due.

### ***De La Fuente Border Business Park v. City of San Diego***

On January 2, 2001, a San Diego County Superior Court jury returned a special verdict in the amount of \$94.5 million against the City. The jury award consisted of three parts: \$29.2 million for breach of a development agreement; \$25.5 million for inverse condemnation relating to planning of a regional airport; and, \$39.8 million for inverse condemnation relating to excessive traffic. Claims for interest, costs, and attorneys' fees could bring the total judgment to more than \$200.0 million.

The lawsuit arises out of a 1986 development agreement (the “Development Agreement”) between the City and Border Business Park, Inc., relating to the development of a 312-acre industrial park in Otay Mesa, a community within the boundaries of the City and just north of the United States-Mexican border. Plaintiff alleges the City engaged in a pattern of conduct aimed at thwarting the developer's rights under the Development Agreement, which resulted in breaches of the Development Agreement and unconstitutional “takings” of private property for public use. Specifically, plaintiff claimed the City “took” plaintiff's property by: (i) publicly discussing a proposal to build an international airport in the Otay Mesa region; and (ii) diverting commercial truck traffic onto public streets adjacent to plaintiff's property.

The specific breaches of the Development Agreement alleged in the lawsuit include: changes in city-wide construction standards; denials of conditional use permits; delays in permit processing; imposition of Housing Trust Fund Fees; diversion of Development Impact Fees; and the mismanagement of adjacent City-owned property. The disclosure of plans for a new regional airport, and the diversion of border-bound traffic, which were the bases for the inverse condemnation awards, were also alleged as contract breaches.

Following the special verdict but before entry of the judgment, the trial judge disqualified himself from further proceedings in the case for allegedly failing to disclose personal relationships with one of the plaintiff's attorneys. The case was transferred to another judge outside of San Diego County who will sit for all purposes, including a new trial.

The City has retained two law firms to represent it in post trial motions and any appeals. Such motions and potential appeals pertain to the validity of the disqualified trial judge's pre-trial and trial rulings, and the validity of the underlying verdict.

As the result of a recent hearing on the City's post-trial motions before the newly assigned judge, the judge reduced the plaintiff's pre-judgment interest claim from \$144.0 million to about \$26.0 million. The court subsequently entered judgment on the verdict amount (\$94.5 million), plus the pre-judgment interest for a total of \$119.0 million.

In addition, the court has denied the City's motion for judgment notwithstanding the verdict and motion to set aside the verdict on the grounds of fraud. It did, however, grant the City a complete new trial on one legal theory, a contract claim, and set aside award of the damages on that theory (in the amount of \$29.2 million of the \$94.5 million). The court also found the contract claim largely barred by the time limits in the Government Claims Act.

The court denied the City a new trial on the remaining claims in the case for inverse condemnation, relating to the airport study and truck routing, finding that the Court needed to defer to the original judge on these matters. This has the effect of leaving in place \$65.3 million in inverse condemnation damages, plus approximately \$26.0 million in pre-judgment interest. The total judgment, including pre-judgment interest, is currently approximately \$91.3 million. Appellate counsel for the City has advised that the City should have no obligation to pay these amounts until the appeal is concluded, which will take at least eighteen months to two years. The City will also be responsible for any post-trial interest, which will accrue at the rate of approximately 5.7% per annum, until any judgment is paid.

The City believes that a significant portion of its defense costs — both retroactive to the exhaustion of the self-insured retention of \$1.0 million and prospectively through appeal— will be paid in large part by one or more of the City's insurers. The City may have some coverage for damages under its policies of insurance but the amount and scope of the coverage is not presently known. A number of insurers whose policies may cover defense costs and any judgment have challenged the applicability of their policies (see "**Insurance Coverage Issues**" below).

Despite the denial of certain of the post-trial motions, the City believes it has sound legal theories for its appeal; however, no assurance can be given that the City's pursuit of this challenge will be successful. In the event that the City is not successful on appeal, and on retrial, if any, the judgment, including any interest, will have to be paid from the City's treasury, most likely over a period of ten years with additional interest during that period, to the extent that there is not insurance coverage or a shortfall in coverage.

Because there is no final judgment at this time, given the court's partial grant of the City's new trial motion, the City had not included any moneys for the payment of any judgment in this case in its budget for the 2002-2003 Fiscal Year and does not propose to include any moneys in its budget for the 2003-2004 Fiscal Year.

On November 7, 2001, the plaintiff filed a motion with the trial court asking that the City deposit in trust into the court, the full judgment amount of \$92.4 million which includes some post-judgment interest, pending the City's appeal. The court denied the plaintiff's motion. Litigation counsel has advised that if plaintiff seeks discretionary review of the denial of the motion for deposit, the plaintiff must have done so within approximately sixty days after entry of the order on November 19, 2001. As of the date hereof, no such discretionary review has been sought.

### **Insurance Coverage Issues**

On April 9, 2002, three of the City's general liability insurers filed a federal court lawsuit against the City in the Southern District of California, *Insurance Company of the State of Pennsylvania, et al. v. City of San Diego*, Case No. 02 CV 0693 JM (RBB). These insurers provide coverage to the City for the years 1991 to 2001, and they collectively insure the City for policy limits of \$25 million per occurrence per year (less the City's self-insured retention, which ranges from \$1 million to \$3 million). The insurers' lawsuit seeks a declaration that the insurers are not obligated to defend or indemnify the City for any liability it may suffer in the *De La Fuente* matter.

The City's other two liability insurers did not join in this lawsuit, although they are not precluded from joining in this lawsuit or filing a separate lawsuit. The non-suing liability insurers issued coverage to the City for the 1990-91 policy year, with collective limits of \$17 million per occurrence. One of them (with policy limits of \$2 million per occurrence) has indicated by letter to outside counsel that it will accept coverage for one occurrence, while reserving its rights to dispute that there is more than one occurrence.

The suing insurers are disputing coverage on the ground that the City allegedly provided late notice of the claims against it, and based upon alleged policy exclusions for breach of contract and inverse condemnation claims. Although one suing insurer has been paying a significant portion of the City's defense costs in the *De La Fuente* matter to date (about 60%), and has orally agreed to continue defending despite filing the coverage lawsuit, that insurer seeks to be relieved of the defense obligation by court order. If the insurers were to prevail on this complaint, the City would lose insurance coverage for its future attorneys' fees and costs incurred in defending the *De La Fuente* matter, and for any damages ultimately awarded in those cases, from these insurers. In the opinion of outside counsel, the City would not owe any damages to the insurance companies, even if it lost coverage, except in the unlikely event that the Court ordered the City to reimburse suing insurer(s) for past defense costs it has paid to the City.

On May 7, 2002, the City filed an answer and counterclaim in the lawsuit. The City seeks a determination that all three suing insurers are obligated to defend the City in the *De La Fuente* matter. In addition, the City seeks to recover damages for breach of contract and bad faith. However, no prediction can be made as to the outcome of this litigation.

### **City Voter Initiatives**

An initiative proposing an amendment to the San Diego City Charter was submitted to the City voters at the election on the March 5, 2002. This initiative appeared on the ballot as Proposition E. The initiative asked the voters whether the City Charter should be amended to require that any increase in an existing general tax or imposition of any new general tax be levied by the City Council only if the proposed levy has been approved by a two-thirds vote of the qualified electors voting on the proposed tax measure.

At that same election, another proposition was submitted to the voters for consideration. This proposition, Proposition F, asked the voters whether the City Charter should be amended to require that, in order to be adopted or effective, any City Charter amendment, ballot proposal, initiative, statute, law, or regulation requiring a greater than simple majority vote of the electorate, and which is proposed to be adopted on or after the date of this election, must be adopted by the same proportionate vote of the electorate. In effect, the City has argued in the litigation described below that, the adoption of this proposition would require that Proposition E would have to be approved by a two-thirds vote of the qualified electors voting in the March 5, 2002 election.

Proposition E was approved by 54.4% and Proposition F was approved by 50.3% of the voters in the March 5, 2002 election. Having received a majority vote, Proposition F was adopted. The City has taken a position that Proposition E, however, by the terms of Proposition F, was not adopted.

There have been two cases filed challenging the results of the March 5, 2002 election pertaining to Propositions E and F; *Teyssier v. City of San Diego, et al.* and *Howard Jarvis Taxpayers Association v. City of San Diego et al.* Both actions seek declaratory relief contending that Proposition F is unconstitutional. In addition, *Teyssier* seeks a writ of mandate directing the City to certify and record the adoption of Proposition E. Both matters allege (i) that Proposition F is preempted by the California Constitution; (ii) that it cannot affect an election held prior to its effective date; and (iii) that Proposition F, having received fewer votes than Proposition E, an alleged conflicting measure on the same ballot, should have been defeated. The trial court consolidated the two cases.

On April 22, 2003, the City received a minute order of the trial court for the consolidated cases. The Court's ruling declines to invalidate Proposition E. The Court leaves open the question whether Proposition E could require a supermajority for an amendment to the City Charter, which would impose or raise a general tax. The Court's minute order has not been reduced to a judgment. The City has not yet decided to appeal or otherwise contest the ruling. Regardless of the outcome of the litigation, these lawsuits are unlikely to have any impact to the City's budget or revenue for Fiscal Year 2003, because they relate only to new or increased taxes. It is currently anticipated that the City's proposed budget for Fiscal Year 2004 would not include projected revenues from any such tax enhancing measures.

### **Other Litigation and Claims**

In February 2002, the Public Facilities Financing Authority of the City of San Diego issued lease revenue bonds in the aggregate principal amount of \$169,685,000 (the "Ballpark Bonds") for the construction of a state of the art baseball park. The ballpark project has been the subject of a variety of litigations, however, there has not been any new litigation filed regarding the project since the approval of the original Offering Document in 2002. The case *Skane v. City of San Diego*, Court of Appeal case no. D038879 has been finally resolved, the California Supreme Court denying a petition for review on October 2, 2002. On January 30, 2003, the Fourth District Court of Appeal filed an opinion affirming a trial court judgment in favor of the City in the case *Simmons v. City of San Diego*, Court of Appeal case no. D039838. The plaintiffs failed to file a petition for review to the California Supreme Court by the filing deadline of March 11, 2003. The City and Bond Counsel are considering the import of the appellate court's decision on the City's ability to refund the 2002 Bonds (see "**BONDED AND OTHER INDEBTEDNESS- Proposed Additional General Fund Lease Commitments**"). The case *City v. All Persons Interested*, Superior Court case no. GIC763487 was the subject of appeals that were consolidated under Court of Appeal case no D038587 and were further consolidated with *Skane*. The Court of Appeal affirmed the judgment in favor of the City and the Redevelopment Agency. The California Supreme Court denied the petitions for review on October 2, 2002.

On March 29, 2002, Brown Field Aviation Park LLC (BFAP) filed a claim seeking damages in excess of \$120 million, asserting that the City breached a Memorandum of Understanding that provided BFAP with the exclusive right to negotiate a proposed Development Agreement and Master Lease that would transform Brown Field into a cargo airport with ancillary commercial and industrial uses. BFAP contended that the City breached the MOU by requiring review by the Federal Aviation Administration prior to a City Council hearing. In addition, BFAP claimed the city breached the MOU by failing to present the project for City Council consideration in September 2000, and by failing to continue negotiations after the FAA released a preliminary airspace analysis on September 29, 2000.

On March 4, 2003 the City Council approved a settlement of this case by agreeing to pay BFAP \$1.25 million. This sum represents a refund of the money BFAP paid to the City for the right to negotiate the project and for the labor costs incurred by the City staff in reviewing the proposed project. The City's excess liability carrier also agreed to pay \$249,000 in settlement of the claim.

On January 16, 2003, a class action complaint (*Gleason v. City of San Diego, et al.*) for declaratory relief was filed in the Superior Court against the City, the City's Employees' Retirement System (SDCERS), and certain named members of the SDCERS board of administration. The plaintiffs, former City employees who receive City retirement benefits, allege that as a result of recent actions taken by the defendants, the SDCERS trust fund has an unfunded accrued liability of \$720 million, and that by 2009, the City will owe approximately \$2.8 billion to SDCERS, with an annual City budget expense of more than \$250 million. In addition to the declaration of their rights, plaintiffs ask for restitution to the SDCERS trust fund, an injunction prohibiting the City from unlawfully underfunding the trust fund in the future, money damages, attorneys' fees, and other relief.

As noted under the heading "**PENSION PLAN**" above, the City's unfunded accrued actuarial liability as of June 30, 2002 is approximately \$720 million. The City is defending the case and believes it has complied with applicable law in the funding of the SDCERS trust fund. The case is still in the early stages, and the City has not completed an assessment of the claim. The City cannot predict the outcome of the litigation at this time, but if the plaintiffs are successful, there potentially may be additional expense to the General Fund in the funding of the SDCERS trust fund and otherwise, over and above the City's expected expense in the funding of its pension obligations.

## **INVESTMENT OF FUNDS**

The Treasurer of the City of San Diego, in accordance with the Charter of the City of San Diego and authority granted by the City Council, is responsible for investing the unexpended cash in the Treasurer's pooled operating investment fund (the "City Pool"). Responsibility for the daily investment of funds in the City Pool is delegated to the City's Chief 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.

### **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 1990 and is comprised of the City Auditor and Comptroller, a Deputy City 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. The main operating funds of the City are being managed in two separate portfolios. In its management of the "Liquidity" portfolio, comprising about 35% of total funds, the City invests in a variety of debt securities with maturities ranging from one day to one year. The remaining 65% of funds are managed in a separate "Core" portfolio that consists of a variety of debt securities ranging from one day to five years; performance is measured 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.

### **Pool Liquidity and Other Characteristics**

The City Pool (including both the "Liquidity" and the "Core" portfolios) is highly liquid. As of January 31, 2003, approximately 10% of the pool investments mature within 60 days, 21% within 90 days and 35% within 181 days (on a cumulative basis). As of January 31, 2003, the Pool had a weighted average maturity of 1.59 years (580 days) and its weighted yield was 2.90%. 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 had a duration of 0.35 years and the Core portfolio had a duration of 1.42 years as of January 31, 2003. 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 0.35% for every 1% increase in market interest rates while the Core portfolio should decrease in market value by 1.42% for every 1% increase in market interest rates. The City Pool's composition is designed with a goal of having sufficient liquid funds available to meet disbursement requirements. The composition and value of investments under management in the City 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 OPERATING INVESTMENT FUND <sup>(1)</sup>**  
*at January 31, 2003*  
(Unaudited)

<u>Investment Instrument</u>	<u>Book Value</u>	<u>Market Value</u>	<u>Percent of Total <sup>(1)</sup></u>
U.S. Treasury Bills and Notes	\$491,710,525	\$495,537,305	38.88%
Federal Agency Securities	569,354,218	575,278,317	45.01%
Medium Term Notes (Corporate) <sup>(2)</sup>	140,059,070	139,036,161	11.07%
Money Market Instruments <sup>(3)</sup>	43,397,533	43,443,305	3.43%
Local Agency Investment Fund	<u>20,334,871</u>	<u>20,334,871</u>	<u>1.61%</u>
NET ASSETS	<u>\$1,264,856,217</u>	<u>\$1,273,629,959</u>	<u>100.00%</u>

(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, Office of the City Treasurer

## Derivatives

As of January 31, 2003, and at least since October 14, 1997, the City Pool has had no assets invested in structured notes or derivatives prohibited in California Government Code 53601. 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, California law prohibits the purchase by local governments of inverse floaters, range notes or interest only strips derived from pools of mortgages.

## Reverse Repurchase Agreements

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. Although the City from time to time uses reverse repos, as of January 31, 2003, 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 repurchase agreements 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, 2002, the City had \$58,095,000 aggregate principal amount of long-term general obligation bonded indebtedness outstanding and \$566,505,000 aggregate principal amount of long-term general fund lease obligations outstanding. The City's general obligation bond ratings are AAA (Fitch Ratings), Aa1 (Moody's Investors Services) and AA (Standard & Poor's).

The following table is a schedule, by years, of principal and interest payments required to be made by the City or its oversight entities with respect to future obligations, as of June 30, 2002.

**Table 20**  
**CITY OF SAN DIEGO**  
**GENERAL OBLIGATION AND GENERAL FUND LEASE OBLIGATIONS**  
*As of June 30, 2002*  
*(in thousands)*

Fiscal Year <u>Ending June 30</u>	General Obligation <u>Bonds</u>	General Fund Lease <u>Obligations</u>	Total Principal and <u>Interest Payable</u>
2003	\$ 9,395	\$ 49,146	\$ 58,541
2004	9,525	49,854	59,379
2005	9,645	49,921	59,566
2006	9,777	49,497	59,274
2007	9,923	46,993	56,916
Thereafter	<u>26,337</u>	<u>894,774</u>	<u>921,111</u>
Subtotal	\$ 74,602	\$ 1,140,185	\$ 1,214,787
Less Interest Portion	<u>\$ (16,507)</u>	<u>\$ (573,680)</u>	<u>\$ (590,187)</u>
Total Principal Portion	<u>\$ 58,095</u>	<u>\$ 566,505</u>	<u>\$ 624,600</u>

The following provides a summary list of outstanding general obligation bonds and General Fund lease commitments as of June 30, 2002.

	Principal Outstanding (000's)
<u>General Obligation Bonds</u>	
1994 – Open Space Park Facility District Refunding	\$41,175
1991 – Public Safety Communications	<u>16,920</u>
Total Principal of General Obligation Bonds	<u>\$58,095</u>
<u>General Fund Lease Commitments</u>	
<u>Certificates of Participation</u>	
1993 – Balboa Park/Mission Bay Park Capital Improvements <sup>(1)</sup>	\$19,800
1996A – Balboa Park/Mission Bay Park Capital Improvements	25,010
1996B – Balboa Park/Mission Bay Park Capital Improvements Refunding	10,440
<u>Lease Revenue Bonds</u>	
1993 – City/MTDB Authority for Old Town Trolley Extension <sup>(2)</sup>	16,005
1994 – City/MTDB Authority Refunding - Police CIP and Bayside Extension	34,560
1996 – Stadium Improvements	64,955
1998 – Convention Center Expansion Authority	200,980
2002 – Ballpark and Redevelopment Project	169,685
2002 – Fire and Life Safety Improvements	<u>25,070</u>
Total Principal of General Fund Lease Commitments	<u>\$566,505</u>

(1) To be refunded by the 2003 Refunding Certificates of Participation (Balboa Park/Mission Bay Park Capital Improvements).

(2) To be refunded by the 2003 Refunding Lease Revenue Bonds (San Diego Old Town Trolley Extension).

Source: City of San Diego, Auditor and Comptroller

### **Recent Financings**

In June 2002, the Public Facilities Financing Authority of the City of San Diego issued \$25.2 million in Lease Revenue Bonds to fund the rehabilitation and construction of fire stations and life safety facilities throughout the City. The total project cost is estimated at approximately \$45.1 million, including \$10.9 million for life safety improvements and \$34.2 for fire improvements. Additional funding is expected to come from bond proceeds in future Fiscal Years.

### **Proposed Additional General Fund Lease Commitments**

From time to time the City issues debt to fund various capital improvements and projects. In April/May 2003, the City will be refunding the 1993 City/MTDB Authority Lease Revenue Bonds (Old Town Trolley Extension) and the 1993 Certificates of Participation (Balboa Park/Mission Bay Park Capital Improvements).

In 2004, the City intends to issue approximately \$87 million in General Fund obligations to implement the Library System Improvements Program adopted by the City Council in November 2002. The overall program consists of renovation, expansion and addition of new library facilities Citywide at an estimated total project cost of \$312 million between Fiscal Years 2003 and 2011. The funding sources include grants and private funds, Development Impact Fees and Facilities Benefit Assessment Fees, Other City Funds and bond proceeds. Upon the initial bond issuance projected to occur in 2004, the remainder of the bond funds is expected to come from phased bond issuances in later Fiscal Years.

In February 2002, the Public Facilities Financing Authority of the City of San Diego issued \$169.7 million in Lease Revenue Bonds to fund a portion of the City's contribution to the Ballpark and Redevelopment Project (the "Ballpark Project"). Due to litigation matters concerning the Ballpark Project that were pending at the time of issuance, the bonds, although issued on a tax-exempt basis, were sold at a premium above tax-exempt rates. When the bonds were issued, it was contemplated that if litigation is decided favorably to the City, and depending on market conditions, the City would refund the bonds with bonds bearing lower interest rates. It is currently expected that remaining litigation matters will be resolved as early as Fiscal Year 2003 but no later than Fiscal Year 2004. See "LITIGATION POTENTIALLY AFFECTING THE GENERAL FUNDS OF THE CITY- Other Litigations and Claims" for the status of such litigation. If such matters are resolved favorably to the City, and depending on market conditions, the City would issue refunding bonds shortly thereafter.

### 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, 1994 through May 1, 2003*

Fiscal Year Ended	<u>Principal Amount</u>
<u>June 30</u>	
1994	\$ 100,500,000
1995	\$ 68,000,000
1996	\$ 53,000,000
1997	\$ 73,500,000
1998	\$ 82,000,000
1999	\$ 88,500,000
2000	\$ 99,500,000
2001	\$ 77,000,000
2002	\$ 73,000,000
2003	\$ 93,200,000

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, the San Diego Facilities and Equipment Leasing Corporation, San Diego Open Space Park Facilities District No. 1, City of San Diego/MTDB Authority, and the Public Facilities Financing Authority defeased certain debt 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 certain 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, 2002, \$27,910,000 of defeased bonds are still held by investors.

## Operating Lease Commitments

The City has entered into various General Fund lease arrangements under which the City must make annual payments to occupy facilities 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 noncancellable lease terms in excess of one year, as of June 30, 2002.

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

<u>Fiscal Year Ending June 30</u>	<u>Rent Payable</u>
2003	\$5,132,756
2004	2,481,868
2005	2,274,252
2006	2,259,671
2007	2,249,256
<u>Thereafter</u>	<u>14,704,794</u>
Total Minimum Payments	<u>\$29,102,597</u>

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

## Overlapping Debt and Debt Ratios

Table 23 presents a statement of direct and overlapping bonded debt of the City as of February 1, 2003. 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 Mello-Roos 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 June 30, 2002, there were four 1915 Act Assessment District and one Reassessment District bond issues with aggregate outstanding principal of \$43,692,999 and three Community Facilities District (Mello-Roos) bond issues with outstanding principal of \$115,010,000.

The reserve funds for each of the City's outstanding Assessment District and Community Facilities District bond issues were fully funded as of June 30, 2002. Although the City is not in any way obligated to make debt service payments for either Assessment or Community Facilities District bond issues, the City has in the past taken proactive measures to protect bondholders.

**Table 23**  
**CITY OF SAN DIEGO**  
**STATEMENT OF DIRECT AND OVERLAPPING BONDED DEBT**  
*as of February 1, 2003*

2002-03 Assessed Valuation: \$104,940,180,862  
 Redevelopment Incremental Valuation: 4,629,088,709  
 Adjusted Assessed Valuation: \$100,311,092,153

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	Debt 2/1/03
San Diego County Water Authority	49.271%	\$ 810,508
Metropolitan Water District	8.872	44,587,123
Southwestern Community College District	17.482	6,912,383
San Diego Unified School District	99.911	764,304,390
San Diego Unified School District Lease Tax Obligations	99.911	67,784,618
Sweetwater Union High School District	21.100	7,620,265
San Ysidro School District	92.096	17,636,384
Other High School and School Districts	Various	9,468,043
<b>City of San Diego</b>	<b>100.</b>	<b>15,690,000</b>
<b>San Diego Open Space Park Facilities District No. 1</b>	<b>100.</b>	<b>36,475,000</b>
City of San Diego Community Facilities District No. 1	100.	52,745,000
City of San Diego Community Facilities District No. 2, Improvement Area Nos. 1 and 3	100.	60,250,000
City of San Diego 1915 Act Bonds	100.	40,854,284
North City West School District Community Facilities District	100.	92,327,921
Poway Unified School District Community Facilities District No. 1 and 10	99.609-100.	95,361,344
San Dieguito Union High School District Community Facilities District No. 95-1	81.063	15,048,785
Sweetwater Union High School District Community Facilities Districts	5.014-100.	2,861,346
Other Special District 1915 Act Bonds	Various	1,080,974
<b>TOTAL GROSS DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT</b>		<b>\$1,331,818,368</b>
Less: <b>San Diego Open Space Park Facilities District No. 1 (100% self-supporting)</b>		<b>36,475,000</b>
<b>TOTAL NET DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT</b>		<b>\$1,295,343,368</b>
<b>DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT:</b>		
San Diego County General Fund Obligations	47.537%	\$ 233,049,556
San Diego County Pension Obligations	47.537	391,892,651
San Diego Superintendent of Schools Certificates of Participation	47.537	982,827
San Diego Community College District General Fund Obligations	99.907	41,935,963
San Diego Unified School District Certificates of Participation	99.911	30,253,051
Sweetwater Union High School District Certificates of Participation	21.100	5,112,530
Del Mar Union School District Certificates of Participation	80.659	10,029,947
San Ysidro School District Certificates of Participation	92.096	8,993,174
Chula Vista School District General Fund Obligations	5.663	4,492,741
Other School, High School and Community College District Certificates of Participation	Various	8,185,454
<b>City of San Diego General Fund Obligations and MTDB Authority</b>	<b>100.</b>	<b>555,535,000</b>
Otay Municipal Water District Certificates of Participation	7.800	2,030,340
<b>TOTAL GROSS OVERLAPPING GENERAL FUND OBLIGATION DEBT</b>		<b>\$1,292,493,234</b>
Less: Otay Municipal Water District Certificates of Participation		2,030,340
Grossmont Union High School District Certificates of Participation (100% self-supporting from tax increment revenues)		65,836
<b>TOTAL NET OVERLAPPING GENERAL FUND OBLIGATION DEBT</b>		<b>\$1,290,397,058</b>
<b>GROSS COMBINED TOTAL DEBT</b>		<b>\$2,624,311,602 <sup>(1)</sup></b>
<b>NET COMBINED TOTAL DEBT</b>		<b>\$2,585,740,426</b>

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

Ratios to 2002-03 Assessed Valuation:

<b>Direct Debt (\$15,690,000)</b> .....	<b>0.01%</b>
Total Gross Direct and Overlapping Tax and Assessment Debt.....	1.27%
Total Net Direct and Overlapping Tax and Assessment Debt.....	1.23%

Ratios to Adjusted Assessed Valuation:

<b>Gross Combined Direct Debt (\$607,700,000) <sup>(1)</sup></b> .....	<b>0.61%</b>
<b>Net Combined Direct Debt (\$571,225,000)</b> .....	<b>0.57%</b>
Gross Combined Total Debt.....	2.62%
Net Combined Total Debt.....	2.58%

(1) City	\$ 15,690,000
City Authorities and Certificates of Participation	555,535,000
San Diego Open Space Park Facilities District No. 1	<u>36,475,000</u>
	\$607,700,000

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/02: \$2,515,864

Source: California Municipal Statistics, Inc.



**APPENDIX B**  
**CITY AUDITED FINANCIAL STATEMENTS FOR**  
**FISCAL YEAR ENDED JUNE 30, 2002**

**(THIS PAGE LEFT BLANK INTENTIONALLY)**



# CALDERON, JAHAM & OSBORN

AN ACCOUNTANCY CORPORATION

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

www.cjo.com

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of San Diego, California ("City"), as of and for the year June 30, 2002, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2002, and the respective changes in financial position and cash flows, where applicable, thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the basic financial statements, the City adopted Statements of the Governmental Accounting Standards Board No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; and, No. 38, Certain Financial Statement Note Disclosures.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2002 on our consideration of the City’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying Required Supplementary Information, such as management’s discussion and analysis, budgetary comparison information and other information as listed in the table of contents are not required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the Required Supplementary Information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City’s basic financial statements. The accompanying supplementary information is presented for purpose of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Introductory Section and Statistical Tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

November 27, 2002

*Caldron, Graham + Osborn*

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of San Diego (City), we offer readers of the City financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2002. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our Letter of Transmittal, which can be found beginning on page V of this report.

For the fiscal year ended June 30, 2002, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 34 "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments." The focus of this Standard is to present the government as a single entity (government-wide) and provide information about its current financial resources (fund level). These two perspectives provide readers of the City's financial statements with a broad picture of the results of governmental operations and its ability to provide services in the future.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: (1) Government-wide financial Statements; (2) Fund Financial Statements; and (3) Notes to the Financial Statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

#### Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as Net Assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing changes in the City's net assets during the most recent fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. The focus is on both gross and net cost of City functions, which are supported by general revenues. This Statement also distinguishes functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include: General Government and Support; Public Safety - Police; Public Safety - Fire and Life Safety; Parks, Recreation, Culture and Leisure; Transportation; Sanitation and Health; and Neighborhood Services. The business-type activities of the City include Airports; City Store; Development Services; Environmental Services; Golf Course; Recycling; Sewer Utility; Water Utility; and San Diego Data Processing Corporation.

The government-wide financial statements include the City (known as the Primary Government) and the following legally separate, discretely presented component units: San Diego Convention Center Corporation (SDCCC); San Diego Housing Commission (SDHC); and San Diego Medical Services Enterprise, LLC (SDMSE). Financial information for these component units is reported separately from the financial information presented for the primary government. Blended component units, also legally separate entities, are part of the government's operations and are combined with the primary government.

Included within the primary government as blended component units:

- Centre City Development Corporation
- City of San Diego Metropolitan Transit Development Board Authority
- Convention Center Expansion Financing Authority
- Public Facilities Financing Authority
- Redevelopment Agency of the City of San Diego
- San Diego Data Processing Corporation
- San Diego Facilities and Equipment Leasing Corporation
- San Diego Industrial Development Authority
- San Diego Open Space Park Facilities District #1
- Southeastern Economic Development Corporation

The government-wide financial statements can be found beginning on page 15 of this report.

### **Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

### **Governmental Funds**

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, which is a major fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found beginning on page 18 of this report.

### **Proprietary Funds**

The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its various business-type activities. Internal service funds, such as Central Garage and Machine Shop, Central Stores, and Print Shop, are used to report activities that provide centralized supplies and services to the City. All internal service funds, except for the Special Engineering Fund, have been included within governmental activities in the government-wide financial statements since they predominately benefit governmental functions. The Special Engineering Fund, which services exclusively water and sewer activities, has been included within business-type activities in the government-wide financial statements.

Proprietary fund statements provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer funds, which are considered to be major funds of the City. Data from other proprietary funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor business-type funds is provided in the form of combining statements elsewhere in this report. Internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

The basic proprietary fund financial statements can be found beginning on page 22 of this report.

### **Fiduciary Funds**

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found beginning on page 25 of this report.

### **Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 27 of this report.

### **Other Information**

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 28 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds, nonmajor business type funds, and internal service funds are presented immediately following the required supplementary information on pensions. Combining and individual fund statements and schedules can be found beginning on page 29 of this report.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Since this is the first year of implementing and presenting government-wide financial reporting, prior year comparisons will begin next fiscal year. For the current fiscal year, amounts will be presented for fiscal year 2002.

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$6,844,559,000 at the close of fiscal year 2002.

The largest portion of the City's net assets (81%) reflects its investment in capital assets (e.g., land, structures and improvements, equipment, distribution and collection systems, infrastructure, and construction-in-progress), less any outstanding debt used to acquire these assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**CITY OF SAN DIEGO'S NET ASSETS**  
(In Thousands)

	Governmental Activities 2002	Business-Type Activities 2002	Total Primary Government 2002
Current and other assets	\$ 1,386,733	\$ 878,257	\$ 2,264,990
Capital Assets	<u>4,118,023</u>	<u>3,754,342</u>	<u>7,872,365</u>
Total Assets	<u>5,504,756</u>	<u>4,632,599</u>	<u>10,137,355</u>
Current and other liabilities	278,145	140,483	418,628
Long-term debt outstanding	<u>1,342,245</u>	<u>1,531,923</u>	<u>2,874,168</u>
Total Liabilities	<u>1,620,390</u>	<u>1,672,406</u>	<u>3,292,796</u>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	3,298,213	2,253,022	5,551,235
Restricted	99,497	3,681	103,178
Unrestricted	<u>486,656</u>	<u>703,490</u>	<u>1,190,146</u>
Total Net Assets	<u>\$ 3,884,366</u>	<u>\$ 2,960,193</u>	<u>\$ 6,844,559</u>

Two percent of the City's total net assets represents resources that are subject to external restrictions on how they may be used.

**Governmental Activities**

Governmental activities increased the City's net assets by \$194,298,000 thereby accounting for 57% of the total growth in the net assets of the City during fiscal year 2002.

**Business-Type Activities**

Business-type activities increased the City's net assets by \$147,079,000 thereby accounting for 43% of the total growth in the net assets of the City during fiscal year 2002.



**CITY OF SAN DIEGO'S CHANGES IN NET ASSETS**

(In Thousands)

	Governmental Activities <u>2002</u>	Business-type Activities <u>2002</u>	Total Primary Government <u>2002</u>
<b>Revenues:</b>			
<b>Program Revenues</b>			
Charges for Current Services	\$ 181,729	\$ 645,353	\$ 827,082
Operating Grants and Contributions	100,955	5,981	106,936
Capital Grants and Contributions	199,258	124,842	324,100
<b>General Revenues</b>			
Property Taxes	223,100	-	223,100
Sales Taxes	221,383	-	221,383
Franchise Taxes	56,239	-	56,239
Other Local Taxes	146,125	-	146,125
Grants and Contributions not Restricted to Specific Programs	93,639	-	93,639
Revenue from Use of Money and Property	88,133	34,918	123,051
Other	42,619	1,809	44,428
<b>Total Revenues</b>	<u>1,353,180</u>	<u>812,903</u>	<u>2,166,083</u>
<b>Expenses:</b>			
General Government and Support	192,948	-	192,948
Public Safety-Police	292,385	-	292,385
Public Safety-Fire and Life Safety	134,869	-	134,869
Parks, Recreation, Culture and Leisure	191,993	-	191,993
Transportation	155,688	-	155,688
Sanitation and Health	57,111	-	57,111
Neighborhood Services	72,501	-	72,501
Interest on Long-Term Debt	56,493	-	56,493
Airports	-	3,077	3,077
City Store	-	731	731
Development Services	-	46,595	46,595
Environmental Services	-	32,467	32,467
Golf Course	-	5,781	5,781
Recycling	-	16,089	16,089
Sewer Utility	-	255,967	255,967
Water Utility	-	243,283	243,283
San Diego Data Processing Corporation	-	57,893	57,893
<b>Total Expenses</b>	<u>1,153,988</u>	<u>661,883</u>	<u>1,815,871</u>
<b>Increase in Net Assets Before Transfers:</b>	<u>199,192</u>	<u>151,020</u>	<u>350,212</u>
Transfers	3,941	(3,941)	-
Payments to Component Units	(8,835)	-	(8,835)
<b>Change in Net Assets</b>	<u>194,298</u>	<u>147,079</u>	<u>341,377</u>
Net Assets- July 1, 2001	<u>3,690,068</u>	<u>2,813,114</u>	<u>6,503,182</u>
<b>Net Assets- June 30, 2002</b>	<u><u>\$ 3,884,366</u></u>	<u><u>\$ 2,960,193</u></u>	<u><u>\$ 6,844,559</u></u>

## **FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS**

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

### **Governmental Funds**

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,134,618,000 an increase of \$256,506,000 from the prior year. This increase is primarily attributed to proceeds from two lease revenue bond issuances by Public Facilities and Financing Authority for construction of a ballpark project and for improvement and construction of fire and lifeguard facilities. Approximately half of the combined fund equity, \$533,346,000, constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed (1) to liquidate contracts and purchase orders of the period, (2) to pay debt service, (3) to generate income to pay for the perpetual care of the various programs, or (4) for a variety of other purposes.

The General Fund is the chief operating fund of the City. At the end of fiscal year 2002, undesignated fund balance of the General Fund was \$40,761,000 while total fund balance was \$70,003,000. This represents a decrease from Fiscal year 2001 undesignated fund balance of \$10,399,000. Fiscal year 2001 was the highest undesignated fund balance in the history of the City. Undesignated fund balance represents 6% of total General Fund expenditures, while total fund balance represents 10% of that same amount.

### **Proprietary Funds**

The City's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail.

As of the end of the current fiscal year unrestricted net assets of the Sewer and Water Utility Funds are \$366,686,000 and \$273,734,000 respectively, with net assets increases of \$108,040,000 and \$29,760,000 respectively. These increases are primarily attributed to capital contributions received from developers for the installation of water and sewer mains.

## **GENERAL FUND BUDGETARY HIGHLIGHTS**

The difference between the original budget and the final budget were a \$2,666,000 increase in appropriations and is attributed to the following:

- \$2,280,000 increase in departmental appropriations for Worker's Compensation rate increases required primarily to escalating medical costs.
- \$169,000 increase to expand employee fingerprinting and background investigations in effort to enhance security in the aftermath of September 11, 2001.
- \$67,000 increase to fund the Transportation Alternatives Program expenses due to increases in the City's subsidy of employee transportation costs.
- \$150,000 increase for repairs of the chiller system at the City Administration Building.

This overall increase in departmental appropriations was funded from revenues above estimates, thus eliminating the need to draw upon existing fund balance.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

The City elected to early implement the infrastructure portion of GASB Statement No. 34, which requires all major infrastructure assets (such as streets, signals, bridges, and drains) acquired or improved subsequent to July 1, 1980 to be capitalized by the City in the new government-wide statements. Historically, only infrastructure assets of proprietary funds have been reported and depreciated in the financial statements. While capital assets of both governmental and proprietary funds are capitalized at the government-wide level, only proprietary assets are reported at the fund level. Governmental funds will continue to be reported on a modified accrual basis at the fund level. Differences between the fund and government-wide statements reporting for these governmental assets will be explained in both the reconciliation and the accompanying notes to the financial statements.

The City's investment in capital assets (including infrastructure) for governmental and business-type activities for the year ended June 30, 2002 amounts to \$7,872,365,000 (net of accumulated depreciation). The total increase in the City's investment in Capital Assets for the current fiscal year is 6.6% (a 5% increase for governmental activities and an 8% increase for business-type activities).

### CITY OF SAN DIEGO'S CAPITAL ASSETS

(Net of Depreciation)

(In Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2002	2001 *	2002	2001 *	2002	2001 *
Land, Easements, Rights of Way	\$ 1,560,954	\$ 1,529,452	\$ 73,395	\$ 71,937	\$ 1,634,349	\$ 1,601,389
Structures and Improvements	543,684	409,841	573,887	579,947	1,117,571	989,788
Equipment	146,322	130,354	71,966	69,636	218,288	199,990
Distribution and Collection Systems	-	-	1,176,576	1,130,801	1,176,576	1,130,801
Infrastructure	1,260,014	1,275,284	-	-	1,260,014	1,275,284
Construction-in- Progress	607,049	576,584	1,858,518	1,608,768	2,465,567	2,185,352
<b>Total</b>	<b>\$ 4,118,023</b>	<b>\$ 3,921,515</b>	<b>\$ 3,754,342</b>	<b>\$ 3,461,089</b>	<b>\$ 7,872,365</b>	<b>\$ 7,382,604</b>

\* As Restated

## **Highlights of Fiscal Year 2002 Capital Improvement Activities**

### Governmental Activities

- In September 2001, the \$212 million expansion of the San Diego Convention Center was opened for business. Convention officials have secured commitments from conventions and trade shows to come to the expanded facility through 2022. With this expansion the Convention Center now ranks as the 20<sup>th</sup> largest convention center in North America with approximately 2.6 million total gross square feet.
- In October 2001, Fire Station #37 in the Miramar Ranch North and Scripps Miramar Ranch communities was opened for business. This \$2.4 million project provides an 8,400 square foot, three bay apparatus, ten-person fire station to replace the temporary station at the same site.
- In May 2002, the Central Animal Shelter was opened for business. This \$9 million project replaced the existing animal shelter with a larger, approximately 38,000 square foot, modern, state-of-the-art facility to meet the long-term needs of sheltering San Diego's homeless animals.
- Construction was completed in FY 2002 for \$5 million of improvements at Qualcomm Stadium to upgrade seating and access to comply with the American with Disabilities Act (ADA) requirements and Title 24 of the California Code of Regulations.
- Construction concluded, on target and budget, for the Mission Valley Branch Library project. This project provides for a 19,700 square foot branch library on Rio San Diego Drive at Fenton Parkway, on a 2 acre site in the Mission Valley Community Plan area. The City's FY 2002 capital expenditures for the Mission Valley Library were \$4.6 million. The Library held its grand opening on July 20, 2002.
- Construction continues, on target and budget, for the Ballpark Project. The Ballpark Project consists of the Ballpark Facility, the acquisition of certain land for the Facility, and other related land acquisitions, improvements and infrastructure. The City's FY 2002 capital expenditures for the Ballpark Project were \$32 million. Completion is scheduled for Opening Day 2004.
- Construction continues, ahead of schedule, on the SR-56 Transportation Improvement project. SR-56 will be the only east-west freeway in the 25-mile gap between SR-78 and SR-52 in North San Diego County. The City's FY 2002 capital expenditures for the SR-56 project were \$43.4 million. Completion is scheduled for FY 2004.

### Business-type Activities

- **Water:** Construction on the \$21.5 million Black Mountain Road Pipeline began during fiscal year 2002. The 5.0-mile pipeline will increase water transmission capacity for the Miramar Water Treatment Plant to the northern part of the City, and provide needed system capacity to satisfy current and future demands. The City's FY 2002 capital expenditures for the Black Mountain Road Pipeline were \$6.4 million. Completion is scheduled for FY 2003.
- **Metropolitan Wastewater:** Construction continued on the restoration and replacement of sewer pipelines and pump stations of the municipal wastewater system with expenditures of \$60 million during fiscal year 2002.

## **Highlights of approved Fiscal Year 2003 Capital Improvement Projects Budget (CIP)**

The annual approved Capital Improvements Budget for Fiscal year 2003 is \$411.4 million. Water and Metropolitan Wastewater projects comprise over 48.8% of the total CIP Budget. Funding for governmental projects include TransNet funds, Facilities Benefit Assessments, Developer Impact Fees, Developer Contributions, Federal, State, local, and private contributions. Highlights of the key budgets by department are as follows:

### Governmental Activities

- **Transportation: \$91.0 million.** Key projects include: highway bridge repair/replacement for the North Torrey Pines Road and West Mission Bay Drive Bridges; construction of and improvements along Camino Ruiz, Judicial Drive, and Miramar Road; and Interstate 5/State Route 56 North freeway connectors.
- **Library: \$35.0 million.** Key projects include: the San Ysidro, Logan Heights, La Jolla/Riford, College Heights/Rolando, Ocean Beach, and Skyline Hills Branch Libraries.
- **Park and Recreation: \$25.3 million.** Key projects include: the Camino Ruiz, Torrey Highlands, Ocean View Hills, Del Mar Mesa, and Denney Ranch Neighborhood Parks; Winterwood Lane Community Park and Recreation Building and Pool; Mid-City parkland acquisition; and Balboa Park Parking Structure.
- **Fire and Life Safety Services: \$16.3 million.** Key projects include: Fire Station #46 serving Black Mountain Ranch/Torrey Highlands and Fire Station #6 serving the Otay Mesa/Nestor communities.
- **Special Projects: \$10.6 million.** Key projects consist of the Ballpark and New Main Library.

### Business-type Activities

- **Water: \$62.5 million** for the FY 2003 Water Department CIP budget plus an additional \$26.1 million for projects phase funded in previous years. Projects include the Alvarado Water Treatment Plant, including the Earl Thomas Reservoir, the upgrade and expansion of the Miramar Water Treatment Plant, and replacing water mains citywide. These improvements will allow the Water Department to continue to supply San Diegans with a reliable source of safe, clean water, meeting the requirements of the 1996 Safe Drinking Water Act.
- **Metropolitan Wastewater: \$137.4 million** to continue the \$2.5 billion upgrade of the City's metropolitan and municipal wastewater system. This includes the Wet Weather Storage Facility, Pipeline Rehabilitation, Phase 1 of the North City Water Reclamation Plant Permanent Demineralization Facility, the Otay Mesa Trunk Sewer, pump station restorations and the continued replacement of sewer mains and upgrades to the sewer infrastructure.

### **Long-Term Debt**

At the end of the current fiscal year, the City had total debt outstanding of \$2,874,168,000. Of this amount, \$58,095,000 is comprised of debt backed by the full faith and credit of the government and \$125,955,000 is special assessment debt for which the government is liable in the event of default by the property owners subject to the assessment. The remainder of the City's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds), tax allocation bonds, contracts payable, notes payable, loans, capital lease obligations, net pension obligation, liability claims, accrued annual leave, and a bank line-of-credit.

**CITY OF SAN DIEGO'S OUTSTANDING DEBT**  
(In Thousands)

	Governmental Activities		Eusiness-type Activities		Total Primary Government	
	2002	2001	2002	2001	2002	2001
General Obligation Bonds	\$ 58,095	\$ 63,595	\$ -	\$ -	\$ 58,095	\$ 63,595
Revenue Bonds/ COP's	609,235	434,365	1,433,465	1,463,290	2,042,700	1,897,655
Special Assessment/ Mello Roos Bonds with Governmental Commitment	125,955	128,545	-	-	125,955	128,545
Tax Allocation Bonds	275,471	222,751	-	-	275,471	222,751
Contracts Payable	3,597	3,848	-	-	3,597	3,848
Notes Payable	15,521	15,547	-	-	15,521	15,547
Loans Payable	3,250	3,250	59,842	60,222	63,092	63,472
Section 108 Loans	25,005	26,865	-	-	25,005	26,865
Capital Lease Obligations	38,345	35,130	7,612	7,043	45,957	42,173
Pension Obligation	33,048	26,211	6,082	4,697	39,130	30,908
Liability Claims	98,061	82,329	5,173	7,045	103,234	89,374
Accrued Annual Leave	56,662	52,126	15,805	14,323	72,467	66,449
Bank Line-of-Credit	-	-	3,944	4,169	3,944	4,169
<b>Total</b>	<b><u>\$ 1,342,245</u></b>	<b><u>\$ 1,094,562</u></b>	<b><u>\$ 1,531,923</u></b>	<b><u>\$ 1,560,789</u></b>	<b><u>\$ 2,874,168</u></b>	<b><u>\$ 2,655,351</u></b>

- In December 2001, the City issued \$58,425,000 of tax allocation bonds to finance various redevelopment activities.
- In February 2002, the City issued \$169,685,000 of lease revenue bonds to finance a portion of the cost of building a state-of-the-art baseball park as part of a larger urban revitalization project to be located in the East Village neighborhood of downtown San Diego.
- In June 2002, the City issued \$25,070,000 of lease revenue bonds for construction and improvement projects for fire and lifeguard facilities throughout the City and to acquire land for the future construction of facilities. This is the first of two series of bond issuances expected to occur as part of the project plan.

The City has an AAA rating from Fitch IBCA, an Aa1 rating from Moody's Investors Service, and an AA rating from Standard & Poor's on general obligation bond issues.

Section 90 of the City Charter provides that the bonded indebtedness for the development, conservation and furnishings of water shall not exceed 15% of the last preceding assessed valuation of all real and personal property of the City subject to direct taxation, and that the bonded indebtedness for other municipal improvements shall not exceed 10% of such valuation. The current debt limitations for water and other purposes for the City are \$3,759,515 and \$2,506,343 respectively, which are significantly in excess of the City's current outstanding general obligation debt.

It has been the City's practice, as provided for in Section 90.1 of the City Charter, to issue revenue bonds for the purpose of constructing water facilities. Per Section 90.1, revenue bonds do not constitute an indebtedness of the City, but an obligation payable from the revenues received by the utility. Section 90.2 authorizes the issuance of Revenue Bonds for the purpose of constructing improvements to the City's sewer system.

Additional information on the City's long-term debt can be found in the accompanying notes to the financial statements.

#### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The Annual Fiscal Year 2003 Budget incorporates the vision and priorities expressed by the Mayor and City Council. The Mayor's Ten Goals reaffirmed at the State of the City address held on January 7, 2002 include:

1. Establish an ethics commission (established in fiscal year 2002)
2. Reduce traffic congestion
3. Create neighborhoods we can be proud of
4. Clean up our beaches and bays
5. Restructure regional government/construct an airport
6. Complete the ballpark
7. Build a library system
8. Make San Diego America's safest City
9. Pursue energy independence
10. Complete Multiple Species Conservation Program open space acquisition

In addition, the development of the Annual Fiscal Year 2003 Budget took into consideration the priorities of each Council Member. Additional input for the Annual Fiscal year 2003 Budget was provided by the Mayor and City Council at Budget Workshops. Citizen input is provided through continuous departmental customer surveys and Community Budget Forums where the City manager and Council Members discuss the budget with various community groups. Based on the variety of input received, the following priorities were identified in the fiscal year 2003 budget:

- Public Safety
- Neighborhood Services
- Protection and Enhancement of the Environment

The Annual fiscal year 2003 Budget reflects the City's negotiated outcomes with those of the four collective bargaining units representing City workers. The Police Officer's Association did not reach an agreement, so the Mayor and City Council implemented a one-year compensation package. Labor negotiations resulted in compensation and benefit increases of an average of 3.75% over the next three years. Salaries and Benefits account for approximately 75.6% of the total General Fund budget and 19.5% of the Non-General Funds in fiscal year 2003.

In considering the City Budget for Fiscal year 2003, the Mayor, City Council and Management used the following key assumptions in revenue forecasting:

- Property tax revenue will increase 9% due to an estimated rise in assessed property valuations.
- Sales tax revenue will increase by 4% due to anticipated economic growth in the retail base.
- Transient Occupancy Tax revenue will increase by 6% due to anticipated tourism growth and construction of new hotels.
- Motor Vehicle Licenses Fees will increase by 4% due to increased vehicle registration from auto sales and financing incentives.

The unappropriated General Fund reserve totals \$21.4 million at the beginning of fiscal year 2003, an 11% increase over fiscal year 2002. The unappropriated reserve was established to fund major General Fund emergencies. A secondary offset is that it assists in maintaining a favorable bond rating. The Mayor and City Council have adopted a new Council Policy, which includes the goal of increasing this reserve to 5% of total General Fund revenues by Fiscal year 2014.

During fiscal year 2002, undesignated fund balance in the General Fund increased to \$40.8 million. The City appropriated \$19.4 million of this amount for spending in the 2003 Fiscal year budget.

Super Bowl XXXVII will be held in San Diego in January 2003. The anticipated economic impacts and increase to service levels related to hosting this event have been incorporated in the 2003 fiscal year budget.

In October 2002, the City issued \$286,945,000 of lease revenue bonds to finance the upgrade and expansion of its water system, consistent with the Water Strategic Plan. Council adopted a water rate increase of 6% per year for five years, beginning in fiscal year 2003, to finance the bond issuance.

#### **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the City Auditor & Comptroller, 202 C Street, City of San Diego, California 92101 or e-mailed to the City Auditor and Comptroller at [auditor@sandiego.gov](mailto:auditor@sandiego.gov). This financial report is also available on the City's website at [www.sandiego.gov](http://www.sandiego.gov), under the Auditor and Comptroller department.



# **BASIC FINANCIAL STATEMENTS**



**STATEMENT OF NET ASSETS**  
 June 30, 2002  
 (In Thousands)

	Primary Government			Component Units		
	Governmental Activities	Business - Type Activities	Total	San Diego Convention Center Corporation	San Diego Housing Commission	San Diego Medical Services Enterprise, LLC
<b>ASSETS</b>						
Cash or Equity in Pooled Cash and Investments	\$ 702,313	\$ 606,658	\$ 1,308,971	\$ 3,857	\$ 244	\$ 849
Cash With Custodian/Fiscal Agent	26,128	76	26,204	-	-	-
Investments at Fair Value	352,611	-	352,611	-	25,260	-
Receivables:						
Taxes - Net	53,003	-	53,003	-	-	-
Accounts - Net	53,703	76,652	130,355	3,172	1,094	4,463
Claims - Net	170	-	170	-	-	-
Contributions	404	-	404	-	-	-
Special Assessments - Net	1,964	-	1,964	-	-	-
Notes	29,195	-	29,195	-	77,674	-
Accrued Interest	5,929	3,713	9,642	-	6,820	-
Grants	32,603	7,576	40,179	-	-	-
From Fiduciary Funds	75,564	-	75,564	-	-	-
From City of San Diego	-	-	-	639	267	-
From Other Agencies	1,670	-	1,670	164	4,838	-
Advances to Fiduciary Funds	1,621	358	1,979	-	-	-
Advances to Other Agencies	5,711	-	5,711	-	-	-
Internal Balances	(43,453)	43,453	-	-	-	-
Inventories of Water in Storage	-	31,047	31,047	-	-	-
Inventories	3,787	803	4,590	-	82	-
Land Held for Resale	81,574	-	81,574	-	-	-
Prepaid and Reimbursable Items and Deposits	2,236	1,249	3,485	745	93	2
Restricted Cash and Cash Equivalents:						
Cash or Equity in Pooled Cash and Investments - Acquisition Funds	-	5,644	5,644	-	-	-
Cash or Equity in Pooled Cash and Investments - Interest and Redemption Funds	-	72,450	72,450	3,642	791	-
Cash with Custodian/Fiscal Agent	-	47	47	-	-	-
Deferred Charges	-	28,731	28,731	-	-	-
Capital Assets - Depreciable	1,950,020	1,822,429	3,772,449	16,978	34,992	-
Capital Assets - Non-Depreciable	2,168,003	1,931,913	4,099,916	-	50,794	-
<b>TOTAL ASSETS</b>	<b>5,504,756</b>	<b>4,632,599</b>	<b>10,137,355</b>	<b>29,397</b>	<b>203,249</b>	<b>5,344</b>
<b>LIABILITIES</b>						
Accounts Payable	26,449	59,059	85,508	672	2,260	518
Accrued Wages and Benefits	65,990	27,705	93,695	1,397	1,809	-
Other Accrued Liabilities	189	2,813	3,002	1,746	1,590	-
Liability Claims	89,913	5,173	95,086	-	-	-
Matured Bonds, Notes and Interest Payable	3	47	50	-	-	-
Interest Accrued on Long-Term Debt	18,581	15,083	33,664	-	-	-
Long-Term Debt Due Within One Year	82,916	32,435	115,351	1,000	114	-
Due to San Diego Convention Center Corporation	639	-	639	-	-	-
Due to San Diego Housing Commission	267	-	267	-	-	-
Due to Other Agencies	360	3,260	3,620	-	340	2,553
Deferred Revenue	112,757	32,039	144,796	616	29	-
Deposits/Advances from Others	-	5,461	5,461	4,820	781	-
Sundry Trust Liabilities	7,973	-	7,973	-	-	-
Estimated Lendfil Closure and Postclosure Care	-	10,821	10,821	-	-	-
Capital Lease Obligations	27,662	6,232	33,894	-	-	-
Net Pension Liabilities	33,048	6,062	39,130	-	-	-
Contracts and Notes Payable	90,946	63,786	154,732	7,500	8,127	-
Loans Payable	26,475	-	26,475	-	-	-
Bonds Payable	1,036,222	1,402,410	2,438,632	-	-	-
<b>TOTAL LIABILITIES</b>	<b>1,620,390</b>	<b>1,672,406</b>	<b>3,292,796</b>	<b>17,651</b>	<b>15,110</b>	<b>3,071</b>
<b>NET ASSETS</b>						
Invested in Capital Assets, net of Related Debt	3,298,213	2,253,022	5,551,235	8,478	77,545	-
Restricted for:						
Capital Projects	-	-	-	3,068	-	-
Debt Service	87,221	3,681	90,902	-	-	-
Permanent Endowments:						
Nonexpendable	12,276	-	12,276	-	-	20
Unrestricted	486,656	703,490	1,190,146	-	110,594	2,253
<b>TOTAL NET ASSETS</b>	<b>\$ 3,864,366</b>	<b>\$ 2,960,193</b>	<b>\$ 6,844,559</b>	<b>\$ 11,546</b>	<b>\$ 188,139</b>	<b>\$ 2,273</b>

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

**STATEMENT OF ACTIVITIES**  
**Year Ended June 30, 2002**  
(In Thousands)

Functions/Programs	Program Revenues			
	Expense	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government:</b>				
<b>Governmental Activities:</b>				
General Government and Support .....	\$ 192,948	\$ 75,317	\$ 9,388	\$ 721
Public Safety - Police .....	292,385	20,074	24,180	523
Public Safety - Fire and Life Safety .....	134,869	18,240	1,837	128
Parks, Recreation, Culture and Leisure .....	191,909	10,357	31,521	87,301
Transportation .....	155,688	36,797	2,250	95,291
Sanitation and Health .....	57,111	8,489	1,020	194
Neighborhood Services .....	72,501	12,455	29,008	3,544
Interest on Long-Term Debt .....	58,493	-	1,753	11,556
<b>TOTAL GOVERNMENTAL ACTIVITIES .....</b>	<b>1,153,988</b>	<b>181,729</b>	<b>100,955</b>	<b>199,258</b>
<b>Business-Type Activities:</b>				
Airports .....	3,077	3,595	93	168
City Store .....	731	741	-	-
Development Services .....	46,595	44,638	-	-
Environmental Services .....	32,467	34,259	918	-
Golf Course .....	5,781	7,442	-	2,108
Recycling .....	16,069	17,563	-	-
Sewer Utility .....	255,987	256,732	4,432	83,741
Water Utility .....	243,283	221,974	538	38,825
San Diego Data Processing Corporation .....	57,893	58,399	-	-
<b>TOTAL BUSINESS-TYPE ACTIVITIES .....</b>	<b>661,883</b>	<b>645,353</b>	<b>5,981</b>	<b>124,842</b>
<b>TOTAL PRIMARY GOVERNMENT .....</b>	<b>\$ 1,815,871</b>	<b>\$ 827,082</b>	<b>\$ 106,936</b>	<b>\$ 324,100</b>
<b>Component Units:</b>				
San Diego Convention Center Corporation .....	\$ 30,894	\$ 24,782	\$ 823	\$ -
San Diego Housing Commission .....	110,510	11,894	-	106,502
San Diego Medical Services Enterprise, LLC .....	35,233	35,095	-	-
<b>TOTAL COMPONENT UNITS .....</b>	<b>\$ 176,637</b>	<b>\$ 71,771</b>	<b>\$ 823</b>	<b>\$ 106,502</b>
<b>General Revenues:</b>				
Property Taxes .....				
Sales Taxes .....				
Franchise Taxes .....				
Other Local Taxes .....				
Developer Contributions and Fees .....				
Grants and Contributions not Restricted to Specific Programs .....				
Revenue from Use of Money and Property .....				
Gain/(Loss) on Sale of Capital Assets .....				
Miscellaneous .....				
Permanent Fund Contributions .....				
Distribution from Partner .....				
Transfers .....				
Payment from City of San Diego .....				
Payment to San Diego Convention Center Corporation .....				
Payment to San Diego Housing Commission .....				
Payment to San Diego Medical Services Enterprise, LLC .....				
<b>TOTAL GENERAL REVENUES AND TRANSFERS .....</b>				
<b>CHANGE IN NET ASSETS .....</b>				
Net Assets at Beginning of Year, as Restated .....				
<b>NET ASSETS AT END OF YEAR .....</b>				

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

Net Revenues (Expense) and Changes in Net Assets

Primary Government			Component Units		
Governmental Activities	Business-Type Activities	Total	San Diego Convention Center Corporation	San Diego Housing Commission	San Diego Medical Services Enterprise, LLC
\$ (107,524)	\$ -	\$ (107,524)	\$ -	\$ -	\$ -
(247,608)	-	(247,608)	-	-	-
(114,664)	-	(114,664)	-	-	-
(62,814)	-	(62,814)	-	-	-
(21,350)	-	(21,350)	-	-	-
(47,408)	-	(47,408)	-	-	-
(27,494)	-	(27,494)	-	-	-
(43,184)	-	(43,184)	-	-	-
(672,046)	-	(672,046)	-	-	-
-	779	779	-	-	-
-	10	10	-	-	-
-	(1,957)	(1,957)	-	-	-
-	2,720	2,720	-	-	-
-	3,769	3,769	-	-	-
-	1,474	1,474	-	-	-
-	88,938	88,938	-	-	-
-	18,054	18,054	-	-	-
-	506	506	-	-	-
-	114,293	114,293	-	-	-
\$ (672,046)	\$ 114,293	\$ (557,753)	\$ -	\$ -	\$ -
\$ -	\$ -	\$ -	\$ (5,289)	\$ -	\$ -
-	-	-	-	7,886	-
-	-	-	-	-	(138)
\$ -	\$ -	\$ -	\$ (5,289)	\$ 7,886	\$ (138)
223,100	-	223,100	-	-	-
221,383	-	221,383	-	-	-
56,239	-	56,239	-	-	-
146,125	-	146,125	-	-	-
37,298	-	37,298	-	-	-
93,639	-	93,639	-	-	-
88,133	34,918	123,051	-	2,921	-
(1,826)	(71)	(1,897)	-	-	-
6,537	1,880	8,417	-	-	-
110	-	110	-	-	-
500	-	500	-	-	-
3,941	(3,941)	-	-	-	-
-	-	-	5,982	2,225	628
(5,982)	-	(5,982)	-	-	-
(2,225)	-	(2,225)	-	-	-
(628)	-	(628)	-	-	-
666,344	32,786	699,130	5,982	5,146	628
194,298	147,079	341,377	693	13,032	490
3,690,068	2,813,114	6,503,182	10,853	175,107	1,783
\$ 3,884,366	\$ 2,960,193	\$ 6,844,559	\$ 11,546	\$ 188,139	\$ 2,273

**GOVERNMENTAL FUNDS  
BALANCE SHEET  
June 30, 2002  
(In Thousands)**

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Cash or Equity in Pooled Cash and Investments .....	\$ 34,245	\$ 805,232	\$ 639,477
Cash With Custodian/Fiscal Agent .....	-	26,128	26,128
Investments at Fair Value .....	-	352,611	352,611
<b>Receivables:</b>			
Taxes - Net .....	44,277	8,726	53,003
Accounts - Net .....	42,129	8,867	50,996
Claims - Net .....	48	111	159
Special Assessments - Net .....	-	1,964	1,964
Notes .....	-	29,195	29,195
Accrued Interest .....	1,810	4,065	5,865
Grants .....	-	32,803	32,803
From Fiduciary Funds .....	75,564	-	75,564
From Other Funds .....	583	20,698	21,281
From Other Agencies .....	68	1,802	1,670
Advances to Other Funds .....	12,517	14,160	26,677
Advances to Other Agencies .....	350	5,361	5,711
Land Held for Resale .....	-	81,574	81,574
Prepaid and Reimbursable Items and Deposits .....	74	1,541	1,615
<b>TOTAL ASSETS</b> .....	<b>\$ 211,665</b>	<b>\$ 1,194,458</b>	<b>\$ 1,406,123</b>
<b>LIABILITIES</b>			
Accounts Payable .....	\$ 3,739	\$ 18,182	\$ 21,921
Accrued Wages and Benefits .....	27,547	1,661	29,208
Other Accrued Liabilities .....	-	189	189
Matured Bonds, Notes and Interest Payable .....	-	3	3
Due to Other Funds .....	-	22,572	22,572
Due to Component Unit .....	-	906	906
Due to Other Agencies .....	-	360	360
Deferred Revenue .....	37,376	75,381	112,757
Advances from Other Funds .....	-	2,616	2,616
Sundry Trust Liabilities .....	-	7,973	7,973
Contracts and Notes Payable .....	73,000	-	73,000
<b>TOTAL LIABILITIES</b> .....	<b>141,662</b>	<b>129,843</b>	<b>271,505</b>
<b>FUND EQUITY:</b>			
<b>Fund Balances:</b>			
Reserved for Land Held for Resale .....	-	81,574	81,574
Reserved for Encumbrances .....	13,431	261,181	274,612
Reserved for Advances and Deposits .....	12,867	13,787	26,654
Reserved for Permanent Endowments .....	-	12,276	12,276
Reserved for Debt Service .....	-	206,156	206,156
<b>Unreserved:</b>			
Designated for Unrealized Gains .....	1,175	6,478	7,654
Designated for Subsequent Years' Expenditures .....	1,768	236,400	238,168
Undesignated .....	40,761	245,763	287,524
<b>TOTAL FUND EQUITY</b> .....	<b>70,003</b>	<b>1,064,615</b>	<b>1,134,618</b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b> .....	<b>\$ 211,665</b>	<b>\$ 1,194,458</b>	

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital Assets used in governmental activities are not financial resources, and therefore, are not reported in the funds.	4,040,655
Internal Service funds are used by management to charge the costs of activities such as Central Garage and Machine Shop, Print Shop, and Central Stores to individual funds. The assets and liabilities of Internal Service Funds are included in governmental activities in the Statement of Net Assets.	(140)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(1,290,767)
<b>Net Assets of governmental activities</b>	<b>\$ 3,884,366</b>

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

**GOVERNMENTAL FUNDS**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
 Year Ended June 30, 2002  
 (In Thousands)

	General	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>			
Property Taxes .....	\$ 169,976	\$ 53,124	\$ 223,100
Special Assessments .....	-	22,491	22,491
Sales Taxes .....	139,197	82,186	221,383
Other Local Taxes .....	115,416	86,948	202,364
Licenses and Permits .....	22,062	3,132	25,194
Fines, Forfeitures and Penalties .....	24,250	1,604	25,854
Revenue from Use of Money and Property .....	34,697	62,516	97,213
Revenue from Federal Agencies .....	1,931	40,704	42,635
Revenue from Other Agencies .....	88,027	83,654	171,681
Revenue from Private Sources .....	-	140,841	140,841
Charges for Current Services .....	89,936	20,482	110,418
Other Revenue .....	3,291	6,283	9,574
Distribution from Partner .....	-	500	500
<b>TOTAL REVENUES</b> .....	<b>688,783</b>	<b>604,465</b>	<b>1,293,248</b>
<b>EXPENDITURES</b>			
Current:			
General Government and Support .....	132,312	56,816	189,128
Public Safety - Police .....	259,191	29,618	288,809
Public Safety - Fire and Life Safety .....	122,942	9,032	131,974
Parks, Recreation, Culture and Leisure .....	89,442	85,043	174,485
Transportation .....	19,196	72,550	91,746
Sanitation and Health .....	34,535	2,316	36,851
Neighborhood Services .....	28,626	43,461	72,087
Capital Projects .....	-	208,083	208,083
Debt Service:			
Principal Retirement .....	1,553	38,278	39,831
Interest .....	1,157	47,983	49,140
<b>TOTAL EXPENDITURES</b> .....	<b>688,954</b>	<b>593,180</b>	<b>1,282,134</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b> .....	<b>(171)</b>	<b>11,285</b>	<b>11,114</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers from Proprietary Funds .....	2,409	3,357	5,766
Transfers from Other Funds .....	27,551	306,735	334,286
Transfers from Component Unit .....	22	550	572
Transfers to Proprietary Funds .....	(6,699)	(643)	(7,342)
Transfers to Other Funds .....	(32,082)	(302,204)	(334,286)
Transfers to Component Unit .....	(650)	(8,757)	(9,407)
Proceeds from Revenue Bonds .....	-	194,756	194,756
Proceeds from Tax Allocation Bonds .....	-	58,425	58,425
Proceeds from Capital Leases .....	1,916	706	2,622
<b>TOTAL OTHER FINANCING SOURCES (USES)</b> .....	<b>(7,533)</b>	<b>252,925</b>	<b>245,392</b>
<b>NET CHANGE IN FUND BALANCES</b> .....	<b>(7,704)</b>	<b>264,210</b>	<b>256,506</b>
Fund Balances at Beginning of Year, as Restated .....	77,707	800,405	878,112
<b>FUND BALANCES AT END OF YEAR</b> .....	<b>\$ 70,003</b>	<b>\$ 1,064,615</b>	<b>\$ 1,134,618</b>

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

**City of San Diego  
 Reconciliation of the Statement of Revenues, Expenditures, and  
 Changes in Fund Balances of Governmental Funds  
 to the Statement of Activities  
 Year Ended June 30, 2002  
 (In Thousands)**

Net change in fund balances - total governmental funds (page 19)	\$ 256,506
 Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	 129,304
The net effect of various miscellaneous transactions involving capital assets (ie: donations, retirements, and transfers) is to increase net assets.	55,754
The issuance of long-term debt (i.e., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(215,972)
Some expenses reported in the Statement of Activities do not require the use of current financial resources (i.e., compensated absences, liability claims, and net pension obligation), and therefore are not accrued as expenses in governmental funds.	(28,061)
Internal Service funds are used by management to charge the costs of activities such as Central Garage and Machine Shop, Print Shop, Central Stores, and others to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.	<u>(3,233)</u>
Change in net assets of governmental activities (page 16)	<u><u>\$ 194,298</u></u>

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



**GENERAL FUND  
CITY OF SAN DIEGO  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL (BUDGETARY BASIS)  
Year Ended June 30, 2002  
(In Thousands)**

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>				
Property Taxes .....	\$ 169,444	\$ 169,444	\$ 169,976	\$ 532
Sales Taxes .....	141,672	141,672	139,197	(2,475)
Other Local Taxes .....	113,054	113,054	115,416	2,362
Licenses and Permits .....	21,397	21,397	22,062	665
Fines, Forfeitures and Penalties .....	30,434	30,434	24,250	(6,184)
Revenue from Use of Money and Property .....	34,071	34,071	35,809	1,738
Revenue from Federal Agencies .....	850	850	1,931	1,081
Revenue from Other Agencies .....	77,202	77,202	88,027	10,825
Charges for Current Services .....	83,855	83,855	89,936	6,081
Other Revenue .....	2,848	2,848	3,291	443
Excess Revenue Appropriated .....	-	2,666	-	(2,666)
<b>TOTAL REVENUES</b> .....	<b>674,827</b>	<b>677,493</b>	<b>689,895</b>	<b>12,402</b>
<b>EXPENDITURES</b>				
Current:				
General Government and Support .....	142,574	142,985	136,394	6,591
Public Safety - Police .....	266,956	268,370	260,803	7,567
Public Safety - Fire and Life Safety .....	123,867	124,435	122,299	2,136
Parks, Recreation, Culture and Leisure .....	95,753	95,881	92,239	3,642
Transportation .....	20,220	20,301	20,037	264
Sanitation and Health .....	37,364	37,410	35,849	1,561
Neighborhood Services .....	31,176	31,194	29,656	1,538
Debt Service:				
Principal .....	1,553	1,553	1,553	-
Interest .....	3,530	3,530	3,530	-
<b>TOTAL EXPENDITURES</b> .....	<b>722,993</b>	<b>725,659</b>	<b>702,360</b>	<b>23,299</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b> .....	<b>(48,166)</b>	<b>(48,166)</b>	<b>(12,465)</b>	<b>35,701</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers from Proprietary Funds .....	2,435	2,435	2,409	(26)
Transfers from Other Funds .....	40,157	40,157	27,551	(12,606)
Transfers from Component Unit .....	22	22	22	-
Transfers to Proprietary Funds .....	(6,699)	(6,699)	(6,699)	-
Transfers to Other Funds .....	(32,082)	(32,082)	(32,082)	-
Transfers to Component Unit .....	(650)	(650)	(650)	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b> .....	<b>3,183</b>	<b>3,183</b>	<b>(9,449)</b>	<b>(12,632)</b>
<b>NET CHANGE IN FUND BALANCE</b> .....	<b>(44,983)</b>	<b>(44,983)</b>	<b>(21,914)</b>	<b>23,069</b>
Fund Balance Undesignated at July 1, 2001 .....	51,160	51,160	51,160	-
Reserved for Encumbrances at July 1, 2001 .....	11,151	11,151	11,151	-
Designated for Subsequent Years' Expenditures at July 1, 2001 .....	2,132	2,132	2,132	-
Designated for Subsequent Years' Expenditures at June 30, 2002 .....	-	-	(1,768)	(1,768)
<b>FUND BALANCE UNDESIGNATED AT JUNE 30, 2002</b> .....	<b>\$ 19,460</b>	<b>\$ 19,460</b>	<b>\$ 40,761</b>	<b>\$ 21,301</b>

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

**PROPRIETARY FUNDS  
STATEMENT OF NET ASSETS  
June 30, 2002  
( In Thousands )**

	Business-Type Activities - Enterprise Funds				Internal Service Funds
	Sewer Utility	Water Utility	Other Enterprise Funds	Total	
<b>ASSETS</b>					
Cash or Equity in Pooled Cash and Investments .....	\$ 325,128	\$ 218,724	\$ 59,781	\$ 603,633	\$ 65,861
Cash with Custodian/Fiscal Agent .....	-	-	76	76	-
Receivables:					
Accounts - Net .....	32,178	38,046	6,428	76,652	2,707
Claims - Net .....	-	-	-	-	11
Contributions .....	-	-	-	-	404
Accrued Interest .....	2,054	1,305	347	3,706	41
Grants .....	7,139	52	385	7,576	-
From Other Funds .....	-	-	1,645	1,645	-
Advances to Other Funds .....	19,071	15,664	10,335	45,070	404
Inventories of Water in Storage .....	-	31,047	-	31,047	-
Inventories .....	-	256	347	603	3,787
Prepaid and Reimbursable Items and Deposits .....	-	-	1,249	1,249	621
Restricted Assets:					
Cash or Equity in Pooled Cash and Investments - Acquisition Funds .....	-	5,644	-	5,644	-
Cash or Equity in Pooled Cash and Investments - Interest and Redemption Funds .....	20,525	29,053	22,872	72,450	-
Cash with Custodian/Fiscal Agent .....	47	-	-	47	-
Deferred Charges .....	20,759	7,972	-	28,731	-
Capital Assets - Depreciable .....	1,245,122	529,679	46,359	1,821,160	78,637
Capital Assets - Non-Depreciable .....	1,274,784	551,035	106,114	1,931,913	-
<b>TOTAL ASSETS</b> .....	<b>2,946,787</b>	<b>1,428,477</b>	<b>255,938</b>	<b>4,631,202</b>	<b>152,473</b>
<b>LIABILITIES</b>					
Accounts Payable .....	16,932	37,089	4,942	58,963	4,624
Accrued Wages and Benefits .....	9,789	6,453	9,842	26,084	10,340
Other Accrued Liabilities .....	-	-	2,813	2,813	-
Liability Claims .....	3,848	1,325	-	5,173	42,600
Matured Bonds, Notes and Interest Payable .....	47	-	-	47	-
Interest Accrued on Long-Term Debt .....	6,631	8,452	-	15,083	322
Long-Term Debt Due Within One Year .....	24,000	7,055	1,380	32,435	6,877
Due to Other Funds .....	-	-	354	354	-
Due to Other Agencies .....	3,237	15	8	3,260	-
Deferred Revenue .....	17,658	9,895	4,486	32,039	-
Advances from Other Funds .....	-	-	-	-	67,556
Deposits/Advances from Others .....	-	5,417	44	5,461	-
Estimated Landfill Closure and Postclosure Care .....	-	-	10,821	10,821	-
Capital Lease Obligations .....	-	-	6,232	6,232	19,570
Net Pension Liability .....	2,117	1,705	1,900	5,722	1,050
Contracts and Notes Payable .....	59,842	-	3,944	63,786	-
Bonds Payable .....	1,031,245	371,165	-	1,402,410	-
<b>TOTAL LIABILITIES</b> .....	<b>1,175,346</b>	<b>448,571</b>	<b>46,766</b>	<b>1,670,683</b>	<b>152,939</b>
<b>NET ASSETS</b>					
Invested in Capital Assets, Net of Related Debt .....	1,404,752	702,494	144,507	2,251,753	52,140
Restricted for Debt Service .....	3	3,678	-	3,681	-
Unrestricted .....	366,686	273,734	64,665	705,085	(52,606)
<b>TOTAL NET ASSETS</b> .....	<b>\$ 1,771,441</b>	<b>\$ 979,906</b>	<b>\$ 209,172</b>	<b>2,960,519</b>	<b>\$ (466)</b>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.				(326)	
Net assets of business-type activities				<u>\$ 2,960,193</u>	

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

**PROPRIETARY FUNDS**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**  
Year Ended June 30, 2002  
(In Thousands)

	Business-Type Activities - Enterprise Funds				
	Sewer Utility	Water Utility	Other Enterprise Funds	Total	Internal Service Funds
<b>OPERATING REVENUES</b>					
Sale of Water .....	\$ -	\$ 200,033	\$ -	\$ 200,033	\$ 59,179
Charges for Services .....	251,647	821	111,169	363,637	45,432
Contributions .....	-	-	3	3	-
Revenue from Use of Property .....	-	3,654	-	3,654	-
Usage Fees .....	-	1,304	50,991	52,295	31,775
Other .....	5,085	16,162	4,484	25,731	1,354
<b>TOTAL OPERATING REVENUES</b> .....	<b>256,732</b>	<b>221,974</b>	<b>166,647</b>	<b>645,353</b>	<b>137,740</b>
<b>OPERATING EXPENSES</b>					
Benefit and Claim Payments .....	-	-	-	-	54,356
Maintenance and Operations .....	142,303	61,813	92,640	296,756	40,396
Cost of Materials Issued .....	-	-	309	309	28,543
Cost of Water Purchased .....	-	97,312	-	97,312	-
Taxes .....	-	1,181	7,636	8,817	-
Administration .....	22,229	50,886	52,200	125,315	17,132
Depreciation .....	35,534	12,624	8,899	57,057	10,641
<b>TOTAL OPERATING EXPENSES</b> .....	<b>200,066</b>	<b>223,816</b>	<b>161,684</b>	<b>585,566</b>	<b>151,068</b>
<b>OPERATING INCOME (LOSS)</b> .....	<b>56,666</b>	<b>(1,842)</b>	<b>4,963</b>	<b>59,787</b>	<b>(13,328)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Earnings on Investments .....	18,635	11,883	4,471	34,989	162
Federal Grant Assistance .....	4,432	23	89	4,544	-
Other Agency Grant Assistance .....	-	515	922	1,437	-
Gain (Loss) on Sale/Retirement of Capital Assets .....	(272)	130	(29)	(171)	106
Debt Service Interest Payments .....	(54,028)	(18,487)	(357)	(72,872)	(1,085)
Cost of Issuance of Long - Term Debt .....	(897)	(307)	-	(1,204)	-
Other .....	841	6	1,032	1,879	3,184
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b> .....	<b>(31,289)</b>	<b>(6,237)</b>	<b>6,128</b>	<b>(31,398)</b>	<b>2,367</b>
<b>INCOME (LOSS) BEFORE CONTRIBUTIONS AND OPERATING TRANSFERS</b> .....	<b>25,377</b>	<b>(8,079)</b>	<b>11,091</b>	<b>28,389</b>	<b>(10,961)</b>
Capital Contributions .....	83,741	38,825	2,276	124,842	-
Transfers In .....	-	-	-	-	2,184
Transfers from Governmental Funds .....	-	-	643	643	6,699
Transfers Out .....	(110)	(45)	(49)	(204)	(1,980)
Transfers to Governmental Funds .....	(968)	(941)	(2,288)	(4,197)	(1,569)
<b>CHANGE IN NET ASSETS</b> .....	<b>108,040</b>	<b>29,760</b>	<b>11,673</b>	<b>149,473</b>	<b>(5,627)</b>
Net Assets at Beginning of Year, as Restated .....	1,663,401	950,146	197,499		5,161
<b>NET ASSETS AT END OF YEAR</b> .....	<b>\$ 1,771,441</b>	<b>\$ 979,906</b>	<b>\$ 209,172</b>		<b>\$ (466)</b>
				(2,394)	
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.					
Change in net assets of business-type activities				\$ 147,079	

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

**PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS  
Year Ended June 30, 2002  
( In Thousands )**

	Business-Type Activities - Enterprise Funds				
	Sewer Utility	Water Utility	Other Enterprise Funds	Total	Internal Service Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from Customers and Users .....	\$ 248,741	\$ 223,190	\$ 184,944	\$ 637,875	\$ 142,321
Payments to Suppliers .....	(102,300)	(167,579)	(57,137)	(327,016)	(62,386)
Payments to Employees .....	(63,000)	(53,404)	(90,891)	(207,295)	(70,568)
<b>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b> .....	<b>84,441</b>	<b>2,207</b>	<b>16,918</b>	<b>103,564</b>	<b>9,367</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>					
Transfers In .....	-	-	-	-	2,184
Transfers from Governmental Funds .....	-	-	643	643	6,890
Transfers Out .....	(110)	(45)	(49)	(204)	(1,980)
Transfers to Governmental Funds .....	(968)	(941)	(2,288)	(4,197)	(1,560)
Operating Grants Received .....	8,824	536	879	10,039	-
Proceeds from Advances and Deposits .....	-	889	6	895	11,727
Payments for Advances and Deposits .....	(5,169)	(1,050)	(1,191)	(8,010)	(74)
<b>NET CASH PROVIDED BY (USED FOR) NONCAPITAL FINANCING ACTIVITIES</b> .....	<b>2,377</b>	<b>(1,211)</b>	<b>(2,000)</b>	<b>(834)</b>	<b>18,987</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Proceeds from issuance of Long-Term Debt .....	384	-	4,080	4,464	10,623
Proceeds from Contributed Capital .....	19,034	25,128	2,276	46,438	-
Acquisition of Capital Assets .....	(129,331)	(129,827)	(16,296)	(275,454)	(22,832)
Proceeds from the Sale of Capital Assets .....	3	1,019	-	1,022	945
Principal Payments on Capital Leases .....	-	(104)	(1,207)	(1,311)	(6,018)
Principal Payments on Long-Term Debt .....	(23,740)	(6,780)	(2,425)	(32,945)	-
Interest Paid on Long-Term Debt .....	(54,148)	(18,583)	(357)	(73,088)	(1,042)
<b>NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES</b> .....	<b>(187,798)</b>	<b>(129,157)</b>	<b>(13,929)</b>	<b>(330,884)</b>	<b>(18,324)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Interest and Dividends Received on Investments .....	22,050	15,386	5,094	42,530	198
<b>NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES</b> .....	<b>22,050</b>	<b>15,386</b>	<b>5,094</b>	<b>42,530</b>	<b>198</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b> .....	<b>(78,930)</b>	<b>(112,775)</b>	<b>6,081</b>	<b>(186,624)</b>	<b>8,228</b>
<b>Cash and Cash Equivalents at Beginning of Year</b> .....	<b>424,630</b>	<b>368,196</b>	<b>76,648</b>	<b>867,474</b>	<b>57,633</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b> .....	<b>\$ 345,700</b>	<b>\$ 253,421</b>	<b>\$ 82,729</b>	<b>\$ 681,850</b>	<b>\$ 65,861</b>
<b>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</b>					
Operating Income (Loss) .....	\$ 56,666	\$ (1,842)	\$ 4,963	\$ 59,787	\$ (13,328)
<b>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:</b>					
Depreciation .....	35,534	12,624	8,899	57,057	10,641
<b>Changes in Assets and Liabilities:</b>					
<b>(Increase) Decrease in Receivables:</b>					
Accounts - Net .....	1,947	(931)	431	1,447	1,397
Claims - Net .....	-	-	-	-	1
From Other Funds .....	-	-	245	245	-
(Increase) Decrease in Inventories .....	-	(18,302)	588	(17,734)	(312)
(Increase) Decrease in Prepaid and Reimbursable Items and Deposits .....	-	1	306	307	(162)
Increase (Decrease) in Accounts Payable .....	(1,033)	7,456	2,400	8,823	785
Increase (Decrease) in Accrued Wages and Benefits .....	1,101	391	594	2,086	(164)
Increase (Decrease) in Other Accrued Liabilities .....	-	-	(386)	(386)	-
Increase (Decrease) in Liability Claims .....	(2,136)	264	-	(1,872)	7,119
Increase (Decrease) in Due to Other Funds .....	-	-	(87)	(87)	-
Increase (Decrease) in Due to Other Agencies .....	847	2	-	849	-
Increase (Decrease) in Deferred Revenue .....	(9,779)	2,141	(3,409)	(11,047)	-
Increase (Decrease) in Net Pension Liability .....	453	397	439	1,289	246
Increase (Decrease) in Estimated Landfill Closure and Postclosure Care .....	-	-	901	901	-
Other Nonoperating Revenue (Expenses) .....	841	6	1,032	1,879	3,184
<b>Total Adjustments</b> .....	<b>27,775</b>	<b>4,049</b>	<b>11,953</b>	<b>43,777</b>	<b>22,895</b>
<b>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b> .....	<b>\$ 84,441</b>	<b>\$ 2,207</b>	<b>\$ 16,916</b>	<b>\$ 103,564</b>	<b>\$ 9,367</b>
<b>Noncash Investing, Capital, and Financing Activities:</b>					
Developer Contributed Assets .....	84,707	13,697	-	78,404	-

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

**STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
June 30, 2002  
(In Thousands)**

	<u>Pension Trust</u>	<u>Agency Funds</u>
<b>ASSETS</b>		
Cash or Equity in Pooled Cash and Investments .....	\$ 2,777	\$ 97,177
Cash with Custodian/Fiscal Agent .....	601,200	-
Investments at Fair Value .....	2,457,969	104,059
Receivables:		
Accounts - Net .....	-	6,537
Contributions .....	15,036	-
Accrued Interest .....	11,109	8
Loans .....	19,966	5,599
Securities Sold .....	47,378	-
Prepaid and Reimbursable Items and Deposits .....	1	-
Capital Assets - Net .....	<u>291</u>	<u>-</u>
<b>TOTAL ASSETS</b> .....	<u>3,155,727</u>	<u>\$ 213,380</u>
<b>LIABILITIES</b>		
Accounts Payable .....	2,940	\$ 2,799
Accrued Wages and Benefits .....	437	-
Employees' 401(k) Plans .....	-	110,058
Due to Other Funds .....	-	75,564
Deferred Revenue .....	243	-
Advances from Other Funds .....	-	1,979
Deposits/Advances from Others .....	-	9,452
Sundry Trust Liabilities .....	-	13,528
Net Pension Liabilities .....	99	-
Securities Purchased .....	241,929	-
Contracts and Notes Payable .....	<u>-</u>	<u>-</u>
<b>TOTAL LIABILITIES</b> .....	<u>245,648</u>	<u>\$ 213,380</u>
<b>NET ASSETS</b>		
Held in Trust for Pension Benefits and Other Purposes .....	<u>\$ 2,910,079</u>	

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

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**Year Ended June 30, 2002**  
(In Thousands)

	<u>Pension Trust</u>
<b>ADDITIONS</b>	
Employer Contributions .....	\$ 103,126
Employee Contributions .....	105,255
Charges for Services .....	451
Earnings on Investments .....	<u>(100,849)</u>
<b>TOTAL OPERATING ADDITIONS .....</b>	<b><u>107,983</u></b>
<b>DEDUCTIONS</b>	
Benefit and Claim Payments .....	187,203
Administration .....	7,591
Depreciation .....	<u>35</u>
<b>TOTAL OPERATING DEDUCTIONS .....</b>	<b><u>194,829</u></b>
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Gain (Loss) on Sale/Retirement of Capital Assets .....	<u>8</u>
<b>CHANGE IN NET ASSETS .....</b>	<b>(86,838)</b>
Net Assets at Beginning of Year, as Restated .....	<u>2,996,917</u>
<b>NET ASSETS AT END OF YEAR .....</b>	<b><u>\$ 2,910,079</u></b>

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

**NOTES TO THE FINANCIAL STATEMENTS****YEAR ENDED JUNE 30, 2002****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 accounting principles generally accepted in the United States of America ("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 GAAP, 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:

- Centre City Development Corporation
- City of San Diego Metropolitan Transit Development Board Authority
- Convention Center Expansion Financing Authority
- Public Facilities Financing Authority
- Redevelopment Agency of the City of San Diego
- San Diego Data Processing Corporation
- San Diego Facilities and Equipment Leasing Corporation
- San Diego Industrial Development Authority
- San Diego Open Space Park Facilities District #1
- Southeastern Economic Development Corporation

## 1. SUMMARY OF SIGNIFICANT POLICIES (Continued)

A brief description of each blended component unit follows:

- Centre City Development Corporation, Inc. is a not-for-profit public benefit corporation organized in 1975 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 primary government. The Centre City Development Corporation is reported as a governmental fund.
- City of San Diego Metropolitan Transit Development Board Authority was established in 1988 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 primary government. The San Diego Metropolitan Transit Development Board Authority is reported as a governmental fund.
- The Convention Center Expansion Financing Authority was established in 1996 to acquire and construct the expansion to the existing convention center. The Governing Board is administered by the Mayor, the City Manager, the District Director and a member of the Board of District Commissioners. The Authority provides services which primarily benefit the primary government. The Convention Center Expansion Financing Authority is reported as a governmental fund.
- The Public Facilities Financing Authority was established in 1991 to acquire, construct, maintain, repair, manage, operate and control facilities for public capital improvements. The Public Facilities Financing Authority provides services exclusively to the primary government. The Public Facilities Financing Authority is reported as a governmental fund. Financing for governmental funds is reported as governmental activity, financing for business-type funds is reported as a business-type activity.
- The Redevelopment Agency of the City of San Diego was established 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. The Redevelopment Agency of the City of San Diego is reported as a governmental fund.
- 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. San Diego Data Processing Corporation provides services almost exclusively to the primary government. San Diego Data Processing Corporation is reported as a business-type fund.



## 1. SUMMARY OF SIGNIFICANT POLICIES (Continued)

- The San Diego Facilities and Equipment Leasing Corporation is a not-for-profit public benefit corporation established in 1987 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 primary government. The San Diego Facilities and Equipment Leasing Corporation is reported as a governmental fund. Financing for governmental funds is reported as governmental activity, financing for business-type funds is reported as a business-type activity.
- 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 Industrial Development Authority is reported as a governmental fund.
- 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 Open Space Park Facilities District #1 is reported as a governmental fund.
- 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. The Southeastern Economic Development Corporation, Inc. is reported as a governmental fund.

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 they are financially and legally separate from the primary government. Component units should be discretely presented in the reporting entity financial statements when neither of the two criteria for blending 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. The City is a sole member of SDCCC and acts through the San Diego City Council in accordance with the City Charter and the City's Municipal Code. The City appoints seven voting members out of the nine-member Board of Directors of SDCCC. The City is liable for any operating deficits and would be secondarily liable for any debt issuances of SDCCC. SDCCC is discretely presented because it provides services direct to the citizenry. SDCCC is presented as a governmental fund.

**1. SUMMARY OF SIGNIFICANT POLICIES (Continued)**

- San Diego Housing Commission ("SDHC")

SDHC, a government agency was formed by the City, under ordinance No. 2515 on December 5, 1978 in accordance with the Housing Authority Law of the State of California. SDHC primarily serves low income families by providing rental assistance payments, rental housing, loans and grants to individuals and not-for-profit organizations and other services. SDHC is discretely presented because it provides services directly to the citizenry. SDHC is presented as a business-type fund.

- San Diego Medical Services Enterprise, LLC ("SDMSE")

The SDMSE was organized on May 2, 1997 to provide emergency medical services and medical transportation services to the citizens of San Diego. Operations began July 1, 1997. The SDMSE partners are the City of San Diego and Rural Metro of San Diego, Inc., a wholly owned subsidiary of Rural Metro Corporation (a private corporation). The SDMSE governing board is comprised of five members, three of whom are appointed by the City. The City is financially obligated for any deficits and debt of SDMSE up to a maximum of \$6,500,000 over five years. The SDMSE is discretely presented because it provides services direct to the citizenry. SDMSE is presented as a business-type fund.

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. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities and Changes in Net Assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The Statement of Activities and Changes in Net Assets demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

## 1. SUMMARY OF SIGNIFICANT POLICIES (Continued)

### c. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period.

Expenditures 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.

Revenues which are considered susceptible to accrual include real and personal property taxes, other local taxes, franchise fees, fines, forfeitures and penalties, motor vehicle license fees, rents and concessions, 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.

Fiduciary Funds 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, and include both Pension Trust Funds and Agency Funds. Pension Trust Funds are reported using the same measurement focus and basis of accounting as Proprietary Funds. Agency Funds are reported in the same manner as Proprietary Funds.

The following are the City's Major Governmental Funds:

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.

The following are the City's Major Enterprise Funds:

Sewer Utility Fund - The Sewer Utility Fund is used to account for the operation, maintenance and development of the City's sewer system.

**1. SUMMARY OF SIGNIFICANT POLICIES (Continued)**

Water Utility Fund - The Water Utility Fund is used to account for operating and maintenance costs, replacements, betterments, and expansion of facilities, and payments necessary in obtaining water from the Colorado River.

The following are the City's other fund types:

Internal Service Funds - These funds account for vehicle and transportation, printing, engineering, and storeroom services provided to the City departments on a cost-reimbursement basis. Internal service funds also account for self-insurance activities, including workers compensation and long-term disability programs, which derive revenues from rates charged to benefiting departments. This fund type also accounts for the public liability reserve, which was established for the purpose of paying liability claims.

Pension Trust Funds - These funds account for the City Employees' Retirement System, the Supplemental Pension Savings Plan, and the Centre City Development Corporation's Pension Plan.

Agency Funds - These funds account for assets held by the City as an agent for individuals, private organizations, other governments and/or funds; these include federal and state income taxes withheld from employees, 401(k) plan, parking citation revenues and employee benefit plans.

Accounting and financial reporting which are similar to those often found in the private sector are followed in both the government-wide and proprietary fund financial statements. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The City adopts all applicable Financial Accounting Standards Board ("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 Governmental Accounting Standards Board ("GASB") pronouncements.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include (1) charges to customers or applications for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's Proprietary funds are charges to customers for sales and services. Operating expenses for Proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**1. SUMMARY OF SIGNIFICANT POLICIES (Continued)**

**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.

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 of 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.

1. SUMMARY OF SIGNIFICANT POLICIES (Continued)

e. Budgetary Data

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:
    - Acquisition, Improvement and Operation
    - Environmental Growth Funds:
      - Two-Thirds Requirement
      - One-Third Requirement
    - Police Decentralization
    - Public Transportation
    - Qualcomm Stadium Operations
    - Special Gas Tax Street Improvement
    - Street Division Operations
    - Transient Occupancy Tax
    - Zoological Exhibits
    - Other Special Revenue
  - Centre City Development Corporation
  - Southeastern Economic Development Corporation
- Debt Service Funds:
  - City of San Diego:
    - Pre-Arrestment Detention Facility
    - Public Safety Communications Project

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.

Budgets are 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.

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

Budgetary control for the City's General Fund is exercised at the salaries and wages and non-personnel 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 except as delegated in the Annual Appropriation Ordinance.

## 1. SUMMARY OF SIGNIFICANT POLICIES (Continued)

Reported budget figures are as originally adopted or subsequently amended 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>
Net Change in Fund Balances - GAAP Basis	\$ (7,704)	\$ 46,281	\$ 35,038
Add (Deduct) -Net Change in Fund Balances - GAAP Basis for Non-Budgeted Funds	-	(23,278)	(36,031)
Budgeted Funds:			
Deduct:			
Encumbrances Outstanding, June 30, 2002	(13,431)	(10,863)	-
Reserved for Advances and Deposits, June 30, 2002	(12,867)	(13,777)	-
Designated for Unrealized Gains, June 30, 2002	(1,176)	(37)	(12)
Reserved for Advances and Deposits, June 30, 2001	10,976	11,316	-
Designated for Unrealized Gains, June 30, 2001	<u>2,288</u>	<u>408</u>	<u>19</u>
Net Change in Fund Balances - Budgetary Basis	<u>\$ (21,914)</u>	<u>\$ 9,716</u>	<u>\$ (986)</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.

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.

## 1. SUMMARY OF SIGNIFICANT POLICIES (Continued)

### g. Investments

At July 1, 1997, the City and its blended and discretely presented component units adopted GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," which requires certain investments to be reported at fair value. At June 30, 2002, all such investments are presented at fair value.

### 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 SDHC 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.

Generally, when both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted reserves as they are needed.

### 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. Capital Assets

Capital assets, which include property, plant, and infrastructure assets such as roads, bridges, and drainage systems, are reported in the applicable governmental or business-type activities column in the government-wide financial statements net of accumulated depreciation.

To meet the criteria for capitalization, an asset must have a useful life in excess of one year, and in the case of equipment outlay, equal or exceed a capitalization threshold of \$3,000. All other capital assets such as land, structures, and infrastructure are capitalized regardless of cost. Subsequent improvements are capitalized to the extent that they extend the initial estimated useful life of the capitalized asset, or improve the efficiency or capacity of that asset. Costs for routine maintenance are expensed as incurred.



**1. SUMMARY OF SIGNIFICANT POLICIES (Continued)**

Capital assets, when purchased or constructed, are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at the estimated fair market value on the date of donation. Depreciation of capital assets is computed using the straight-line method over the estimated useful life of the asset as follows:

<u>Assets</u>	<u>Years</u>
Equipment	3-50
Structures and Improvements	20-50
Distribution and collection systems	15-150
Infrastructure	25-75

The City retains title to the animal and horticultural collections, which are housed at the San Diego Zoo and Wild Animal Park, where they are maintained by the Zoological Society of San Diego. These collections and additions are: held for public exhibition, education, and research in furtherance of public service rather than gain; are protected, cared for, and preserved or enhanced over time; and are generally not offered for sale. As such, they meet the GASB 34 definition of a collection and are not capitalized in the financial statements.

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

Interagency current receivables and payables resulting from loans between the City and its blended component units are classified as "due from" and "due to" other funds when they are expected to be repaid within a reasonable time period. Those loans or any portion thereof, not expected to be repaid within a reasonable period of time are classified as "transfers."

**m. Long-Term Liabilities**

In the government-wide and proprietary fund type financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statements of net assets.

**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.

**1. SUMMARY OF SIGNIFICANT POLICIES (Continued)**

All annual leave is accrued when incurred in the Government-Wide Financial Statements and both Proprietary and Fiduciary Funds.

In Governmental Funds, the costs for annual leave that are expected to be liquidated with expendable available financial resources are reported as an expenditure and a fund liability of the governmental fund that will pay it.

o. Claims and Judgments

The costs of claims and judgments are accrued when incurred and measurable in the Government Wide Financial Statements and both Proprietary and Fiduciary Funds. In Governmental Funds, the costs of claims and judgments are recorded as expenditures when payments are made.

p. Fund Equity

In the fund financial statements, portions of fund equity of governmental funds 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 are so close to their maturity that they present an insignificant risk of changes in value because of fluctuations in interest rates.

r. Estimates

The preparation of financial statements in conformity with GAAP 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.

s. Reclassification

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

## 2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

- a. Explanation of certain differences between the Governmental Funds Balance Sheet and the Government-wide Statement of Net Assets.

The governmental fund balance sheet includes a reconciliation between Total Fund Balance - Governmental Funds and Total Net Assets - Governmental Activities as reported in the Government-wide Statement of Net Assets. One element of that reconciliation explains that

“Capital assets used in governmental funds are not financial resources, and therefore, are not reported in the funds.” The details of this \$4,040,655 difference are as follows (in thousands):

Capital Assets, net, July 1, 2001, as restated	\$ 3,855,597
Capital Outlay	220,629
Miscellaneous Capital Outlay Transactions	55,754
Depreciation Expense	<u>(91,325)</u>
Net adjustment to increase Total Fund Balance - Governmental Funds to arrive at Total Net Assets - Governmental Activities	<u>\$ 4,040,655</u>

Another element of the reconciliation states that “Long Term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this (\$1,290,767) difference are as follows (in thousands):

Bonds Payable	\$ 1,068,756
Contracts and Notes Payable	19,118
Loans Payable	28,255
Accrued Interest Payable	18,259
Capital Leases Payable	11,897
Liability Claims	55,461
Compensated Absences	56,663
Net Pension Obligation	<u>32,358</u>
Net adjustment to decrease Total Fund Balance - Governmental Funds to arrive at Total Net Assets - Governmental Activities	<u>\$ 1,290,767</u>

- b. Explanation of certain differences between the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities

The Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances includes a reconciliation between Net Change in Fund Balances - Total Governmental Funds and Changes in Net Assets of Governmental Activities as reported in the Government-wide Statement of Activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.”

## 2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)

The details of this \$129,304 difference are as follows (in thousands):

Capital outlay	\$ 220,629
Depreciation expense	<u>(91,325)</u>
Net adjustment to increase Net Changes in Fund Balances - Total Governmental Funds to arrive at Changes in Net Assets of Governmental Activities	<u>\$ 129,304</u>

Another element of the reconciliation states that "The net effect of various miscellaneous transactions involving capital assets (i.e., donations, retirements, and transfers) is to increase net assets." The details of this \$55,754 are as follows (in thousands):

In the Statement of Activities, only the loss on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the Change in Net Assets differs from the change in Fund Balances by the cost of the capital assets sold.	\$ (8,881)
Donations of capital assets increase net assets in the Statement of Activities, but do not appear in the Governmental Funds because they are not financial resources.	65,391
The Statement of Activities reports losses arising from the retirement of existing capital assets. Conversely, governmental funds do not report any gain or loss on a retirement of capital assets.	<u>(756)</u>
Net adjustment to increase Net Change in Fund Balances - Total Governmental Funds to arrive at Changes in Net Assets of Governmental Activities.	<u>\$ 55,754</u>

Another element of the reconciliation states that "The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, etc. when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities."

## 2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)

The details of this (\$215,972) difference are as follows (in thousands):

Debt Issued or Incurred:	
Issuance of Revenue Bonds	\$ 194,755
Issuance of Tax Allocation Bonds	58,425
Capital Leases Incurred	2,622
Principal Repayments:	
General Obligation Debt	(5,500)
Revenue Bond/COP Debt	(19,885)
Special Assessment Debt	(2,590)
Tax Allocation Debt	(5,705)
Loans Payable	(1,860)
Capital Leases	(4,012)
Contracts and Notes Payable	<u>(278)</u>
Net adjustment to decrease Net Changes in Fund Balances – Total Governmental Funds to arrive at Changes in Net Assets of Governmental Activities	<u>\$ 215,972</u>

Another element of the reconciliation states that "Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not accrued as expenses in governmental funds." The details of this (\$28,061) difference are as follows (in thousands):

Compensated Absences	\$ 4,536
Liability Claims	10,498
Net Pension Obligation	6,759
Interest	<u>6,268</u>
Net adjustment to decrease Net Changes in Fund Balances - Total Governmental Funds to arrive at Changes in Net Assets of Governmental Activities	<u>\$ 28,061</u>

## 3. 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 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.

### 3. CASH AND INVESTMENTS (Continued)

"Investments at Fair Value" represent investments of the City and San Diego City Employees Retirement System (SDCERS). Reporting of investments at fair value is in accordance with GASB's 25, 27, and 31 "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans," "Accounting for Pensions by State and Local Governmental Employers," and "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," respectively.

SDCERS has, via a securities lending authorization agreement, authorized a fiscal agent to lend its securities to broker-dealers and banks pursuant to a form of loan agreement.

During the Fiscal Year, the fiscal agent lent Domestic and International Fixed Income and Equity Portfolios and received cash (United States and foreign currency), securities issued or guaranteed by the United States government, sovereign debt rated A or better, Canadian provincial debt, convertible bonds, and irrevocable letters of credit as collateral. The fiscal agent did not have the ability to pledge or sell collateral securities delivered absent a borrower default. Borrowers were required to deliver collateral for each loan equal to: (i) in the case of loaned securities denominated in United States dollars or whose primary trading market was located in the United States or sovereign debt issued by foreign governments, 101.5% of the market value of the loaned securities;

and (ii) in the case of loaned securities not denominated in United States dollars or whose primary trading market was not located in the United States, 104.5% of the market value of the loaned securities.

SDCERS did not impose any restrictions during the Fiscal Year on the amount of the loans that the fiscal agent made on its behalf and the fiscal agent indemnified SDCERS by agreeing to purchase replacement securities or return cash collateral in the event borrower failed to return a loaned security or pay distributions thereon. There were no such failures by any borrowers to return loaned securities or pay distributions thereon during the Fiscal Year. Moreover, there were no losses during the Fiscal Year resulting from a default of the borrowers or the fiscal agent.

During the Fiscal Year, SDCERS and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment pool. As of June 30, 2002, such investment pool had an average duration of 64 days and an average weighted maturity of 405 days. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. On June 30, 2002, SDCERS had no credit risk exposure to borrowers. The collateral held and the market value of securities on loan for SDCERS as of June 30, 2002 was \$163,484,036 and \$158,665,593, respectively.

### 3. CASH AND INVESTMENTS (Continued)

Aggregate cash and investments are as follows at June 30, 2002 (in thousands):

	<u>Total</u>
<b>Governmental Activities:</b>	
Cash or equity in pooled cash and investments	\$ 702,313
Cash with custodian/fiscal agent	26,128
Investments at fair value	<u>352,611</u>
Total Governmental Activities	<u>1,081,052</u>
<b>Business-Type Activities:</b>	
Cash or equity in pooled cash and investments	606,658
Cash with custodian/fiscal agent	76
Restricted cash and cash equivalents	<u>78,141</u>
Total Business-Type Activities	<u>684,875</u>
<b>Fiduciary Funds:</b>	
Cash or equity in pooled cash and investments	99,954
Cash with custodian/fiscal agent	
Custodian	601,200
Investments at fair value	<u>2,562,028</u>
Total Fiduciary Funds	<u>3,263,182</u>
Total	<u>\$ 5,029,109</u>

#### Deposits

At June 30, 2002, 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 \$256,806,371 and the net balance per various financial institutions was approximately \$273,602,667, the difference of which is substantially due to deposits in transit and outstanding checks. Of the

balance in financial institutions, approximately \$400,000 was covered by federal depository insurance and approximately \$273,209,291 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, 2002, "Cash with Custodian/Fiscal Agent" (approximately \$627,404) 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, 2002, the carrying amount of SDCCC's cash deposits was \$3,856,681 and the bank balance was \$4,555,587. 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.

### 3. CASH AND INVESTMENTS (Continued)

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.

#### Deposits - SDHC

On June 30, 2002, the carrying amount of the SDHC of cash deposits was \$244,206 and the bank balances was \$7,292,880. Of the bank balances, \$500,000 is insured. When the balances exceed \$500,000, the funds are collateralized according to state statutes, which require depositories having public funds on deposit to maintain a pool of securities with the agent of depository having a market value of at least 100% of all public funds on deposit.

#### Deposits - SDMSE

On June 30, 2002, the carrying amount of SDMSE's cash lock box deposits was approximately \$848,900 and the bank balance was \$1,319,267. Of the bank balance, \$100,000 was covered by federal depository insurance. The remaining balance was uninsured.

#### 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.



### 3. CASH AND INVESTMENTS (Continued)

The City invests in the State of California Local Agency Investment Fund ("LAIF"), a State of California external investment pool. LAIF determines fair value on its investment portfolio based on market quotations for those securities where market quotations are readily available and based on amortized cost or best estimate for those securities where market value is not readily available.

The City valued its investments in LAIF as of June 30, 2002 by multiplying its account balance with LAIF times a fair value factor determined by LAIF. This fair value factor was determined by dividing all LAIF participants total aggregate fair value by total aggregate amortized cost.

Accordingly, as of June 30, 2002, the City's investments in LAIF at fair value amounts to \$20,153,875 using a LAIF value factor of 1.002780144.

The LAIF has oversight by the local Investment Advisory Board. The LAIF Board consists of five members as designated by statute. All securities are purchased under the authority of the Government Code Section 16430 and 16480.4.

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.

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.

### 3. CASH AND INVESTMENTS (Continued)

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 policy permits 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 2002, however, the City did not enter into any reverse repurchase agreements. As such, there was no such credit exposure at year-end.

The City's investments at June 30, 2002, 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, with 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.

### 3. CASH AND INVESTMENTS (Continued)

Investments that are not subject to credit risk categorization, but that require fair value disclosure are also presented below (in thousands):

	Category			Fair Value
	1	2	3	
U.S. government and agency securities	\$1,176,836	\$ 286,021	\$ -	\$ 1,462,857
Commercial paper	93,144	-	-	93,144
Equity securities (stocks):				
- Not on securities loan	1,296,572	-	-	1,296,572
- On securities loan for securities collateral	163,484	-	-	163,484
Corporate bonds/notes	150,471	-	-	150,471
Fixed income (bonds)	661,658	-	-	661,658
Repurchase agreements	35,800	-	-	35,800
	<u>\$3,577,965</u>	<u>\$ 286,021</u>	<u>\$ -</u>	<u>\$ 3,863,986</u>
Investments not subject to categorization:				
Fixed income (bonds) on securities loan for cash collateral				48,584
Equity securities (stocks) on securities loan for cash collateral				110,082
Investment with California Local Agency Investment Fund				20,098
Mutual funds				2,463,768
Real estate/mineral interest funds				176,074
Mortgage Notes				1,515
Other (Deferred Compensation)				5,180
Total investments				<u>\$ 6,689,287</u>

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			Fair Value
	1	2	3	
U.S. government and agency securities	\$ 661,658	\$ -	\$ -	\$ 661,658
Equity securities (stocks):				
- Not on securities loan	1,296,572	-	-	1,296,572
- On securities loan for securities collateral	163,484	-	-	163,484
	<u>\$2,121,714</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$2,121,714</u>

**3. CASH AND INVESTMENTS (Continued)**

Investments not subject to categorization:

Fixed income (bonds) on securities loan for cash collateral	48,584
Equity securities (stocks) on securities loan for cash collateral	110,082
Real estate/mineral interest funds	176,074
Mortgage Notes	<u>1,515</u>
Total investments	<u>\$ 2,457,969</u>

Summary of Investments - SDHC

Investments that are not subject to credit risk categorization, but that require fair value disclosure are also presented below (in thousands):

	Category			Fair Value
	1	2	3	
U.S. government and agency securities	<u>\$ 1,543</u>	<u>-</u>	<u>-</u>	<u>\$ 1,543</u>

Investments not subject to categorization:

Investment with California Local Agency Investment Fund	<u>23,717</u>
Total investments	<u>\$ 25,260</u>

Summary of Deposits and Investments

Following is a summary of the carrying amount of cash deposits and investments at June 30, 2002 (in thousands):

Cash or equity in pooled cash investments	\$ 1,408,925
Cash with custodian/fiscal agent	627,404
Investments at fair value	2,914,639
Restricted cash and cash equivalents	<u>78,141</u>
Total	<u>\$ 5,029,109</u>

**4. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2002 was as follows (in thousands):

	<b>Primary Government</b>				<b>Ending Balance</b>
	<b>Beginning Balance, As Restated</b>	<b>Additions</b>	<b>Retirements</b>	<b>Transfers</b>	
<b>Governmental Activities:</b>					
Land, Easements, Right of Ways Structures & Improvements	\$ 1,529,452	\$ 38,929	\$ (8,881)	\$ 1,454	\$ 1,560,954
Equipment	626,823	10,234	(1,994)	139,455	774,518
Infrastructure	314,492	40,853	(25,977)	2,597	331,965
Construction-in- Progress	2,283,070	46,974	-	-	2,330,044
Total at Historical Cost	<u>576,584</u>	<u>171,374</u>	<u>-</u>	<u>(140,909)</u>	<u>607,049</u>
Less Accumulated Depreciation for: Structures & Improvements	<u>5,330,421</u>	<u>308,364</u>	<u>(36,852)</u>	<u>2,597</u>	<u>5,604,530</u>
Equipment	(216,982)	(15,846)	1,994	-	(230,834)
Infrastructure	(184,138)	(23,353)	24,364	(2,516)	(185,643)
Total Accumulated Depreciation	<u>(1,007,786)</u>	<u>(62,244)</u>	<u>-</u>	<u>-</u>	<u>(1,070,030)</u>
Governmental Activities Capital Assets, Net	<u>(1,408,906)</u>	<u>(101,443)</u>	<u>26,358</u>	<u>(2,516)</u>	<u>(1,486,507)</u>
	<u>\$ 3,921,515</u>	<u>\$ 206,921</u>	<u>\$ (10,494)</u>	<u>\$ 81</u>	<u>\$ 4,118,023</u>

**4. CAPITAL ASSETS (Continued)**

	<u>Primary Government</u>				
	<u>Beginning Balance, As Restated</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Ending Balance</u>
<b>Business-type Activities:</b>					
Land, Easements, Right of Ways Structures & Improvements	\$ 71,937	\$ 255	\$ -	\$ 1,203	\$ 73,395
Equipment	697,997	7,139	(74)	-	705,062
Distribution & Collection Systems	173,276	14,902	(21,462)	(2,466)	164,250
Construction in Progress	1,489,175	78,185	(1,120)	-	1,566,240
Total at Historical Cost	<u>1,608,768</u>	<u>252,715</u>	<u>(1,762)</u>	<u>(1,203)</u>	<u>1,858,518</u>
	<u>4,041,153</u>	<u>353,196</u>	<u>(24,418)</u>	<u>(2,466)</u>	<u>4,367,465</u>
Less Accumulated Depreciation For:					
Structures & Improvements	(118,050)	(13,198)	73	-	(131,175)
Equipment	(103,640)	(12,220)	21,191	2,385	(92,284)
Distribution & Collection Systems	<u>(358,374)</u>	<u>(31,410)</u>	<u>120</u>	<u>-</u>	<u>(389,664)</u>
Total Accumulated Depreciation	<u>(580,064)</u>	<u>(56,828)</u>	<u>21,384</u>	<u>2,385</u>	<u>(613,123)</u>
Business-type Activities Capital Assets, Net	<u>\$ 3,461,089</u>	<u>\$ 296,368</u>	<u>\$ (3,034)</u>	<u>\$ (81)</u>	<u>\$ 3,754,342</u>

Depreciation expense was charged to governmental functions as follows:

General Government and Support	\$ 2,840
Public Safety-Police	7,682
Public Safety-Fire and Life Safety	2,030
Parks, Recreation, Culture and Leisure	15,680
Transportation	62,668
Sanitation and Health	57
Neighborhood Services	368
In addition, depreciation on capital assets held by the City's Internal Service funds is charged to the various functions based on their usage of the assets	<u>10,118</u>
Total depreciation expense	<u>\$ 101,443</u>

**4. CAPITAL ASSETS (Continued)**

Governmental Activities capital assets net of accumulated depreciation at June 30, 2002 are comprised of the following:

General Capital Assets, Net	\$ 4,040,655
Internal Services Fund Capital Assets, Net	<u>77,368</u>
Total	<u>\$ 4,118,023</u>

Business-type Activities capital assets net of accumulated depreciation at June 30, 2002 are comprised of the following:

General Capital Assets, Net	\$ 3,753,073
Internal Services Fund Capital Assets, Net	<u>1,269</u>
Total	<u>\$ 3,754,342</u>

**Discretely Presented Component Unit – San Diego Convention Center Corp.**

	<u>Beginning Balance, As Restated</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Ending Balance</u>
Structures and Improvements	\$ 16,453	\$ 910	\$ -	\$ -	\$ 17,363
Equipment	<u>8,202</u>	<u>1,503</u>	<u>(395)</u>	<u>-</u>	<u>9,310</u>
Total at Historical Cost	<u>24,655</u>	<u>2,413</u>	<u>(395)</u>	<u>-</u>	<u>26,673</u>
Less Accumulated Depreciation For:					
Structures and Improvements	(3,367)	(1,165)	-	-	(4,532)
Equipment	(4,134)	(1,029)	-	-	(5,163)
Total Accumulated Depreciation	<u>(7,501)</u>	<u>(2,194)</u>	<u>-</u>	<u>-</u>	<u>(9,695)</u>
Capital Assets, Net	<u>\$ 17,154</u>	<u>\$ 219</u>	<u>\$ (395)</u>	<u>\$ -</u>	<u>\$ 16,978</u>

**4. CAPITAL ASSETS (Continued)**

<b>Discretely Presented Component Unit – San Diego Housing Commission</b>					
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Ending Balance</u>
Land	\$ 38,384	\$ -	\$ -	\$ (11,287)	\$ 27,097
Structures and Improvements	72,053	-	-	10,166	82,219
Equipment	3,093	19	-	(2,280)	832
Construction-in-Progress	<u>6,157</u>	<u>1,738</u>	<u>-</u>	<u>-</u>	<u>7,895</u>
Total at Historical Cost	<u>119,687</u>	<u>1,757</u>	<u>-</u>	<u>(3,401)</u>	<u>118,043</u>
Less Accumulated Depreciation For:					
Structures and Improvements	(23,788)	(2,895)	-	(4,792)	(31,475)
Equipment	<u>(2,372)</u>	<u>(39)</u>	<u>-</u>	<u>1,629</u>	<u>(782)</u>
Total Accumulated Depreciation	<u>(26,160)</u>	<u>(2,934)</u>	<u>-</u>	<u>(3,163)</u>	<u>(32,257)</u>
Capital Assets, Net	<u>\$ 93,527</u>	<u>\$ (1,177)</u>	<u>\$ -</u>	<u>\$ (6,564)</u>	<u>\$ 85,786</u>

**5. GOVERNMENTAL ACTIVITIES LONG-TERM DEBT**

Governmental activities long-term debt consists of general obligation bonds, revenue bonds, certificates of participation ("COP"), special assessment bonds, Mello-Roos bonds, tax allocation bonds, contracts payable, notes payable, loans payable, capital lease obligations, pension obligations, liability claims (also see Note 18 and Note 19 for more information on contingencies and third party debt) and accrued annual leave. A summary of these obligations as recorded in the Government-wide Statement of Net Assets as of June 30, 2002 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, 2002</u>
<b>General Obligation Bonds:</b>				
Open Space Park Refunding Bonds, Series 1994	5.0-6.0%	2009	\$ 64,260	\$ 41,175
Municipal Improvement Bonds, Series 1991	5.1-6.65	2012	25,500	<u>16,920</u>
Total General Obligation Bonds				<u>\$ 58,095</u>
<b>Revenue Bonds/COPs:</b>				
Public Facilities Financing Authority Stadium Lease Revenue Bonds, Series 1996 A	6.2-7.45	2027	68,425	\$ 64,955
Metropolitan Transit Development Board Authority Lease Revenue Refunding Bonds, Series 1994	4.25-5.625	2009	66,570	34,560



## 5. GOVERNMENTAL ACTIVITIES 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, 2002</u>
Metropolitan Transit Development Board Authority Lease Revenue Bonds, Series 1993	4.5-5.375	2023	19,515	16,005
San Diego Facilities Equipment Leasing Corp. Certificates of Participation Refunding, Series 1996B	4.0-5.7	2011	11,720	10,440
San Diego Facilities Equipment Leasing Corp. Certificates of Participation, Series 1996A	4.0-5.6	2010	33,430	25,010
San Diego Facilities Equipment Leasing Corp. Certificates of Participation, Series 1993	3.9-5.6	2023	27,985	19,800
Public Facilities Financing Authority Refunding, 1999A & B	3.75-5.1	2017	38,145	30,860
Convention Center Expansion Authority Lease Revenue Bonds, Series 1998A	3.8-4.875	2018	205,000	200,980
Centre City Parking Revenue Bonds, Series 1999A	4.5-6.4	2025	12,105	11,870
Public Facilities Financing Authority Ballpark Lease Revenue Bonds, Series 2002	7.15-7.7	2032	169,685	169,685
Public Facilities Financing Authority Fire and Life Safety Bonds, Series 2002B	3.55-7.0	2032	25,070	<u>25,070</u>
Total Revenue Bonds/COPs				<u>\$ 609,235</u>
<u>Special Assessment/Mello-Roos Bonds with Governmental Commitment:</u>				
1915 Act Via De La Valle Improvement Bonds, issued October 1986	6.0-6.8%	2003	2,115	\$ 105
1915 Act De La Fuente Business Park Phase I Improvement Bonds, issued April 1989	7.0-7.7	2014	4,897	2,960
1915 Act International Business Center Project Improvement Bonds, Issued September 1990	6.1-7.4	2015	4,172	2,655
1915 Act Otay Mesa Industrial Park Improvement Bonds, issued May 1992	5.5-7.95	2013	2,235	535
1915 Act De La Fuente Business Park Phase II Improvement Bonds, issued July 1992	4.0-7.1	2017	5,987	4,690
Special Tax Bonds, 1998 Series Miramar Ranch North, issued July 1998	3.75-5.375	2020	59,465	54,640
Special Tax Bonds, 2000 Series Santaluz issued November 2000	6.333	2031	60,370	<u>60,370</u>
Total Special Assessment/Mello-Roos Bonds With Governmental Commitment				<u>\$ 125,955</u>

**5. GOVERNMENTAL ACTIVITIES 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, 2002</u>
<u>Tax Allocation Bonds:</u>				
Centre City Redevelopment Project Tax Allocation Refunding Bonds Series 1992, issued October 1992	3.0-6.0%	2009	36,935	\$ 19,830
Centre City Redevelopment Project Tax Allocation Bonds, Series 1993A & B, issued November 1993	4.875-6.5	2018	54,350	36,710
Gateway Center West Redevelopment Project Tax Allocation Bonds, Series 1995, issued June 1995	7.8-9.75	2013	1,400	1,045
Mount Hope Redevelopment Project Tax Allocation Bonds, Series 1995A & B, issued June 1995	4.4-8.2	2020	5,155	4,610
Southcrest Redevelopment Project Tax Allocation Bonds, Series 1995, issued June 1995	4.75-6.5	2020	3,750	2,845
Horton Plaza Tax Allocation Refunding Bonds Series 1996 A & B	3.8-6.625	2017	22,800	19,115
Centre City Redevelopment Tax Allocation Bonds, Series 1999 A, B, C, Issued March 1999	3.0-6.25	2024	50,650	50,045
City Heights Redevelopment Tax Allocation Bonds, Series 1999 A & B, Issued April 1999	4.5-6.4	2028	15,830	15,831
Southcrest Redevelopment Project Tax Allocation Bonds, Series 2001, Issued May 2001	Various	2025	1,860	1,820
Centre City Redevelopment Project Tax Allocation Bonds, Series 2000A & B, Issued April 2000	Various	2024	27,490	27,350
Central Imperial Redevelopment Project Tax Allocation Bonds, Series 2000, Issued May 2000	Various	2030	3,395	3,350
North Bay Redevelopment Project Tax Allocation Bonds, Series 2000, Issued October 2000	Various	2031	13,000	12,725
North Park Redevelopment Project Tax Allocation Bonds, Series 2000, Issued October 2000	Various	2020	7,000	6,855

**5. GOVERNMENTAL ACTIVITIES 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, 2002</u>
Horton Plaza Redevelopment Project Tax Allocation Bonds, Series 2000, Issued November 2000	Various	2022	15,025	14,915
Centre City Redevelopment Tax Allocation Bonds Series 2001A, Issued December 2001	3.0-5.55	2026	58,425	<u>58,425</u>
Total Tax Allocation Bonds				<u>\$ 275,471</u>
Total Bonds Pivable				<u>\$ 1,068,756</u>
<u>Contracts Payable:</u>				
Contract Payable to City of National City, dated March 1987	7.5	2002	2,171	\$ 431
Contract Payable to SDSU Foundation, dated December 1991	5.6	2010	1,598	1,598
Contract Payable to MTDB, dated January 2000	4.1	2015	1,626	<u>1,568</u>
Total Contracts Payable				<u>\$ 3,597</u>
<u>Notes Payable:</u>				
Note payable to Forest City West, Inc. dated August, 1998	0.0	2004	4,000	\$ 4,000
Note payable to Lorren Daro, dated March 1995	8.0	2005	257	94
Note payable to David Engel, dated December 1994	6.0	2004	4,800	4,800
Note payable to Wal-Mart, dated June 1998	4.9	2017	1,308	1,308
Note payable to City Heights, not yet dated	6.0	2011	5,315	<u>5,319</u>
Total Notes Payable				<u>\$ 15,521</u>
<u>Loans Payable:</u>				
JMI Padres -- Centre City	8.0	2009	3,272	<u>\$ 3,250</u>
Total Loans Payable				<u>\$ 3,250</u>

## 5. GOVERNMENTAL ACTIVITIES LONG-TERM DEBT (Continued)

Type of Obligation	Interest Rates	Maturity Date	Original Amount	Balance Outstanding June 30, 2002
Section 108 Loans				\$ 25,005
Capital Lease Obligations				38,345
Pension Obligations				33,048
Liability Claims				98,061
Accrued Annual Leave				<u>56,662</u>
Total Governmental Activities				<u>\$ 1,342,245</u>

The following is a summary of changes in governmental activities long-term debt for the year ended June 30, 2002 (in thousands):

	Balance July 1, 2001	Additions	Retirements	Balance June 30, 2002	Due Within One Year
General Obligation Bonds	\$ 63,595	\$ -	\$ (5,500)	\$ 58,095	\$ 5,930
Revenue Bonds/COPs	434,365	194,755	(19,885)	609,235	17,830
Special Assessment/Mello-Roos Bonds With Governmental Commitment	128,545	-	(2,590)	125,955	2,480
Tax Allocation Bonds	222,751	58,425	(5,705)	275,471	6,295
Contracts Payable	3,848	-	(251)	3,597	1,004
Notes Payable	15,547	-	(26)	15,521	167
Loans Payable	3,250	-	-	3,250	-
Section 108 Loans	26,865	-	(1,860)	25,005	1,780
Capital Lease Obligations	35,130	13,245	(10,030)	38,345	10,682
Pension Obligations	26,211	6,837	-	33,048	-
Liability Claims	82,329	15,732	-	98,061	8,148
Accrued Annual Leave	<u>52,126</u>	<u>4,536</u>	<u>-</u>	<u>56,662</u>	<u>28,600</u>
Total	<u>\$1,094,562</u>	<u>\$ 293,530</u>	<u>\$ (45,847)</u>	<u>\$ 1,342,245</u>	<u>\$ 82,916</u>

Additions to governmental activities long-term debt for Contracts, Notes and Loans Payable may differ from proceeds reported on the Statement of Revenues, Expenditures and Changes in Fund Balances due to funding received in prior fiscal years being converted to long-term debt through contingent contractual terms.

Liability claims and accrued annual leave are primarily liquidated by the Self Insurance Fund and General Fund, respectively.

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

**5. GOVERNMENTAL ACTIVITIES LONG-TERM DEBT (Continued)**

constitute indebtedness under the state constitutional debt limitation and is not subject to other statutory requirements applicable to bonds.

Special assessment and Mello-Roos bonds are issued by the City to provide funds to make certain public improvements in special assessment and Mello-Roos districts created by the City. These bonds are secured by property owner assessments with the City having ultimate commitment to the obligation.

The annual requirements to amortize such long-term debt outstanding as of June 30, 2002, including interest payments to maturity, are as follows (in thousands):

Year Ending June 30,	General Obligation Bonds		Revenue Bonds/COP's		Special Assessment/ Mello Roos	
	Principal	Interest	Principal	Interest	Principal	Interest
2003	\$ 5,930	\$ 3,466	\$ 17,830	\$ 35,527	\$ 2,480	\$ 7,043
2004	6,390	3,135	19,130	34,939	2,645	6,923
2005	6,885	2,760	20,130	34,002	3,040	6,788
2006	7,440	2,337	20,645	33,069	3,270	6,632
2007	8,045	1,878	19,120	32,057	3,530	6,460
2008-2012	23,405	2,932	96,245	144,652	22,145	29,103
2013-2017	-	-	90,565	119,413	28,410	21,916
2018-2022	-	-	110,820	90,354	27,925	13,803
2023-2027	-	-	133,970	53,643	15,850	7,925
2028-2032	-	-	80,780	16,406	16,660	2,197
<b>Total</b>	<b>\$ 58,095</b>	<b>\$ 16,508</b>	<b>\$ 609,235</b>	<b>\$ 594,062</b>	<b>\$ 125,955</b>	<b>\$ 108,790</b>

Year Ending June 30,	Tax Allocation Bonds		Contracts Payable		Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2003	\$ 6,295	14,011	\$ 1,004	\$ 1,414	\$ 167	\$ 1,441
2004	7,129	12,532	66	152	2,088	665
2005	7,609	12,763	71	149	4,920	507
2006	8,112	12,370	74	146	2,095	375
2007	8,651	11,955	2,017	143	102	369
2008-2012	54,233	52,501	297	442	606	1,705
2013-2017	67,383	38,791	-	19	428	1,367
2018-2022	61,474	24,977	-	-	-	1,279
2023-2027	47,418	14,406	-	-	-	1,279
2028-2032	7,167	3,934	-	-	5,115	767
<b>Total</b>	<b>\$ 275,471</b>	<b>\$ 198,240</b>	<b>\$ 3,597</b>	<b>\$ 2,465</b>	<b>\$ 15,521</b>	<b>\$ 9,754</b>

**5. GOVERNMENTAL ACTIVITIES LONG-TERM DEBT (Continued)**

Year Ending June 30,	Loans		Capital Leases		Section 108 Loans	
	Principal	Interest	Principal	Interest	Principal	Interest
2003	\$ -	\$ 871	\$ 10,682	\$ 1,712	\$ 1,780	\$ 1,645
2004	-	330	9,111	1,202	1,980	1,514
2005	-	356	7,593	786	1,370	1,400
2006	-	385	6,131	438	1,605	1,304
2007	-	415	3,128	184	1,865	1,191
2008-2012	3,250	933	1,700	721	7,120	4,365
2013-2017	-	-	-	-	7,280	1,966
2018-2022	-	-	-	-	2,005	170
2023-2027	-	-	-	-	-	-
2028-2032	-	-	-	-	-	-
<b>Total</b>	<b>\$ 3,250</b>	<b>\$ 3,290</b>	<b>\$ 38,345</b>	<b>\$ 5,043</b>	<b>\$ 25,005</b>	<b>\$ 13,555</b>

Defeasance of Debt

In July 1998, the Miramar Ranch North Community Facilities District #1 issued \$59,465,000 in Special Tax Refunding Bonds, Series 1998. The proceeds of the bonds were used to refund the remaining outstanding Community Facilities District #1 Special Tax Bonds, 1991 Series A and 1995 Series B. The Refunded Bonds are considered defeased and the corresponding liability has been removed from the Statement of Net Assets. The refunding transaction resulted in total economic gain or present value savings of approximately \$7,130,000 over the refunded indebtedness. In addition, the refunding resulted in a cash flow difference of approximately \$13,492,000.

At June 30, 2002, \$27,910,000 of defeased bonds including those defeased in prior years are still outstanding.

**6. BUSINESS-TYPE ACTIVITIES LONG-TERM DEBT**

Business-type activities long-term debt as of June 30, 2002 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, 2002</u>
<u>Bonds Payable:</u>				
Sewer Revenue Bonds, Series 1993	2.8-5.25%	2023	\$250,000	\$ 207,540
Sewer Revenue Bonds, Series 1995	3.9-5.0	2025	350,000	316,735
Sewer Revenue Bonds, Series 1997	3.7-5.61	2027	250,000	228,890
Certificates of Undivided interest, 1998	4.0-5.375	2028	385,000	378,220
Sewer Revenue Bonds, 1999	3.9-5.0	2029	315,410	302,080
<b>Total Bonds Payable</b>				<b>\$ 1,433,465</b>

**6. BUSINESS-TYPE ACTIVITIES 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, 2002</u>
<b>Contracts and Notes Payable:</b>				
Notes Payable to County of San Diego	0.0	N/A	100	\$ 100
Notes Payable to Water Resources Control Board	0.0	N/A	60,966	59,742
Bank Line of Credit	Various	N/A	N/A	<u>3,944</u>
<b>Total Contracts and Notes Payable</b>				<b>\$ 63,786</b>
Capital Lease Obligations for Various Equipment, Various Dates	Various	Various	Various	\$ 7,612
Pension Obligations				6,082
Liability Claims				5,173
Accrued Annual Leave				<u>15,805</u>
<b>Total Business-type Activities Debt</b>				<b>\$ 1,531,923</b>

The following is a summary of changes in long-term debt for the year ended June 30, 2002 (in thousands):

	<u>Balance July 1, 2001</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2002</u>	<u>Due Within One Year</u>
Bonds Payable	\$ 1,463,290	\$ -	\$ (29,825)	\$ 1,433,465	\$ 31,055
Contracts and Notes Payable	64,391	316	(921)	63,786	-
Capital Lease Obligations	7,043	1,880	(1,311)	7,612	1,380
Pension Obligations	4,697	1,385	-	6,082	-
Liability Claims	7,045	-	(1,872)	5,173	-
Accrued Annual Leave	<u>14,323</u>	<u>1,482</u>	<u>-</u>	<u>15,805</u>	<u>-</u>
<b>Total</b>	<b>\$ 1,560,789</b>	<b>\$ 5,063</b>	<b>\$ (33,929)</b>	<b>\$ 1,531,923</b>	<b>\$ 32,435</b>

**6. BUSINESS-TYPE ACTIVITIES LONG-TERM DEBT (Continued)**

Annual requirements to amortize such long-term debt as of June 30, 2002, including interest payments to maturity, are as follows (in thousands):

Year Ending June 30,	<u>Bonds Payable</u>		<u>Capital Lease Obligations</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2003	\$ 31,055	\$ 71,363	\$ 1,380	\$ 418
2004	32,375	70,049	1,445	267
2005	33,765	68,664	1,511	199
2006	35,355	67,071	1,462	182
2007	37,065	64,997	989	70
2008-2012	214,445	297,673	825	31
2013-2017	275,150	236,960	-	-
2018-2022	353,435	158,657	-	-
2023-2027	334,265	65,392	-	-
2028-2032	86,555	5,211	-	-
Total	<u>\$1,433,465</u>	<u>\$ 1,106,037</u>	<u>\$ 7,612</u>	<u>\$ 1,167</u>

**7. DISCRETELY PRESENTED COMPONENT UNIT LONG-TERM DEBT**

Discretely presented component unit long-term debt as of June 30, 2002 is comprised as follows (in thousands):

San Diego Convention Center Corporation

<u>Type of Obligation</u>	<u>Interest Rates</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Balance Outstanding June 30, 2002</u>	<u>Due Within One Year</u>
Note payable to San Diego Unified Port District, dated 1999	0.0	2010	\$10,000	\$ 8,500	\$ 1,000

San Diego Convention Center will repay the note at the rate of zero percent per annum with principal payable as follows (in thousands):

<u>Fiscal Year</u>	<u>Amount</u>
2003	\$ 1,000
2004	1,000
2005	1,000
2006	1,000
2007	1,000
2008-2010	3,500
Total	<u>\$ 8,500</u>



**7. DISCRETELY PRESENTED COMPONENT UNIT LONG-TERM DEBT (Continued)**

San Diego Housing Commission

<u>Type of Obligation</u>	<u>Interest Rates</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Balance Outstanding June 30, 2002</u>	<u>Due Within One Year</u>
Note payable to Washington Mutual, dated June 1995	Various	2011	\$4,725	\$ 4,201	\$ 74
Note payable to Bank of America, dated February 1985	5.0-10.2%	2025	3,789	3,344	40
Note payable to Redevelopment Agency, dated March 1992	0.0	2022	696	696	-
<b>Total Notes Payable</b>				<b>\$ 8,241</b>	<b>\$ 114</b>

Annual requirements to amortize such long-term debt as of June 30, 2002 to maturity are as follows (in thousands):

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2003	\$ 114	\$ 604
2004	121	596
2005	174	418
2006	182	409
2007	191	401
2008-2012	4,389	1,634
2013-2017	767	503
2018-2022	984	286
2023-2025	1,319	43
<b>Total</b>	<b>\$ 8,241</b>	<b>\$ 4,894</b>

**8. GOVERNMENTAL ACTIVITIES SHORT-TERM DEBT**

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

Short -term debt activity for the year ended June 30, 2002, was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Tax Anticipation Notes	\$ 77,000	\$ 73,000	\$ (77,000)	\$ 73,000

**9. DISCRETELY PRESENTED COMPONENT UNIT SHORT-TERM DEBT**

San Diego Medical Services Enterprise, LLC

Under the terms of an operating agreement between San Diego Medical Services Enterprise (SDMSE) and Rural/Metro, Rural/Metro has made available a line-of-credit in the initial amount of \$3.5 million bearing an interest rate of 9.5% SDMSE did not have an outstanding balance, nor did it borrow on the line-of-credit at June 30, 2002.

**10. LEASE COMMITMENTS**

Operating 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, 2002 (in thousands):

<u>Year Ending June 30,</u>	
2003	\$ 8,216
2004	2,932
2005	1,015
2006	697
2007	575
2008-2012	172
2013-2017	37
2018-2022	37
2023-2027	<u>15</u>
Total	<u>\$ 13,696</u>

Rent expense as related to operating leases was \$10,773,017 for the year ended June 30, 2002.

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, 2002 is provided in Notes 5 and 6.

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>	
2003	\$ 23,208
2004	22,033
2005	20,969
2006	20,569
2007	20,190
Thereafter	<u>591,409</u>
Total	<u>\$ 698,378</u>

**10. LEASE COMMITMENTS (Continued)**

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 \$34,230,181 in the year ended June 30, 2002.

**11. DEFERRED COMPENSATION PLAN**

City of San Diego

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. All assets and income of the deferred compensation plan are held in trust for the exclusive benefit of plan participants and their beneficiaries.

Fair value of the plan assets was \$101,962,660 at June 30, 2002.

**12. 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.

## 12. PENSION PLANS (Continued)

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. Summary of Significant Accounting Policies

SDCERS financial statements are prepared using the accrual basis of accounting. Member contributions are recognized in the period they are due. Benefits and refunds are recognized when due and payable in accordance with terms of the Plan.

### c. 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 (19 years remaining).

Members 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.

During the period July 1, 2001 to June 30, 2002 contributions totaling \$105,699,000 (\$51,058,000 employer and \$54,641,000 employee) were made. Of the employer contributions, \$40,846,000 was applied to normal cost and \$10,212,000 was applied to unfunded accrued liability. All of the employer offset contributions were applied to normal cost.

In 1996 the City Council approved proposed changes to the San Diego City Employees' Retirement System (SDCERS) which included changes to retiree health insurance, plan benefits, employer contribution rates and system reserves. The proposal included a provision to assure the funding level of the system would not drop below a level the Board's actuary deems reasonable in order to protect the financial integrity of the SDCERS. A citizen required vote on the changes related to retiree health insurance passed overwhelmingly in 1996. In 1997, the active members of the SDCERS voted and approved the changes. Portions of the proposal requiring SDCERS Board approval (employer rates and reserves) were approved after review and approval by its independent fiduciary counsel and consultation with the actuary. The San Diego Municipal Code was then amended to reflect the changes.

The changes provide the employer contribution rates be "ramped up" to the actuarially recommended rate in .50 percent increments over a ten year period at such time it was projected that the Projected Unit Credit (PUC) and Entry Age Normal (EAN) rates would be equal and the SDCERS would convert to EAN. The actuary calculated the present value of the difference between the employer contribution rate and actuarial rates over the ten year period

**12. PENSION PLANS (Continued)**

and this amount was funded in a reserve. This "Corridor" funding method is unique to the SDCERS and therefore is not one of the six funding methods formally sanctioned by the Governmental Accounting Standards Board for expending purposes. As a result for June 30, 2002, the actuary rates are reported to be \$39,230,000 more than paid by the City which, technically per GASB 27 effective for periods beginning after June 15, 1997, is to be reported as a Net Pension Obligation (NPO) even though the shortfall is funded in a reserve. The actuary believes the Corridor funding method is an excellent method for the City and that it will be superior to the PUC funding method.

**d. Annual Required Contribution**

The annual required contribution for the current year was determined as part of the June 30, 1996 actuarial valuation using the projected unit credit actuarial funding method. The actuarial assumptions included (a) an 8.0% investment rate of return and (b) projected salary increases of 4.75% per year. Both (a) and (b) included an inflation rate of 4.5%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2002 was 19 years.

**e. Three-Year Trend Analysis**

The following table shows the City's Annual Pension Cost (APC) and the percentage of the APC contributed for the most current year available and preceding years (in thousands):

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage Contributed</u>	<u>Net Pension Obligation</u>
6/30/99	\$ 44,008	78.3%	\$ 23,046
6/30/00	50,044	78.66	30,983
6/30/01	52,585	84.32	39,230

**f. Net Pension Obligation Three Year-Trend Analysis**

The following table shows the calculation of the City's NPO presented in governmental business-type and fiduciary funds for the most current year available and preceding years (in thousands):

<u>Fiscal Year Ending</u>	<u>Actuarial Required Contribution (ARC)</u>	<u>Interest on NPO</u>	<u>ARC Adjustment</u>	<u>Amortization Factor</u>	<u>APC</u>	<u>Contributions Made</u>	<u>Change in NPO</u>	<u>NPO</u>
6/30/99	\$ 43,504	\$ 1,210	\$ 706	21.41%	\$44,008	\$34,467	\$ 7,922	\$ 23,046
6/30/00	49,276	1,844	1,076	21.41	50,044	39,364	7,937	30,983
6/30/01	54,346	2,269	4,030	21.41	52,585	44,338	8,247	39,230

## 12. PENSION PLANS (Continued)

### 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 \$45,584,371. As of June 30, 2002, fair value of Plan assets totaled approximately \$375,108,000. 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.

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 \$21,650,000 during the fiscal year.

As of June 30, 2002, fair value of Plan assets totaled approximately \$104,059,000. 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 2002 was approximately \$2,614,401. CCDC contributions were calculated using the base salary amount of approximately \$2,533,958. CCDC made the required 8% contribution, amounting to approximately \$202,716 (net of forfeitures) for Fiscal Year 2002.

## 12. PENSION PLANS (Continued)

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 2002 was approximately \$2,614,401. CCDC contributions were calculated using the base salary amount of approximately \$2,533,958. CCDC made the required 10% contribution amounting to approximately \$253,396 for Fiscal Year 2002. 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.

Required contributions were calculated using the covered compensation amount of approximately \$9,206,590. SDCCC has funded the required contribution as of June 30, 2002.

For the fiscal year ended June 30, 2002, pension expense for the Plan amounted to \$1,032,196. SDCCC records pension expense during the fiscal year based upon estimated covered compensation.

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.

## 12. PENSION PLANS (Continued)

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, 2002 and 2001, the balance in the account was \$124,315 and \$121,798, respectively. The balance at June 30, 2002 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 2002 and 2001, was approximately \$25,830,029 and \$22,871,911, 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 \$4,817,292 and \$4,247,425 for Fiscal Years 2002 and 2001 respectively.

- e. San Diego Housing Commission ("SDHC") 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 SDHC contributes an amount equal to 14% of the employee's base salary semi-monthly. The SDHC's contributions for each employee (and interest allocated to the employee's account) are fully vested after five years of continuous service. The SDHC contributions for, and interest forfeited by, employees who leave employment before four years of service are used to reduce the SDHC's contribution requirement.

SDHC made the required 14% contribution, amounting to approximately \$1,524,625 for Fiscal Year 2002 based on covered payroll of approximately \$10,872,780.

SDHC offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all full-time SDHC 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.

Fair value of the Plan assets was \$4,322,216 at June 30, 2002.

- 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. Beginning July 1, 1998, SEDC contributed an additional monthly amount equal to 3% of the base salary for management employees. Such contributions are fully vested upon contributions.



**12. PENSION PLANS (Continued)**

SEDC's total payroll in Fiscal Year 2002 was approximately \$804,918. SEDC contributions were calculated using the base salary amount of approximately \$683,100. SEDC made the required 12% contribution, amounting to approximately \$91,710 for Fiscal Year 2002.

**13. 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, 2002, approximately 3,327 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, 2002, approximately 536 eligible retirees received benefits.

Currently, expenses for post-employment healthcare benefits are recognized as they are paid. For the fiscal year ended June 30, 2002, expenditures of approximately \$8,882,138 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.

**14. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

Interfund working capital advances balances at June 30, 2002 are as follows (in thousands):

WCA To	WCA From			Total
	Nonmajor Governmental	Internal Service Funds	Fiduciary Funds	
General Fund	\$ 300	\$ 10,728	\$ 1,489	\$ 12,517
Nonmajor Governmental	2,190	11,898	72	14,160
Sewer Utility Fund	-	18,916	155	19,071
Water Utility Fund	-	15,533	131	15,664
Nonmajor Enterprise	126	10,171	38	10,335
Internal Service Funds	-	310	94	404
Total	\$ 2,616	\$ 67,556	\$ 1,979	\$ 72,151

The balance of \$67,246 due from the internal service funds generally resulted from initial investments made to establish working capital when each internal service fund was first created; none of the balance is scheduled to be collected in the subsequent year.

**14. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS (Continued)**

Interfund receivables and payables and transfers balances at June 30, 2002 are as follows (in thousands):

<u>Due From</u>	<u>Due To</u>			<u>Total</u>
	<u>Nonmajor Governmental</u>	<u>Nonmajor Enterprise</u>	<u>Fiduciary Funds</u>	
General Fund	\$ 583	\$ -	\$ 75,564	\$ 76,147
Nonmajor Governmental	20,698	-	-	20,698
Nonmajor Enterprise	1,291	354	-	1,645
<b>Total</b>	<b>\$ 22,572</b>	<b>\$ 354</b>	<b>\$ 75,564</b>	<b>\$ 98,490</b>

The balance of \$75,564,000 from the Fiduciary Fund Types is set aside to meet the legal requirements of the City's Tax Anticipation Notes. It is stipulated that the monies must be pledged and set aside in a separate repayment fund. These monies will be paid back to the General Fund upon payment of the Notes.

Primary Government and Component Units

<u>Due From</u>	<u>Due To Nonmajor Governmental</u>
San Diego Convention Center Corp.	\$ 639
San Diego Housing Commission	267
<b>Total</b>	<b>\$ 906</b>

Interfund transfer balances at June 30, 2002 are as follows (in thousands):

<u>Transfers To</u>	<u>Transfers From</u>				<u>Total</u>
	<u>General Fund</u>	<u>Nonmajor Governmental</u>	<u>Nonmajor Enterprise</u>	<u>Internal Service Funds</u>	
General Fund	\$ -	\$ 32,082	\$ -	\$ 6,699	\$ 38,781
Nonmajor Governmental	27,551	274,653	643	-	302,847
Sewer Utility Fund	305	663	-	110	1,078
Water Utility Fund	180	761	-	45	986
Nonmajor Enterprise	1,868	420	-	49	2,337
Internal Service Funds	58	1,513	-	1,980	3,549
<b>Total</b>	<b>\$ 29,960</b>	<b>\$ 310,092</b>	<b>\$ 643</b>	<b>\$ 8,883</b>	<b>\$ 349,578</b>

**14. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS (Continued)**

Primary Government and Component Units

<u>Transfers To</u>	<u>Transfers From</u>					<u>Total</u>
	<u>General Fund</u>	<u>Nonmajor Governmental</u>	<u>San Diego Convention Center Corp.</u>	<u>San Diego Housing Commission</u>	<u>San Diego Medical Services Enterprise, LLC</u>	
General Fund	\$ -	\$ -	\$ -	\$ -	\$ 650	\$ 650
Nonmajor Governmental	-	-	6,332	2,425	-	8,257
San Diego Convention Center Corp.	-	350	-	-	-	350
San Diego Housing Commission	-	200	-	-	-	200
San Diego Medical Services Enterprise, LLC	<u>22</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>22</u>
<b>Total</b>	<b>\$ 22</b>	<b>\$ 550</b>	<b>\$ 6,332</b>	<b>\$ 2,425</b>	<b>\$ 650</b>	<b>\$9,479</b>

Transfers are used to: (1) move revenues from the fund in which it is legally required to collect them into the fund which it is legally required to expend them; (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**15. 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 \$54,000,000 per occurrence are covered by the insurance. Any amounts over \$54,000,000 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.

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.

**15. RISK MANAGEMENT (Continued)**

Estimated liabilities for liability claims have been set up in the Self-Insurance Fund, Sewer Utility Fund, and Water Utility Fund. These amounts represent the City's determination of the probable ultimate cost of the claims. 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, 2002 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):

	<u>Public Liability</u>	<u>City's Liability Under Worker's Comp &amp; Long-Term Disability</u>	<u>Total</u>
Balance July 1, 2000	\$ 38,166	\$ 36,273	\$ 74,439
Claims and Changes in Estimates	27,237	23,830	51,067
Claim Payments	<u>(13,395)</u>	<u>(22,737)</u>	<u>(36,132)</u>
Balance June 30, 2001	52,008	37,366	89,374
Claims and Changes in Estimates	21,714	30,144	51,858
Claim Payments	<u>(13,088)</u>	<u>(24,910)</u>	<u>(37,998)</u>
Balance June 30, 2002	<u>\$ 60,634</u>	<u>\$ 42,600</u>	<u>\$ 103,234</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.

**16. FUND DEFICIT**

The Internal Service Funds have a net asset deficit approximately (\$466,000) at June 30, 2002. This balance includes a net asset deficit in the Self Insurance Fund of approximately (\$30,975,000) which represents unfunded estimated claims and claim settlements related to worker's compensation and long-term disability. 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.

**17. COMMITMENTS**

At June 30, 2002, \$73,000,000 of Tax Anticipation Notes issued during Fiscal Year 2001-2002 were still outstanding. Monies for full redemption of these notes were fully segregated in a separate repayment fund at June 30, 2002 and subsequently used to redeem the notes on August 1, 2002. The liability for these notes is shown in the General Fund. On July 1, 2002, the City issued \$93,200,000 of Tax Anticipation Notes to finance Fiscal Year 2002-03 General Fund cash flow requirements.

**17. COMMITMENTS (Continued)**

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 \$41,175,000 at June 30, 2002 is approximately \$7,314,000 for each of the subsequent five years ending June 30, 2007.

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, 2002, approximately \$461,669 of total leveraged loans are still outstanding.

The Sewer Utility's construction plans for various projects are estimated to cost approximately \$167,975,411. As of June 30, 2002, the Utility's contractual commitments for the projects totaled approximately \$81,412,314. 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 \$104,220,000. As of June 30, 2002, the Utility's contractual commitments for the projects totaled approximately \$70,834,000. The Utility intends to finance the contractual commitments with reserves and service charges and the installment purchase agreement.

**18. 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, 2002, the 20% requirement was fully funded.

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 a ten year 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.

**18. CONTINGENCIES (Continued)**

De La Fuente Business Park, Inc. v. City of San Diego.

This lawsuit, filed in 1995, involves allegations of breach of contract and inverse condemnation brought by an Otay Mesa developer. The jury returned a verdict of \$94.5 million in favor of the plaintiff. Subsequent motion for a new trial resulted in a reduction of the verdict to \$65.3 million. However, interest is accruing and is already valued at \$26.5 million. The case is presently on appeal. The City's exposure could range from \$0-125 million.

Glickman v. City of San Diego.

This is a challenge to the City's red light photo enforcement program. No trial date has been set. If plaintiffs prevail, they will seek reimbursement to all drivers who paid traffic fines resulting from tickets issued pursuant to the red light enforcement program. The total of that reimbursement could be \$4-5 million.

**19. 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 City has also authorized Section 108 loans from the Department of Housing and Urban Development. 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, 2002, the status of all third party bonds issued is as follows (in thousands):

	<u>Issued</u>	<u>Outstanding</u>
Mortgage Revenue	\$ 505,501	\$ 498,836
Industrial Development Revenue	345,805	341,796
1911 Act Special Assessment	184	69
Totals	<u>\$ 851,490</u>	<u>\$ 840,701</u>

## **19. THIRD PARTY DEBT (Continued)**

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 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 Government-Wide Statement of Net Assets.

## **20. 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.

The \$10,821,000 reported as landfill closure and postclosure care liability at June 30, 2002 represents the cumulative amount reported to date based on the use of 63.8% of the estimated capacity of the landfill.

The City will recognize the remaining estimated cost of closure and postclosure care of \$6,157,512 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 1999. 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, 2002 cash or equity in pooled cash and investments of \$22,748,000 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

### City 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, 2002 and 2001 are approximately \$27,404,299 and \$24,475,142, respectively, of revenue earned from the City under this agreement.

**21. OPERATING AGREEMENTS**

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, 2002 and 2001 were approximately \$27,404,299 and \$24,475,142, respectively. SDDPC earned \$1,193,099 and \$1,492,806 in general and administrative fees from such transactions for year ended June 30, 2002 and 2001, 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.

San Diego Geographical Information System

In Fiscal Year 1998, a five-year services agreement was finalized between SDDPC and SANGIS.

Included in SDDPC's data processing services revenue are the following amounts relating to SANGIS for the years ended June 30, 2002 and 2001, respectively:

	<u>2002</u>	<u>2001</u>
City	<u>\$ 26,004</u>	<u>\$ 248,923</u>

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

Automated Regional Justice Information System

On October 22, 2001, SDDPC renewed its fiscal year 2002 agreement with a joint powers agency known as the Automated Regional Justice Information System ("ARJIS") whose main purpose is to pursue development of computerized law enforcement systems in the region. The fiscal year 2003 agreement was signed on August 30, 2002.

Under the agreement, SDDPC is to provide data processing services to ARJIS at rates which, on an annual basis, are equivalent to those charged to other governmental entity clients. Included in SDDPC's data processing services revenue is approximately \$3,152,150 and \$2,788,516 relating to ARJIS for the years ended June 30, 2002 and 2001, respectively.

State of California

During fiscal year 2001, the SDDPC entered into an agreement with the State of California Department of Information Technology to provide data processing services. The SDDPC's data processing services revenue for the year ended June 30, 2002 was approximately \$75,603.



**21. OPERATING AGREEMENTS (Continued)**San Diego Medical Services Enterprise, LLC

On July 1, 1997, the City entered into an operating agreement with San Diego Medical Services Enterprise, LLC ("SDMSE") to provide emergency medical services and emergency medical transportation services.

Under the agreement the City paid SDMSE \$650,000 and SDMSE paid the City \$22,000.

During the year, SDMSE made a \$1,000,000 profit distribution to its partners, \$500,000 to the City and \$500,000 to Rural Metro of San Diego, Inc.

**22. RESTATEMENT OF BEGINNING BALANCES**

As a result of changes in accounting policies and implementation of GASB No. 34, the fund statements, fund balances, retained earnings, and net assets as of June 30, 2001 have been restated as follows (in thousands):

	<u>Special Revenue Funds</u>	<u>Debt Service Funds</u>	<u>Capital Projects Funds</u>	<u>Water Utility</u>	<u>Internal Service Funds</u>	<u>Fiduciary Funds</u>
Fund balances/net assets, June 30, 2001, as previously reported	\$231,619	\$176,001	\$496,929	\$946,009	\$16,778	\$2,999,449
Reclassification /Adjustments	<u>22,516</u>	<u>(51,620)</u>	<u>(87,379)</u>	<u>4,137</u>	<u>(11,617)</u>	<u>(2,532)</u>
Fund balances/net assets, June 30, 2001, as restated	<u>\$254,135</u>	<u>\$124,381</u>	<u>\$409,550</u>	<u>\$950,146</u>	<u>\$5,161</u>	<u>\$2,996,917</u>

**23. SUBSEQUENT EVENTS**

On July 1, 2002 the City issued \$93,200,000 fiscal-year 2002-2003 Tax Anticipation Notes Series A.

On August 1, 2002, the City paid off the \$73,000,000 fiscal-year 2001-2002 Tax Anticipation Notes.

On October 24, 2002, the Public Facilities Financing Authority issued \$286,945,000 of Subordinated Water Revenue Bonds to finance the upgrade and expansion of the infrastructure of the Water System of the City of San Diego. The Series 2002 Bonds are secured by and payable solely from net system revenues of the Water Utility Fund. The interest rate on the bonds range from 2.00 – 5.00 percent and the maturity date is August 1, 2032.

\*\*\*

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

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)
6/30/96	\$1,553,283	\$1,682,605	\$129,322	92.31%	\$388,646	33.28%
6/30/97	1,716,872	1,822,432	105,560	94.21%	408,106	25.87%
6/30/98	1,950,158	2,061,301	111,143	94.61%	425,707	26.11%
6/30/99	2,143,463	2,271,356	127,893	94.37%	454,551	28.14%
6/30/00	2,592,998	2,625,934	32,936	98.75%	479,123	6.87%
6/30/01	2,670,923	2,932,664	261,741	91.07%	518,289	50.50%

# **GENERAL FUND**



**GENERAL FUND**

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

General Fund revenues are derived from such sources as: Taxes; Licenses and Permits; Fines, Forfeitures, and Penalties; Use of Money and Property; Aid from Other Governmental Agencies; Charges for Current Services; and Other Revenue.

Current expenditures and encumbrances are classified by the functions of: General Government and Support; Public Safety—Police; Public Safety—Fire and Life Safety; Parks, Recreation, Culture and Leisure; Transportation; Sanitation and Health; Neighborhood Services; and Interest on Long-Term Debt. Appropriations are made from the fund annually.



**GENERAL FUND  
CITY OF SAN DIEGO  
SCHEDULE OF REVENUE AND TRANSFERS  
BUDGET AND ACTUAL (BUDGETARY BASIS)  
Year Ended June 30, 2002  
(In Thousands)**

	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
<b>PROPERTY TAXES</b>					
One Percent Property Tax Allocation .....	\$ -	\$ -	\$ -	\$ 169,444	\$ (169,444)
Current Year - Secured .....	143,231	-	143,231	-	143,231
Current Year Supplemental - Secured .....	7,038	-	7,038	-	7,038
Current Year - Unsecured .....	7,862	-	7,862	-	7,862
Current Unsecured Supplemental Roll .....	141	-	141	-	141
Homeowners' Exemptions - Secured .....	2,655	-	2,655	-	2,655
Homeowners' Exemptions - Unsecured .....	2	-	2	-	2
Prior Years' - Secured .....	3,349	-	3,349	-	3,349
Prior Years' - Unsecured .....	(63)	-	(63)	-	(63)
Interest and Penalties on Delinquent Taxes .....	516	-	516	-	516
Escapes - Secured .....	211	-	211	-	211
Escapes - Unsecured .....	263	-	263	-	263
Other Property Taxes .....	1,048	-	1,048	-	1,048
State Secured Unitary .....	3,723	-	3,723	-	3,723
<b>TOTAL PROPERTY TAXES</b> .....	<b>189,976</b>	<b>-</b>	<b>189,976</b>	<b>169,444</b>	<b>532</b>
<b>SALES TAXES</b> .....	<b>139,197</b>	<b>-</b>	<b>139,197</b>	<b>141,672</b>	<b>(2,475)</b>
<b>OTHER LOCAL TAXES</b>					
Franchisees .....	58,239	-	58,239	45,519	10,720
Property Transfer Tax .....	7,034	-	7,034	5,614	1,420
Transient Occupancy Tax .....	52,143	-	52,143	61,921	(9,778)
<b>TOTAL OTHER LOCAL TAXES</b> .....	<b>115,416</b>	<b>-</b>	<b>115,416</b>	<b>113,054</b>	<b>2,362</b>
<b>LICENSES AND PERMITS</b>					
General Business Licenses .....	5,292	-	5,292	5,071	221
Refuse Collection Business Licenses .....	1,604	-	1,604	1,566	38
Other Regulatory Business Licenses .....	2,390	-	2,390	1,857	533
Rental Unit Tax .....	4,900	-	4,900	5,405	(505)
Parking Meter Revenue .....	5,501	-	5,501	5,172	329
Street and Curb Permits .....	66	-	66	53	13
Other Licenses and Permits .....	2,309	-	2,309	2,273	36
<b>TOTAL LICENSES AND PERMITS</b> .....	<b>22,062</b>	<b>-</b>	<b>22,062</b>	<b>21,397</b>	<b>665</b>
<b>FINES, FORFEITURES AND PENALTIES</b>					
California Vehicle Code Violations .....	22,304	-	22,304	28,984	(6,680)
Other City Ordinance Code Violations .....	1,945	-	1,945	1,450	495
Other California Statutory Violations .....	1	-	1	-	1
<b>TOTAL FINES, FORFEITURES AND PENALTIES</b> .....	<b>24,250</b>	<b>-</b>	<b>24,250</b>	<b>30,434</b>	<b>(6,184)</b>
<b>REVENUE FROM USE OF MONEY AND PROPERTY</b>					
Interest on Investments .....	7,874	1,112	8,986	9,395	(409)
Balboa Park Rents and Concessions .....	589	-	589	440	149
Mission Bay Park Rents and Concessions .....	20,808	-	20,808	19,085	1,723
Torrey Pines Golf Course Rents and Concessions .....	-	-	-	120	(120)
Other Rents and Concessions .....	5,426	-	5,426	5,031	395
<b>TOTAL REVENUE FROM USE OF MONEY AND PROPERTY</b> .....	<b>34,697</b>	<b>1,112</b>	<b>35,809</b>	<b>34,071</b>	<b>1,738</b>
<b>REVENUE FROM FEDERAL AGENCIES</b>					
Revenue from Federal Agencies .....	1,931	-	1,931	850	1,081

Continued on Next Page

**GENERAL FUND  
CITY OF SAN DIEGO  
SCHEDULE OF REVENUE AND TRANSFERS  
BUDGET AND ACTUAL (BUDGETARY BASIS)  
Year Ended June 30, 2002  
(In Thousands)**

	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
<b>REVENUE FROM OTHER AGENCIES</b>					
State Motor Vehicle License Fees .....	\$ 69,866	\$ -	\$ 69,866	\$ 70,311	\$ (445)
Off-Highway Motor Vehicle License Fees .....	29	-	29	-	29
Local Relief .....	5,393	-	5,393	6,023	(630)
Tobacco Revenue .....	11,758	-	11,758	-	11,758
State Grants .....	881	-	881	868	113
<b>TOTAL REVENUE FROM OTHER AGENCIES .....</b>	<b>88,027</b>	<b>-</b>	<b>88,027</b>	<b>77,202</b>	<b>10,825</b>
<b>CHARGES FOR CURRENT SERVICES</b>					
Administrative Services to Other Agencies .....	138	-	138	40	98
Cemetery Revenue .....	692	-	692	589	103
Engineering Services .....	397	-	397	696	(299)
Fire Services .....	12,263	-	12,263	12,116	147
Golf Course Revenue .....	210	-	210	180	30
Library Revenue .....	1,932	-	1,932	1,602	330
Miscellaneous Recreation Revenue .....	2,225	-	2,225	2,032	193
Other Services .....	1,117	-	1,117	938	179
Paramedic Services .....	187	-	187	185	2
Planning and Miscellaneous Filing Fees .....	119	-	119	257	(138)
Police Services .....	3,398	-	3,398	3,098	300
Swimming Pools Revenue .....	1,548	-	1,548	1,256	292
Services Rendered to Other Funds for:					
General Government and Financial .....	35,298	-	35,298	33,770	1,528
Engineering .....	19,914	-	19,914	17,260	2,654
Park Design .....	1,932	-	1,932	1,611	321
Miscellaneous Services .....	8,566	-	8,566	8,225	341
<b>TOTAL CHARGES FOR CURRENT SERVICES .....</b>	<b>89,936</b>	<b>-</b>	<b>89,936</b>	<b>83,855</b>	<b>6,081</b>
<b>OTHER REVENUE</b>					
Other Refunds of Prior Years' Expenditures .....	1,207	-	1,207	362	845
Repairs and Damage Recoveries .....	288	-	288	78	210
Sale of Personal Property .....	508	-	508	381	127
Miscellaneous Revenue .....	1,288	-	1,288	2,027	(739)
<b>TOTAL OTHER REVENUE .....</b>	<b>3,291</b>	<b>-</b>	<b>3,291</b>	<b>2,848</b>	<b>443</b>
<b>EXCESS REVENUE APPROPRIATED .....</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,666</b>	<b>(2,666)</b>
<b>TOTAL REVENUES .....</b>	<b>688,783</b>	<b>1,112</b>	<b>689,895</b>	<b>677,493</b>	<b>12,402</b>
<b>TRANSFERS FROM PROPRIETARY FUNDS</b>					
Enterprise Funds:					
San Diego Data Processing Corporation .....	500	-	500	500	-
City of San Diego:					
Golf Course .....	1,280	-	1,280	1,280	-
Development Services .....	-	-	-	1	(1)
Recycling .....	23	-	23	23	-
Sewer Utility .....	370	-	370	370	-
Water Utility .....	181	-	181	181	-
Internal Service Funds:					
City of San Diego:					
Central Garage and Machine Shop .....	40	-	40	65	(25)
Print Shop .....	1	-	1	1	-
Special Engineering Fund .....	14	-	14	14	-
<b>TOTAL TRANSFERS FROM PROPRIETARY FUNDS .....</b>	<b>2,409</b>	<b>-</b>	<b>2,409</b>	<b>2,435</b>	<b>(26)</b>



**GENERAL FUND  
CITY OF SAN DIEGO  
SCHEDULE OF REVENUE AND TRANSFERS  
BUDGET AND ACTUAL (BUDGETARY BASIS)  
Year Ended June 30, 2002  
(In Thousands)**

	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
<b>TRANSFERS FROM OTHER FUNDS</b>					
Special Revenue Funds:					
Redevelopment Agency .....	\$ -	\$ -	\$ -	\$ -	\$ -
City of San Diego:					
Special Gas Tax Street Improvement .....	3,469	-	3,469	4,738	(1,269)
Street Divisions Operations .....	89	-	89	89	-
Transient Occupancy Tax .....	11,023	-	11,023	20,968	(9,945)
Other Special Revenue-Budgeted .....	5,034	-	5,034	6,034	(1,000)
Other Special Revenue-Unbudgeted .....	3,411	-	3,411	3,911	(500)
Capital Projects Funds:					
City of San Diego:					
Other Construction .....	4,109	-	4,109	4,067	42
Permanent Funds:					
Cemetery Perpetuity .....	416	-	416	350	66
<b>TOTAL TRANSFERS FROM OTHER FUNDS</b> .....	<b>27,551</b>	<b>-</b>	<b>27,551</b>	<b>40,157</b>	<b>(12,606)</b>
<b>TRANSFERS FROM COMPONENT UNIT</b>					
Transfer from San Diego Medical Services Enterprise, LLC .....	22	-	22	22	-
<b>PROCEEDS FROM CAPITAL LEASES</b>					
Proceeds from Capital Leases .....	1,916	(1,916)	-	-	-
<b>TOTAL REVENUE AND TRANSFERS</b> .....	<b>\$ 720,681</b>	<b>\$ (804)</b>	<b>\$ 719,877</b>	<b>\$ 720,107</b>	<b>\$ (230)</b>

GENERAL FUND  
CITY OF SAN DIEGO  
SCHEDULE OF EXPENDITURES AND TRANSFERS  
BUDGET AND ACTUAL (BUDGETARY BASIS)  
June 30, 2002  
(In Thousands)

	Current Year				
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
<b>GENERAL GOVERNMENT AND SUPPORT</b>					
Departmental:					
Mayor					
Salaries and Wages .....	\$ 1,718	\$ -	\$ 1,718	\$ 1,822	\$ 104
Non-Personnel .....	708	11	719	719	-
Total Mayor .....	2,426	11	2,437	2,541	104
City Council District 1					
Salaries and Wages .....	485	-	485	487	2
Non-Personnel .....	207	18	225	225	-
Total City Council District 1 .....	692	18	710	712	2
City Council District 2					
Salaries and Wages .....	496	-	496	497	1
Non-Personnel .....	205	6	211	211	-
Total City Council District 2 .....	701	6	707	708	1
City Council District 3					
Salaries and Wages .....	469	-	469	479	10
Non-Personnel .....	215	1	216	216	-
Total City Council District 3 .....	684	1	685	695	10
City Council District 4					
Salaries and Wages .....	493	-	493	522	29
Non-Personnel .....	194	2	196	209	13
Total City Council District 4 .....	687	2	689	731	42
City Council District 5					
Salaries and Wages .....	434	-	434	486	52
Non-Personnel .....	190	2	192	192	-
Total City Council District 5 .....	624	2	626	678	52
City Council District 6					
Salaries and Wages .....	418	-	418	446	28
Non-Personnel .....	226	4	230	230	-
Total City Council District 6 .....	644	4	648	676	28
City Council District 7					
Salaries and Wages .....	459	-	459	481	22
Non-Personnel .....	247	16	263	263	-
Total City Council District 7 .....	706	16	722	744	22
City Council District 8					
Salaries and Wages .....	511	-	511	522	11
Non-Personnel .....	234	1	235	235	-
Total City Council District 8 .....	745	1	746	757	11
Council Administration					
Salaries and Wages .....	378	-	378	390	12
Non-Personnel .....	217	9	226	253	27
Total Council Administration .....	595	9	604	643	39
City Attorney					
Salaries and Wages .....	19,638	-	19,638	19,807	169
Non-Personnel .....	8,103	67	8,170	8,170	-
Total City Attorney .....	27,741	67	27,808	27,977	169

Prior Year					Total				
Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
\$ 8	\$ -	\$ 8	\$ 16	\$ 8	\$ 1,718	\$ -	\$ 1,718	\$ 1,822	\$ 104
8	-	8	16	8	716	11	727	735	8
					2,434	11	2,445	2,557	112
-	-	-	-	-	485	-	485	487	2
-	-	-	1	1	207	18	225	226	1
-	-	-	1	1	692	18	710	713	3
-	-	-	-	-	496	-	496	497	1
4	-	4	4	-	209	6	215	215	-
4	-	4	4	-	705	6	711	712	1
-	-	-	-	-	469	-	469	479	10
5	-	5	5	-	220	1	221	221	-
5	-	5	5	-	689	1	690	700	10
-	-	-	-	-	493	-	493	522	29
1	1	2	2	-	195	3	198	211	13
1	1	2	2	-	688	3	691	733	42
-	-	-	-	-	434	-	434	486	52
-	-	-	1	1	190	2	192	193	1
-	-	-	1	1	624	2	626	679	53
-	-	-	-	-	418	-	418	446	28
-	-	-	1	1	226	4	230	231	1
-	-	-	1	1	644	4	648	677	29
-	-	-	-	-	459	-	459	481	22
-	-	-	1	1	247	16	263	264	1
-	-	-	1	1	706	16	722	745	23
-	-	-	-	-	511	-	511	522	11
1	-	1	1	-	235	1	236	236	-
1	-	1	1	-	746	1	747	758	11
-	-	-	-	-	378	-	378	390	12
-	-	-	-	-	217	9	226	253	27
-	-	-	-	-	595	9	604	643	39
-	-	-	-	-	19,638	-	19,638	19,807	169
111	8	119	239	120	8,214	75	8,289	8,409	120
111	8	119	239	120	27,852	75	27,927	28,216	289

Continued on Next Page

GENERAL FUND  
CITY OF SAN DIEGO  
SCHEDULE OF EXPENDITURES AND TRANSFERS  
BUDGET AND ACTUAL (BUDGETARY BASIS)  
June 30, 2002  
(in Thousands)

Departmental (Continued):	Current Year				
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
City Auditor and Comptroller					
Salaries and Wages .....	\$ 5,620	\$ 3	\$ 5,623	\$ 5,755	\$ 132
Non-Personnel .....	2,209	3	2,212	2,235	23
Total City Auditor and Comptroller .....	7,829	6	7,835	7,990	155
City Clerk					
Salaries and Wages .....	1,947	-	1,947	1,998	51
Non-Personnel .....	1,238	43	1,281	1,391	110
Total City Clerk .....	3,185	43	3,228	3,389	161
City Manager					
Salaries and Wages .....	277	-	277	277	-
Non-Personnel .....	110	-	110	111	1
Total City Manager .....	387	-	387	388	1
Engineering and Capital Projects - Administration					
Salaries and Wages .....	1,011	-	1,011	1,270	259
Non-Personnel .....	473	19	492	522	30
Total Engineering and Capital Projects - Administration .....	1,484	19	1,503	1,792	289
Field Engineering					
Salaries and Wages .....	7,000	-	7,000	7,018	18
Non-Personnel .....	3,068	101	3,169	3,170	1
Total Field Engineering .....	10,068	101	10,169	10,188	19
Public Buildings & Parks					
Salaries and Wages .....	2,182	-	2,182	2,264	82
Non-Personnel .....	984	-	984	1,063	79
Total Public Buildings & Parks .....	3,166	-	3,166	3,327	161
Equal Opportunity Contracting					
Salaries and Wages .....	1,235	-	1,235	1,236	1
Non-Personnel .....	562	89	651	791	140
Total Equal Opportunity Contracting .....	1,797	89	1,886	2,027	141
Budget and Management Services					
Salaries and Wages .....	1,729	-	1,729	1,729	-
Non-Personnel .....	882	-	882	884	2
Total Budget and Management Services .....	2,611	-	2,611	2,613	2
City Treasurer					
Salaries and Wages .....	3,156	-	3,156	3,156	-
Non-Personnel .....	3,038	117	3,155	3,155	-
Total City Treasurer's .....	6,194	117	6,311	6,311	-
Financing Services					
Salaries and Wages .....	882	-	882	1,081	199
Non-Personnel .....	403	1	404	437	33
Total Financing Services .....	1,285	1	1,286	1,518	232
General Services - Administration					
Salaries and Wages .....	496	-	496	496	-
Non-Personnel .....	219	6	225	227	2
Total General Services - Administration .....	715	6	721	723	2

Prior Year					Total				
Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,620	\$ 3	\$ 5,623	\$ 5,755	\$ 132
23	9	32	32	-	2,232	12	2,244	2,287	23
23	9	32	32	-	7,852	15	7,867	8,022	155
-	-	-	-	-	1,947	-	1,947	1,998	51
1	-	1	31	30	1,239	43	1,282	1,422	140
1	-	1	31	30	3,186	43	3,229	3,420	191
-	-	-	-	-	277	-	277	277	-
-	-	-	-	-	110	-	110	111	1
-	-	-	-	-	387	-	387	388	1
-	-	-	-	-	1,011	-	1,011	1,270	259
1	-	1	1	-	474	19	493	523	30
1	-	1	1	-	1,485	19	1,504	1,793	289
-	-	-	-	-	7,000	-	7,000	7,018	18
358	8	366	366	-	3,426	109	3,535	3,536	1
358	8	366	366	-	10,426	109	10,535	10,554	19
-	-	-	-	-	2,182	-	2,182	2,264	82
4	-	4	6	2	988	-	988	1,069	81
4	-	4	6	2	3,170	-	3,170	3,333	163
-	-	-	-	-	1,235	-	1,235	1,236	1
2	-	2	2	-	564	89	653	793	140
2	-	2	2	-	1,799	89	1,888	2,029	141
-	-	-	-	-	1,729	-	1,729	1,729	-
17	27	44	44	-	899	27	926	928	2
17	27	44	44	-	2,628	27	2,655	2,657	2
-	-	-	-	-	3,156	-	3,156	3,156	-
229	2	231	234	3	3,267	119	3,386	3,389	3
229	2	231	234	3	6,423	119	6,542	6,545	3
-	-	-	-	-	882	-	882	1,081	199
1	-	1	41	40	404	1	405	478	73
1	-	1	41	40	1,286	1	1,287	1,559	272
-	-	-	-	-	496	-	496	496	-
-	-	-	-	-	219	6	225	227	2
-	-	-	-	-	715	6	721	723	2

Continued on Next Page

GENERAL FUND  
 CITY OF SAN DIEGO  
 SCHEDULE OF EXPENDITURES AND TRANSFERS  
 BUDGET AND ACTUAL (BUDGETARY BASIS)  
 June 30, 2002  
 (In Thousands)

	Current Year				
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
Departmental (Continued):					
Facilities Maintenance					
Salaries and Wages .....	\$ 7,185	\$ -	\$ 7,185	\$ 7,590	\$ 405
Non-Personnel .....	9,847	528	10,375	10,375	-
Total Facilities Maintenance .....	17,032	528	17,560	17,965	405
Purchasing					
Salaries and Wages .....	1,029	-	1,029	1,191	162
Non-Personnel .....	572	16	588	588	-
Total Purchasing .....	1,601	16	1,617	1,779	162
Storm Water					
Salaries and Wages .....	993	-	993	1,254	261
Non-Personnel .....	968	255	1,223	1,229	6
Total Storm Water .....	1,961	255	2,216	2,483	267
Information Technology and Communications					
Salaries and Wages .....	2,715	-	2,715	2,811	96
Non-Personnel .....	1,676	177	1,853	1,894	41
Total Information Technology and Communications .....	4,391	177	4,568	4,705	137
Governmental Relations					
Salaries and Wages .....	264	-	264	280	16
Non-Personnel .....	446	11	457	496	39
Total Governmental Relations .....	710	11	721	776	55
Human Resources					
Salaries and Wages .....	516	-	516	517	1
Non-Personnel .....	195	-	195	200	5
Total Human Resources .....	711	-	711	717	6
Organizational Effectiveness Program					
Salaries and Wages .....	392	-	392	393	1
Non-Personnel .....	181	1	182	203	21
Total Organizational Effectiveness Program .....	573	1	574	596	22
Personnel					
Salaries and Wages .....	3,357	-	3,357	3,406	49
Non-Personnel .....	1,894	179	2,073	2,105	32
Total Personnel .....	5,251	179	5,430	5,511	81
Public and Media Affairs					
Salaries and Wages .....	305	-	305	305	-
Non-Personnel .....	169	1	170	216	46
Total Public and Media Affairs .....	474	1	475	521	46
Real Estate Assets					
Salaries and Wages .....	2,557	-	2,557	2,844	287
Non-Personnel .....	1,205	16	1,221	1,341	120
Total Real Estate Assets .....	3,762	16	3,778	4,185	407
Special Projects					
Salaries and Wages .....	1,372	-	1,372	1,472	100
Non-Personnel .....	617	-	617	617	-
Total Special Projects .....	1,989	-	1,989	2,089	100
Total Departmental .....	113,421	1,703	115,124	118,455	3,331

Prior Year					Total				
Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,185	\$ -	\$ 7,185	\$ 7,590	\$ 405
437	115	552	567	15	10,284	643	10,927	10,942	15
437	115	552	567	15	17,469	643	18,112	18,532	420
-	-	-	-	-	1,029	-	1,029	1,191	162
15	7	22	23	1	587	23	610	611	1
15	7	22	23	1	1,616	23	1,639	1,802	163
-	-	-	-	-	993	-	993	1,254	261
-	-	-	-	-	968	255	1,223	1,229	6
-	-	-	-	-	1,961	255	2,216	2,483	267
-	-	-	-	-	2,715	-	2,715	2,811	96
88	28	116	146	30	1,764	205	1,969	2,040	71
88	28	116	146	30	4,479	205	4,684	4,851	167
-	-	-	-	-	264	-	264	280	16
-	-	-	-	-	446	11	457	496	39
-	-	-	-	-	710	11	721	776	55
-	-	-	-	-	516	-	516	517	1
-	-	-	-	-	195	-	195	200	5
-	-	-	-	-	711	-	711	717	6
-	-	-	-	-	392	-	392	393	1
-	-	-	-	-	181	1	182	203	21
-	-	-	-	-	573	1	574	596	22
-	-	-	-	-	3,357	-	3,357	3,406	49
33	-	33	127	94	1,927	179	2,106	2,232	126
33	-	33	127	94	5,284	179	5,463	5,638	175
-	-	-	-	-	305	-	305	305	-
-	-	-	-	-	169	1	170	216	46
-	-	-	-	-	474	1	475	521	46
-	-	-	-	-	2,557	-	2,557	2,844	287
1	1	2	56	54	1,206	17	1,223	1,397	174
1	1	2	56	54	3,763	17	3,780	4,241	461
-	-	-	-	-	1,372	-	1,372	1,472	100
1	12	13	13	-	618	12	630	630	-
1	12	13	13	-	1,960	12	2,002	2,102	100
1,341	218	1,559	1,960	401	114,762	1,921	116,683	120,415	3,732

Continued on Next Page

**GENERAL FUND  
CITY OF SAN DIEGO  
SCHEDULE OF EXPENDITURES AND TRANSFERS  
BUDGET AND ACTUAL (BUDGETARY BASIS)  
June 30, 2002  
(In Thousands)**

	Current Year				
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
Citywide Program:					
Assessments to Public Property					
Non-Personnel .....	\$ 210	\$ 10	\$ 220	\$ 260	\$ 40
Citywide Elections					
Non-Personnel .....	227	62	289	289	-
Competition Program					
Non-Personnel .....	200	-	200	200	-
Employee Personal Property Damage					
Non-Personnel .....	4	-	4	11	7
Exceptional Performance Pay					
Salaries and Wages .....	-	-	-	42	42
Non-Personnel .....	-	-	-	15	15
Total Exceptional Performance Pay .....	-	-	-	57	57
Fellowship Program					
Salaries and Wages .....	20	-	20	20	-
Non-Personnel .....	37	-	37	64	27
Total Fellowship Program .....	57	-	57	84	27
Financial Accounting Systems					
Salaries and Wages .....	60	-	60	60	-
Non-Personnel .....	647	-	647	647	-
Total Financial Accounting Systems .....	707	-	707	707	-
General Government Printing					
Non-Personnel .....	64	10	74	95	21
Independent Audit					
Non-Personnel .....	19	61	80	80	-
Insurance					
Non-Personnel .....	631	10	641	649	8
Labor Relations					
Salaries and Wages .....	74	-	74	79	5
Non-Personnel .....	39	-	39	48	9
Total Labor Relations .....	113	-	113	127	14
Management Compensation Plan					
Non-Personnel .....	291	10	301	304	3
Total Management Compensation Plan .....	291	10	301	304	3



**THE CITY OF SANDISBORO ANNUAL FINANCIAL REPORT**

Prior Year					Total				
Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 210	\$ 10	\$ 220	\$ 260	\$ 40
-	31	31	31	-	227	93	320	320	-
-	-	-	-	-	200	-	200	200	-
-	-	-	-	-	4	-	4	11	7
-	-	-	-	-	-	-	-	42	42
-	-	-	-	-	-	-	-	15	15
-	-	-	-	-	-	-	-	57	57
-	-	-	-	-	20	-	20	20	-
-	-	-	-	-	37	-	37	64	27
-	-	-	-	-	57	-	57	84	27
-	-	-	-	-	60	-	60	60	-
-	-	-	-	-	647	-	647	647	-
-	-	-	-	-	707	-	707	707	-
-	-	-	-	-	64	10	74	95	21
15	110	125	125	-	34	171	205	205	-
-	76	76	76	-	631	86	717	725	8
-	-	-	-	-	74	-	74	79	5
-	-	-	-	-	39	-	39	48	9
-	-	-	-	-	113	-	113	127	14
-	-	-	-	-	291	10	301	304	3
-	-	-	-	-	291	10	301	304	3

Continued on Next Page

GENERAL FUND  
 CITY OF SAN DIEGO  
 SCHEDULE OF EXPENDITURES AND TRANSFERS  
 BUDGET AND ACTUAL (BUDGETARY BASIS)  
 June 30, 2002  
 (In Thousands)

	Current Year				
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
Departmental (Continued):					
Memberships					
Non-Personnel .....	\$ 522	\$ 10	\$ 532	\$ 549	\$ 17
Municipal Activities					
Non-Personnel .....	21	-	21	21	-
Property Tax Administration					
Non-Personnel .....	1,578	10	1,588	1,747	159
Public Works Projects					
Salaries and Wages .....	360	-	360	360	-
Non-Personnel .....	397	186	583	2,083	1,500
Total Public Works Projects .....	757	186	943	2,443	1,500
Random Drug Testing					
Salaries and Wages .....	11	-	11	43	32
Non-Personnel .....	76	37	113	123	10
Total Random Drug Testing .....	87	37	124	166	42
Special Pay					
Non-Personnel .....	-	-	-	1	1
Training					
Salaries and Wages .....	11	-	11	11	-
Non-Personnel .....	25	10	35	37	2
Total Training .....	36	10	46	48	2
Travel Contingency					
Non-Personnel .....	-	-	-	7	7
San Diego Geographic Info Source					
Non-Personnel .....	373	-	373	373	-
Total San Diego Geographic Info Source .....	373	-	373	373	-
Space Rental					
Salaries and Wages .....	86	-	86	86	-
Non-Personnel .....	6,053	122	6,175	6,264	89
Total Space Rental .....	6,139	122	6,261	6,350	89
Other Special Projects					
Salaries and Wages .....	612	-	612	612	-
Non-Personnel .....	4,323	525	4,848	5,537	689
Total Other Special Projects .....	4,935	525	5,460	6,149	689
Total Citywide Program .....	16,971	1,063	18,034	20,717	2,683
<b>TOTAL GENERAL GOVERNMENT AND SUPPORT .....</b>	<b>130,392</b>	<b>2,766</b>	<b>133,158</b>	<b>139,172</b>	<b>6,014</b>

**THE CITY OF SAN DIEGO ANNUAL FINANCIAL REPORT**

Prior Year					Total				
Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 522	\$ 10	\$ 532	\$ 549	\$ 17
-	-	-	-	-	21	-	21	21	-
-	-	-	-	-	1,578	10	1,588	1,747	159
-	-	-	-	-	360	-	360	360	-
96	107	203	236	33	493	293	786	2,319	1,533
96	107	203	236	33	853	293	1,146	2,679	1,533
-	-	-	-	-	11	-	11	43	32
25	-	25	41	16	101	37	138	164	26
25	-	25	41	16	112	37	149	207	58
-	-	-	-	-	-	-	-	1	1
-	-	-	-	-	11	-	11	11	-
-	8	8	8	-	25	18	43	45	2
-	8	8	8	-	36	18	54	56	2
-	2	2	2	-	-	2	2	9	7
13	-	13	18	5	386	-	386	391	5
13	-	13	18	5	386	-	386	391	5
-	-	-	-	-	86	-	86	86	-
236	355	591	613	22	6,289	477	6,766	6,877	111
236	355	591	613	22	6,375	477	6,852	6,963	111
-	-	-	-	-	612	-	612	612	-
194	409	603	703	100	4,517	934	5,451	6,240	789
194	409	603	703	100	5,129	934	6,063	6,852	789
579	1,098	1,677	1,853	176	17,550	2,161	19,711	22,570	2,859
1,920	1,316	3,236	3,813	577	132,312	4,082	136,394	142,985	6,591

Continued on Next Page

**GENERAL FUND  
CITY OF SAN DIEGO  
SCHEDULE OF EXPENDITURES AND TRANSFERS  
BUDGET AND ACTUAL (BUDGETARY BASIS)  
June 30, 2002  
(In Thousands)**

	Current Year				Variance with Final Budget Positive (Negative)
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	
<b>PUBLIC SAFETY - POLICE</b>					
Departmental:					
Police					
Salaries and Wages .....	\$ 175,897	\$ -	\$ 175,897	\$ 180,050	\$ 4,153
Non-Personnel .....	81,477	1,584	83,061	86,066	3,005
Total Police .....	257,374	1,584	258,958	266,116	7,158
Citywide Program:					
Police Review Board					
Salaries and Wages .....	143	-	143	143	-
Non-Personnel .....	99	-	99	99	-
Total Police Review Board .....	242	-	242	242	-
Other Special Projects					
Non-Personnel .....	98	-	98	100	2
Total Citywide Program .....	340	-	340	342	2
<b>TOTAL PUBLIC SAFETY - POLICE .....</b>	<b>257,714</b>	<b>1,584</b>	<b>259,298</b>	<b>266,458</b>	<b>7,160</b>
<b>PUBLIC SAFETY - FIRE AND LIFE SAFETY</b>					
Departmental:					
Fire and Life Safety					
Salaries and Wages .....	84,517	-	84,517	84,795	278
Non-Personnel .....	37,337	(991)	36,346	37,777	1,431
Total Fire and Life Safety .....	121,854	(991)	120,863	122,572	1,709
Citywide Program:					
Emergency Medical Services					
Salaries and Wages .....	174	-	174	186	12
Non-Personnel .....	243	20	263	293	30
Total Emergency Medical Services .....	417	20	437	479	42
Other Special Projects					
Non-Personnel .....	-	-	-	190	190
Total Citywide Program .....	417	20	437	669	232
<b>TOTAL PUBLIC SAFETY - FIRE AND LIFE SAFETY .....</b>	<b>122,271</b>	<b>(971)</b>	<b>121,300</b>	<b>123,241</b>	<b>1,941</b>

Prior Year					Total				
Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 175,897	\$ -	\$ 175,897	\$ 180,050	\$ 4,153
1,477	28	1,505	1,912	407	82,954	1,612	84,566	87,978	3,412
1,477	28	1,505	1,912	407	258,851	1,612	260,463	268,028	7,565
-	-	-	-	-	143	-	143	143	-
-	-	-	-	-	99	-	99	99	-
-	-	-	-	-	242	-	242	242	-
-	-	-	-	-	98	-	98	100	2
-	-	-	-	-	340	-	340	342	2
1,477	28	1,505	1,912	407	259,191	1,612	260,803	268,370	7,567
-	-	-	-	-	84,517	-	84,517	84,795	278
658	328	986	1,181	195	37,995	(663)	37,332	38,958	1,626
658	328	986	1,181	195	122,512	(663)	121,849	123,753	1,904
-	-	-	-	-	174	-	174	186	12
13	-	13	13	-	256	20	276	306	30
13	-	13	13	-	430	20	450	492	42
-	-	-	-	-	-	-	-	190	190
13	-	13	13	-	430	20	450	682	232
671	328	999	1,194	195	122,942	(643)	122,299	124,435	2,136

Continued on Next Page

**GENERAL FUND  
CITY OF SAN DIEGO  
SCHEDULE OF EXPENDITURES AND TRANSFERS  
BUDGET AND ACTUAL (BUDGETARY BASIS)  
June 30, 2002  
(In Thousands)**

	Current Year				Variance with Final Budget Positive (Negative)
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	
<b>PARKS, RECREATION, CULTURE AND LEISURE</b>					
Departmental:					
Park and Recreation - Management					
Salaries and Wages .....	\$ 826	\$ -	\$ 826	\$ 827	\$ 1
Non-Personnel .....	430	10	440	442	2
Total Park and Recreation - Management .....	1,256	10	1,266	1,269	3
Coastal Parks					
Salaries and Wages .....	6,761	-	6,761	7,311	550
Non-Personnel .....	7,002	507	7,509	7,643	134
Total Coastal Parks .....	13,763	507	14,270	14,954	684
Inland Parks					
Salaries and Wages .....	9,163	-	9,163	9,165	2
Non-Personnel .....	7,200	303	7,503	7,704	201
Total Inland Parks .....	16,363	303	16,666	16,869	203
Metro Parks					
Salaries and Wages .....	8,367	-	8,367	8,595	228
Non-Personnel .....	8,376	674	9,050	9,050	-
Total Metro Parks .....	16,743	674	17,417	17,645	228
Northern Parks					
Salaries and Wages .....	4,289	-	4,289	4,357	68
Non-Personnel .....	5,173	516	5,689	5,833	144
Total Northern Parks .....	9,462	516	9,978	10,190	212
Special Services					
Salaries and Wages .....	5	-	5	27	22
Non-Personnel .....	3	-	3	7	4
Total Special Services .....	8	-	8	34	26
Library					
Salaries and Wages .....	16,387	-	16,387	16,858	471
Non-Personnel .....	13,592	444	14,036	15,009	973
Total Library .....	29,979	444	30,423	31,867	1,444
Total Departmental .....	87,574	2,454	90,028	92,828	2,800
Citywide Program:					
Park and Recreation Programs					
Non-Personnel .....	276	7	283	941	658
<b>TOTAL PARKS, RECREATION, CULTURE AND LEISURE .....</b>	<b>87,850</b>	<b>2,461</b>	<b>90,311</b>	<b>93,769</b>	<b>3,458</b>

Prior Year					Total				
Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 826	\$ -	\$ 826	\$ 827	\$ 1
4	-	4	5	1	434	10	444	447	3
4	-	4	5	1	1,260	10	1,270	1,274	4
-	-	-	-	-	6,761	-	6,761	7,311	550
197	-	197	221	24	7,199	507	7,706	7,864	158
197	-	197	221	24	13,960	507	14,467	15,175	708
-	-	-	-	-	9,163	-	9,163	9,165	2
290	-	290	290	-	7,490	303	7,793	7,994	201
290	-	290	290	-	16,653	303	16,956	17,159	203
-	-	-	-	-	8,367	-	8,367	8,595	228
339	4	343	386	43	8,715	678	9,393	9,436	43
339	4	343	386	43	17,082	678	17,760	18,031	271
-	-	-	-	-	4,289	-	4,289	4,357	68
293	234	527	609	82	5,466	750	6,216	6,442	226
293	234	527	609	82	9,755	750	10,505	10,799	294
-	-	-	-	-	5	-	5	27	22
-	-	-	-	-	3	-	3	7	4
-	-	-	-	-	8	-	8	34	26
-	-	-	-	-	16,387	-	16,387	16,858	471
469	98	567	601	34	14,061	542	14,603	15,610	1,007
469	98	567	601	34	30,448	542	30,990	32,468	1,478
1,592	336	1,928	2,112	184	89,166	2,790	91,956	94,940	2,984
-	-	-	-	-	276	7	283	941	658
1,592	336	1,928	2,112	184	89,442	2,797	92,239	95,881	3,642

Continued on Next Page

**GENERAL FUND  
CITY OF SAN DIEGO  
SCHEDULE OF EXPENDITURES AND TRANSFERS  
BUDGET AND ACTUAL (BUDGETARY BASIS)  
June 30, 2002  
(In Thousands)**

	Current Year				Variance with Final Budget Positive (Negative)
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	
<b>TRANSPORTATION</b>					
Departmental					
Parking Management					
Salaries and Wages .....	\$ 3,861	\$ -	\$ 3,861	\$ 3,862	\$ 1
Non-Personnel .....	2,624	301	2,925	2,957	32
Total Parking Management .....	<u>6,485</u>	<u>301</u>	<u>6,786</u>	<u>6,819</u>	<u>33</u>
Transportation Management					
Salaries and Wages .....	143	-	143	143	-
Non-Personnel .....	75	-	75	76	1
Total Transportation Management .....	<u>218</u>	<u>-</u>	<u>218</u>	<u>219</u>	<u>1</u>
Transportation Design					
Salaries and Wages .....	4,049	-	4,049	4,150	101
Non-Personnel .....	2,258	69	2,327	2,328	1
Total Transportation Design .....	<u>6,307</u>	<u>69</u>	<u>6,376</u>	<u>6,478</u>	<u>102</u>
Streets					
Non-Personnel .....	-	302	302	302	-
Total Streets .....	<u>-</u>	<u>302</u>	<u>302</u>	<u>302</u>	<u>-</u>
Traffic Engineering					
Salaries and Wages .....	3,497	-	3,497	3,525	28
Non-Personnel .....	2,072	63	2,135	2,142	7
Total Traffic Engineering .....	<u>5,569</u>	<u>63</u>	<u>5,632</u>	<u>5,667</u>	<u>35</u>
Total Departmental .....	<u>18,579</u>	<u>735</u>	<u>19,314</u>	<u>19,485</u>	<u>171</u>
Citywide Program:					
Transportation					
Non-Personnel .....	362	70	432	432	-
<b>TOTAL TRANSPORTATION .....</b>	<u>18,941</u>	<u>805</u>	<u>19,746</u>	<u>19,917</u>	<u>171</u>
<b>SANITATION AND HEALTH</b>					
Departmental:					
Collection Services					
Salaries and Wages .....	6,493	-	6,493	6,670	177
Non-Personnel .....	21,801	1,077	22,878	24,060	1,182
Total Collection Services .....	<u>28,294</u>	<u>1,077</u>	<u>29,371</u>	<u>30,730</u>	<u>1,359</u>
Environmental Protection					
Salaries and Wages .....	215	-	215	238	23
Non-Personnel .....	244	2	246	247	1
Total Environmental Protection .....	<u>459</u>	<u>2</u>	<u>461</u>	<u>485</u>	<u>24</u>
Resource Management					
Salaries and Wages .....	214	-	214	274	60
Non-Personnel .....	76	-	76	102	26
Total Resource Management .....	<u>290</u>	<u>-</u>	<u>290</u>	<u>376</u>	<u>86</u>
Mt. Hope Cemetery					
Salaries and Wages .....	539	-	539	593	54
Non-Personnel .....	810	46	856	856	-
Total Mt. Hope Cemetery .....	<u>1,349</u>	<u>46</u>	<u>1,395</u>	<u>1,449</u>	<u>54</u>
Total Departmental .....	<u>30,392</u>	<u>1,125</u>	<u>31,517</u>	<u>33,040</u>	<u>1,523</u>





Prior Year					Total				
Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,861	\$ -	\$ 3,861	\$ 3,862	\$ 1
77	1	78	159	81	2,701	302	3,003	3,116	113
77	1	78	159	81	6,582	302	6,884	6,978	114
-	-	-	-	-	143	-	143	143	-
-	-	-	-	-	75	-	75	76	1
-	-	-	-	-	218	-	218	219	1
-	-	-	-	-	4,049	-	4,049	4,150	101
82	35	117	121	4	2,340	104	2,444	2,449	5
82	35	117	121	4	6,389	104	6,493	6,599	106
-	-	-	-	-	-	302	302	302	-
-	-	-	-	-	-	302	302	302	-
-	-	-	-	-	3,497	-	3,497	3,525	28
96	-	96	104	8	2,168	63	2,231	2,246	15
96	-	96	104	8	5,665	63	5,728	5,771	43
255	36	291	384	93	18,834	771	19,605	19,869	264
-	-	-	-	-	362	70	432	432	-
255	36	291	384	93	19,196	841	20,037	20,301	264
-	-	-	-	-	6,493	-	6,493	6,670	177
46	13	59	80	21	21,847	1,090	22,937	24,140	1,203
46	13	59	80	21	28,340	1,090	29,430	30,810	1,380
-	-	-	-	-	215	-	215	238	23
-	-	-	-	-	244	2	246	247	1
-	-	-	-	-	459	2	461	485	24
-	-	-	-	-	214	-	214	274	60
-	-	-	-	-	76	-	76	102	26
-	-	-	-	-	290	-	290	376	86
-	-	-	-	-	539	-	539	593	54
95	8	103	111	8	905	54	959	967	8
95	8	103	111	8	1,444	54	1,498	1,560	62
141	21	162	191	29	30,533	1,146	31,679	33,231	1,552

Continued On Next Page

**GENERAL FUND  
CITY OF SAN DIEGO  
SCHEDULE OF EXPENDITURES AND TRANSFERS  
BUDGET AND ACTUAL (BUDGETARY BASIS)  
June 30, 2002  
(In Thousands)**

	Current Year				
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
Departmental (Continued):					
Citywide Program:					
Animal Regulation					
Non-Personnel .....	\$ 3,866	\$ 94	\$ 3,960	\$ 3,960	\$ -
Health Services Furnished by County					
Non-Personnel .....	17	-	17	17	-
Refuse Container Fund					
Non-Personnel .....	119	-	119	119	-
Total Citywide Program .....	4,002	94	4,096	4,096	-
<b>TOTAL SANITATION AND HEALTH .....</b>	<b>34,394</b>	<b>1,219</b>	<b>35,613</b>	<b>37,136</b>	<b>1,523</b>
<b>NEIGHBORHOOD SERVICES:</b>					
Departmental:					
Community and Economic Development					
Salaries and Wages .....	4,463	-	4,463	4,466	3
Non-Personnel .....	7,879	384	8,263	8,318	55
Total Community and Economic Development .....	12,342	384	12,726	12,784	58
Building Development Review					
Salaries and Wages .....	1,055	-	1,055	1,055	-
Non-Personnel .....	617	1	618	673	55
Total Development Services .....	1,672	1	1,673	1,728	55
Neighborhood Code Compliance					
Salaries and Wages .....	3,710	-	3,710	3,824	114
Non-Personnel .....	2,448	94	2,542	2,542	-
Total Neighborhood Code Compliance .....	6,158	94	6,252	6,366	114
Planning					
Salaries and Wages .....	4,404	-	4,404	4,792	388
Non-Personnel .....	3,382	347	3,729	4,029	300
Total Planning .....	7,786	347	8,133	8,821	688
Total Departmental .....	27,958	826	28,784	29,699	915
Citywide Program:					
Community and Economic Development Special Projects					
Non-Personnel .....	100	20	120	440	320
Total Community and Economic Development Special Projects .....	100	20	120	440	320
Nuisance Abatement					
Non-Personnel .....	-	-	-	43	43
Total Citywide Program .....	100	20	120	483	363
<b>TOTAL NEIGHBORHOOD SERVICES .....</b>	<b>28,058</b>	<b>846</b>	<b>28,904</b>	<b>30,182</b>	<b>1,278</b>
<b>DEBT SERVICE:</b>					
Principal .....	1,553	-	1,553	1,553	-
Interest .....	1,157	2,373	3,530	3,530	-
<b>TOTAL DEBT SERVICE .....</b>	<b>2,710</b>	<b>2,373</b>	<b>5,083</b>	<b>5,083</b>	<b>-</b>
<b>TOTAL EXPENDITURES .....</b>	<b>682,330</b>	<b>11,083</b>	<b>693,413</b>	<b>714,958</b>	<b>21,545</b>

**THE CITY OF DANIELSON ANNUAL FINANCIAL REPORT**

Prior Year					Total				
Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
\$ -	\$ 71	\$ 71	\$ 71	\$ -	\$ 3,866	\$ 165	\$ 4,031	\$ 4,031	\$ -
-	3	3	12	9	17	3	20	29	9
-	-	-	-	-	119	-	119	119	-
-	74	74	83	9	4,002	168	4,170	4,179	9
141	95	236	274	38	34,535	1,314	35,849	37,410	1,561
-	-	-	59	59	4,463	-	4,463	4,525	62
474	74	548	549	1	8,353	458	8,811	8,867	56
474	74	548	608	60	12,816	458	13,274	13,392	118
-	-	-	-	-	1,055	-	1,055	1,055	-
-	-	-	-	-	617	1	618	673	55
-	-	-	-	-	1,672	1	1,673	1,728	55
-	-	-	-	-	3,710	-	3,710	3,824	114
28	5	33	187	154	2,476	99	2,575	2,729	154
28	5	33	187	154	6,186	99	6,285	6,553	268
-	-	-	-	-	4,404	-	4,404	4,792	388
66	105	171	217	46	3,448	452	3,900	4,246	346
66	105	171	217	46	7,852	452	8,304	9,038	734
568	184	752	1,012	260	28,526	1,010	29,536	30,711	1,175
-	-	-	-	-	100	20	120	440	320
-	-	-	-	-	100	20	120	440	320
-	-	-	-	-	-	-	-	43	43
-	-	-	-	-	100	20	120	483	363
568	184	752	1,012	260	28,626	1,030	29,656	31,194	1,538
-	-	-	-	-	1,553	-	1,553	1,553	-
-	-	-	-	-	1,157	2,373	3,530	3,530	-
-	-	-	-	-	2,710	2,373	5,083	5,083	-
6,624	2,323	8,947	10,701	1,754	688,954	13,406	702,360	725,659	23,299

Continued on Next Page

**GENERAL FUND  
CITY OF SAN DIEGO  
SCHEDULE OF EXPENDITURES AND TRANSFERS  
BUDGET AND ACTUAL (BUDGETARY BASIS)  
June 30, 2002  
(In Thousands)**

	Current Year				Variance with Final Budget Positive (Negative)
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	
<b>TRANSFERS TO PROPRIETARY FUNDS</b>					
Internal Service Funds:					
City of San Diego:					
Self Insurance .....	\$ 6,454	\$ -	\$ 6,454	\$ 6,454	\$ -
Miscellaneous Internal Service .....	245	-	245	245	-
Total Internal Service Funds .....	<u>6,699</u>	<u>-</u>	<u>6,699</u>	<u>6,699</u>	<u>-</u>
<b>TOTAL TRANSFERS TO PROPRIETARY FUNDS .....</b>	<b>6,699</b>	<b>-</b>	<b>6,699</b>	<b>6,699</b>	<b>-</b>
<b>TRANSFERS TO OTHER FUNDS</b>					
Special Revenue Funds:					
City of San Diego:					
Acquisition, Improvement and Operation.....	391	-	391	391	-
Streets Division Operations.....	15,145	-	15,145	15,145	-
Other Special Revenue - Budgeted .....	213	-	213	213	-
Other Special Revenue - Unbudgeted .....	15,592	-	15,592	15,592	-
Total Special Revenue Funds .....	<u>31,341</u>	<u>-</u>	<u>31,341</u>	<u>31,341</u>	<u>-</u>
Capital Projects Funds:					
City of San Diego:					
Other Construction .....	631	-	631	631	-
Total Capital Projects Funds .....	<u>631</u>	<u>-</u>	<u>631</u>	<u>631</u>	<u>-</u>
<b>TOTAL TRANSFERS TO OTHER FUNDS .....</b>	<b>31,972</b>	<b>-</b>	<b>31,972</b>	<b>31,972</b>	<b>-</b>
<b>TRANSFER TO COMPONENT UNIT</b>					
Transfer to San Diego Medical Services Enterprise, LLC .....	650	-	650	650	-
<b>TOTAL EXPENDITURES AND TRANSFERS .....</b>	<b>\$ 721,651</b>	<b>\$ 11,083</b>	<b>\$ 732,734</b>	<b>\$ 754,279</b>	<b>\$ 21,545</b>

**THE CITY OF SAN DIEGO ANNUAL BUDGET REPORT**

Prior Year					Total				
Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,454	\$ -	\$ 6,454	\$ 6,454	\$ -
-	-	-	-	-	245	-	245	245	-
-	-	-	-	-	6,699	-	6,699	6,699	-
-	-	-	-	-	6,699	-	6,699	6,699	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	391	-	391	391	-
-	-	-	-	-	15,145	-	15,145	15,145	-
-	-	-	-	-	213	-	213	213	-
55	-	55	55	-	15,647	-	15,647	15,647	-
55	-	55	55	-	31,396	-	31,396	31,396	-
55	-	55	55	-	686	-	686	686	-
55	-	55	55	-	686	-	686	686	-
110	-	110	110	-	32,082	-	32,082	32,082	-
-	-	-	-	-	650	-	650	650	-
\$ 6,734	\$ 2,323	\$ 9,057	\$ 10,811	\$ 1,754	\$ 728,385	\$ 13,406	\$ 741,791	\$ 765,090	\$ 23,299



**NONMAJOR  
GOVERNMENTAL  
FUNDS**

**NONMAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
June 30, 2002  
(In Thousands)**

	Special Revenue	Debt Service	Capital Projects	Permanent	Total Nonmajor Governmental Funds
<b>ASSETS</b>					
Cash or Equity in Pooled Cash and Investments .....	\$ 289,504	\$ 5,393	\$ 310,030	\$ 305	\$ 605,232
Cash With Custodian/Fiscal Agent .....	261	25,303	3	561	26,128
Investments at Fair Value .....	1,121	127,981	212,128	11,381	352,611
Receivables:					
Taxes - Net .....	8,697	29	-	-	8,726
Accounts - Net .....	7,382	-	1,468	17	8,867
Claims - Net .....	111	-	-	-	111
Special Assessments - Net .....	1,411	553	-	-	1,964
Notes .....	16,625	-	12,570	-	29,195
Accrued Interest .....	873	524	2,676	12	4,085
Grants .....	17,397	-	15,206	-	32,603
From Other Funds .....	1,316	142	19,240	-	20,698
From Other Agencies .....	1,507	-	95	-	1,602
Advances to Other Funds .....	13,309	-	851	-	14,160
Advances to Other Agencies .....	5,361	-	-	-	5,361
Land Held for Resale .....	7,507	-	74,067	-	81,574
Prepaid and Reimbursable Items and Deposits .....	341	1,197	3	-	1,541
<b>TOTAL ASSETS</b> .....	<b>\$ 372,723</b>	<b>\$ 161,122</b>	<b>\$ 648,337</b>	<b>\$ 12,276</b>	<b>\$ 1,194,458</b>
<b>LIABILITIES</b>					
Accounts Payable .....	\$ 4,609	\$ -	\$ 13,573	\$ -	\$ 18,182
Accrued Wages and Benefits .....	1,661	-	-	-	1,661
Other Accrued Liabilities .....	189	-	-	-	189
Matured Bonds, Notes and Interest Payable .....	-	3	-	-	3
Due to Other Funds .....	15,574	-	6,998	-	22,572
Due to Component Unit .....	906	-	-	-	906
Due to Other Agencies .....	178	-	182	-	360
Deferred Revenue .....	45,525	361	29,495	-	75,381
Advances from Other Funds .....	1,277	1,339	-	-	2,616
Sundry Trust Liabilities .....	2,388	-	5,585	-	7,973
<b>TOTAL LIABILITIES</b> .....	<b>72,307</b>	<b>1,703</b>	<b>55,833</b>	<b>-</b>	<b>129,843</b>
<b>FUND EQUITY:</b>					
Fund Balances:					
Reserved for Land Held for Resale .....	7,507	-	74,067	-	81,574
Reserved for Encumbrances .....	25,994	-	235,187	-	261,181
Reserved for Advances and Deposits .....	13,787	-	-	-	13,787
Reserved for Permanent Endowments .....	-	-	-	12,276	12,276
Reserved for Debt Service .....	50,477	155,679	-	-	206,156
Unreserved:					
Designated for Unrealized Gains .....	1,136	3,740	1,602	-	6,478
Designated for Subsequent Years' Expenditures .....	68,327	-	168,073	-	236,400
Undesignated .....	133,188	-	113,575	-	246,763
<b>TOTAL FUND EQUITY</b> .....	<b>300,416</b>	<b>159,419</b>	<b>592,504</b>	<b>12,276</b>	<b>1,064,615</b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b> .....	<b>\$ 372,723</b>	<b>\$ 161,122</b>	<b>\$ 648,337</b>	<b>\$ 12,276</b>	<b>\$ 1,194,458</b>

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



**NONMAJOR GOVERNMENTAL FUNDS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
 Year Ended June 30, 2012  
 (In Thousands)

	Special Revenue	Debt Service	Capital Projects	Permanent	Total Nonmajor Governmental Funds
<b>REVENUES</b>					
Property Taxes .....	\$ 26,768	\$ 22,467	\$ 3,889	\$ -	\$ 53,124
Special Assessments .....	10,935	11,556	-	-	22,491
Sales Taxes .....	51,468	-	30,718	-	82,186
Other Local Taxes .....	86,948	-	-	-	86,948
Licenses and Permits .....	2,391	-	741	-	3,132
Fines, Forfeitures and Penalties .....	1,604	-	-	-	1,604
Revenue from Use of Money and Property .....	31,820	2,213	28,173	310	62,516
Revenue from Federal Agencies .....	35,741	-	4,963	-	40,704
Revenue from Other Agencies .....	42,458	-	41,196	-	83,654
Revenue from Private Sources .....	27,218	745	112,878	-	140,841
Charges for Current Services .....	20,414	-	-	68	20,482
Other Revenue .....	1,688	-	4,485	110	6,283
Distribution from Partner .....	500	-	-	-	500
<b>TOTAL REVENUES</b> .....	<b>339,953</b>	<b>36,981</b>	<b>227,043</b>	<b>488</b>	<b>604,465</b>
<b>EXPENDITURES</b>					
Current:					
General Government and Support .....	28,840	2,683	25,290	3	56,816
Public Safety - Police .....	29,618	-	-	-	29,618
Public Safety - Fire and Life Safety .....	9,032	-	-	-	9,032
Parks, Recreation, Culture and Leisure .....	74,325	-	10,700	18	85,043
Transportation .....	65,982	-	6,568	-	72,550
Sanitation and Health .....	2,316	-	-	-	2,316
Neighborhood Services .....	35,988	-	7,473	-	43,461
Capital Projects .....	17,220	-	190,863	-	208,083
Debt Service:					
Principal Retirement .....	4,320	33,958	-	-	38,278
Interest .....	2,037	45,946	-	-	47,983
<b>TOTAL EXPENDITURES</b> .....	<b>269,678</b>	<b>82,587</b>	<b>240,894</b>	<b>21</b>	<b>593,180</b>
<b>EXCESS (DEFICIENCY) OF REVENUES</b>					
<b>OVER EXPENDITURES</b> .....	<b>70,275</b>	<b>(45,606)</b>	<b>(13,851)</b>	<b>467</b>	<b>11,285</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers from Proprietary Funds .....	3,302	-	55	-	3,357
Transfers from Other Funds .....	118,127	54,199	134,409	-	306,735
Transfers from Component Unit .....	550	-	-	-	550
Transfers to Proprietary Funds .....	(145)	-	(498)	-	(643)
Transfers to Other Funds .....	(194,694)	(12,920)	(94,060)	(530)	(302,204)
Transfers to Component Unit .....	(8,757)	-	-	-	(8,757)
Proceeds from Revenue Bonds .....	-	37,857	156,899	-	194,756
Proceeds from Tax Allocation Bonds .....	56,917	1,508	-	-	58,425
Proceeds from Capital Leases .....	706	-	-	-	706
<b>TOTAL OTHER FINANCING SOURCES (USES)</b> .....	<b>(23,994)</b>	<b>80,644</b>	<b>196,805</b>	<b>(530)</b>	<b>252,925</b>
<b>NET CHANGE IN FUND BALANCES</b> .....	<b>46,281</b>	<b>35,038</b>	<b>182,954</b>	<b>(63)</b>	<b>264,210</b>
Fund Balances at Beginning of Year, as Restated .....	254,135	124,381	409,550	12,339	800,405
<b>FUND BALANCES AT END OF YEAR</b> .....	<b>\$ 300,416</b>	<b>\$ 159,419</b>	<b>\$ 592,504</b>	<b>\$ 12,276</b>	<b>\$ 1,064,615</b>

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

**NONMAJOR  
GOVERNMENTAL  
FUNDS**

**SPECIAL REVENUE**

## SPECIAL REVENUE FUNDS

Special Revenue funds are used to account for the proceeds of specific revenue sources (other than those for major capital projects) that are legally restricted to expenditures for specified purposes.

### CITY OF SAN DIEGO

#### ACQUISITION, IMPROVEMENT AND OPERATION FUND

This fund accounts for various operating activities including Business Improvement Areas, Lighting and Landscape Maintenance Areas, Facilities Financing, and the City's Public Art program. Revenues are derived from business tax surcharges, special assessments on property, various rents, concessions and fees, and interest earnings derived therefrom.

#### ENVIRONMENTAL GROWTH FUND

This fund was established in accordance with Section 103.1a of the City Charter to receive 25 percent of all monies derived from the revenues accruing to the City from gas, electricity, and steam franchises. One third of the franchise monies and the interest derived therefrom are used exclusively for the purpose of preserving and enhancing the environment of the City of San Diego. Two thirds of the franchise monies and the interest derived therefrom are used as matching funds for open space acquisition and for debt service of bonds issued by the San Diego Open Space Facilities District No. 1.

#### POLICE DECENTRALIZATION FUND

This fund accounts for monies allocated for Police Department decentralization expenditures for temporary facilities and to devise future capital improvement projects. Revenues are derived from sales tax allocations.

#### PUBLIC TRANSPORTATION FUND

This fund was established to account for funds set aside as reserves to be used for transportation-related purposes. Fund transfers and interest derived therefrom are the main sources of revenue.

#### QUALCOMM STADIUM OPERATIONS FUND

This fund accounts for the operations of the Stadium. The Stadium hosts various sporting events for its football and baseball tenants. Revenues are derived from rents, concessions, parking, and advertising.

#### SPECIAL GAS TAX STREET IMPROVEMENT FUND

This fund was established to account for the receipt of motor vehicle fuel taxes from the State under Sections 2106 and 2107 of the Streets and Highways Code. Expenditures are for the construction, improvement, maintenance, and operation of public streets and highways.

#### STREET DIVISION OPERATIONS FUND

This fund was established to account for the operations of Transportation's Street Division. Revenues are derived from Gas Tax, Transnet, and General Fund transfers, as well as revenues received for services performed by the Streets Division. Expenditures are for maintenance and operation of City streets.

**SPECIAL REVENUE FUNDS (Continued)****CITY OF SAN DIEGO (Continued)****TRANSIENT OCCUPANCY TAX FUND**

This fund was established to receive and expend transient occupancy taxes. Since 1964, a tax has been imposed on transients of hotel and motel rooms in the City of San Diego. Effective August 1994, the tax was increased from 9% to 10.5%.

**ZOOLOGICAL EXHIBITS FUND**

This fund was established to collect monies from a fixed property tax levy authorized by Section 77a of the City Charter for the maintenance of zoological exhibits in Balboa Park. These funds are remitted in accordance with a contractual agreement with the San Diego Zoological Society, a not-for-profit corporation independent from the City of San Diego.

**OTHER SPECIAL REVENUE - BUDGETED**

This fund was established to account for revenues derived specifically for a variety of budgeted special programs administered by departments such as Police, Development Services, and General Services. Revenues in this fund are derived from service charges, revenues from other agencies, and fines.

**GRANTS FUND**

This fund was established to account for revenue received from federal, state and other governmental agencies. Expenditures are made and accounted for as prescribed by appropriate grant provisions/agreements.

**OTHER SPECIAL REVENUE FUND - UNBUDGETED**

This fund was established to account for revenues earmarked for a variety of special programs administered by such departments as Engineering and Capital Projects, Libraries, Park and Recreation, and Police. Revenues in this fund are derived from such sources as parking fees, service charges, contributions from other agencies and private sources, and interest earnings.

**BLENDED COMPONENT UNITS****CENTRE CITY DEVELOPMENT CORPORATION**

This fund was established to account for the revenues and expenditures of the Centre City Development Corporation ("CCDC"). CCDC is a non-profit corporation that administers certain redevelopment projects in downtown San Diego and provides redevelopment advisory services to the Redevelopment Agency (the "Agency") of the City of San Diego. CCDC is primarily funded by the Agency and by the City of San Diego.

**SPECIAL REVENUE (Continued)****BLENDED COMPONENT UNITS (Continued)****PUBLIC FACILITIES FINANCING AUTHORITY**

This fund was established to account for the activities of the Public Facilities Financing Authority (the "Authority"). The Authority is a joint powers entity of the City and the Redevelopment Agency of the City of San Diego and was created to finance and construct public capital facility improvements of the Agency or the City. The Authority's special revenue account is generally used to account for revenues from the Reassessment District Bond fund and investment income used to pay for costs of issuance and administrative expenses related to debt redemption.

**REDEVELOPMENT AGENCY**

This fund was established to account for the activities of the Redevelopment Agency of the City of San Diego (the "Agency"). The Agency was established to provide a method for revitalizing deteriorated and blighted areas of the City of San Diego. The Agency's special revenue account is used to account for funds restricted for the benefit of low and moderate income housing. Funding is primarily from property tax increment revenues and the City of San Diego.

**SAN DIEGO INDUSTRIAL DEVELOPMENT AUTHORITY**

This fund was established to account for revenues and expenditures of the San Diego Industrial Development Authority (the "Authority"). The Authority was formed in 1983 pursuant to the California Industrial Development Financing Act for the purpose of providing an alternative method of financing to participating parties for economic development purposes, through the sale and issuance of revenue bonds. Revenues are derived from fees collected from companies applying for industrial development bond financing. Expenditures are incurred for management and administrative services provided by the City of San Diego.

**SOUTHEASTERN ECONOMIC DEVELOPMENT CORPORATION**

This fund was established to account for the revenues and expenditures of the Southeastern Economic Development Corporation ("SEDC"): SEDC is a non-profit corporation that administers economic development projects within the community of Southeast San Diego and provides redevelopment advisory services to the Redevelopment Agency of the City of San Diego (the "Agency"). SEDC is primarily funded by the Agency and by the City of San Diego pursuant to operating agreements under which SEDC is reimbursed for eligible costs incurred in connection with such activities.

**NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE  
COMBINING BALANCE SHEET  
June 30, 2002  
(In Thousands)**

	City of San Diego	Centre City Development Corporation
<b>ASSETS</b>		
Cash or Equity in Pooled Cash and Investments .....	\$ 160,623	\$ 127
Cash With Custodian/Fiscal Agent .....	261	-
Investments at Fair Value .....	1,065	-
Receivables:		
Taxes - Net .....	7,493	-
Accounts - Net .....	7,382	-
Claims - Net .....	111	-
Special Assessments - Net .....	1,411	-
Notes .....	728	-
Accrued Interest .....	388	-
Grants .....	17,397	-
From Other Funds .....	1,316	-
From Other Agencies .....	839	563
Advances to Other Funds .....	13,309	-
Advances to Other Agencies .....	5,361	-
Land Held for Resale .....	-	-
Prepaid and Reimbursable Items and Deposits .....	332	2
<b>TOTAL ASSETS</b> .....	<b>\$ 218,016</b>	<b>\$ 692</b>
<b>LIABILITIES</b>		
Accounts Payable .....	\$ 4,276	\$ 49
Accrued Wages and Benefits .....	1,661	-
Other Accrued Liabilities .....	86	103
Due to Other Funds .....	1,874	-
Due to Component Unit .....	906	-
Due to Other Agencies .....	178	-
Deferred Revenue .....	29,628	-
Advances from Other Funds .....	578	540
Sundry Trust Liabilities .....	2,388	-
<b>TOTAL LIABILITIES</b> .....	41,575	692
<b>FUND EQUITY:</b>		
Fund Balances:		
Reserved for Land Held for Resale .....	-	-
Reserved for Encumbrances .....	17,301	-
Reserved for Advances and Deposits .....	13,787	-
Reserved for Debt Service .....	-	-
Unreserved:		
Designated for Unrealized Gains .....	658	-
Designated for Subsequent Years' Expenditures .....	45,483	-
Undesignated .....	99,212	-
<b>TOTAL FUND EQUITY</b> .....	176,441	-
<b>TOTAL LIABILITIES AND FUND EQUITY</b> .....	<b>\$ 218,016</b>	<b>\$ 692</b>

Public Facilities Financing Authority	Redevelopment Agency	San Diego Industrial Development Authority	Southeastern Economic Development Corporation	Total
\$ -	\$ 128,617	\$ 49	\$ 88	\$ 289,504
-	-	-	-	261
56	-	-	-	1,121
-	1,204	-	-	8,697
-	-	-	-	7,382
-	-	-	-	111
-	-	-	-	1,411
-	15,897	-	-	16,625
-	484	1	-	873
-	-	-	-	17,397
-	-	-	-	1,316
-	-	-	105	1,507
-	-	-	-	13,309
-	-	-	-	5,361
-	7,507	-	-	7,507
-	2	-	5	341
<u>\$ 56</u>	<u>\$ 153,711</u>	<u>\$ 50</u>	<u>\$ 198</u>	<u>\$ 372,723</u>
\$ -	\$ 284	\$ -	\$ -	\$ 4,609
-	-	-	-	1,661
-	-	-	-	189
-	13,700	-	-	15,574
-	-	-	-	906
-	-	-	-	178
-	15,897	-	-	45,525
-	-	-	159	1,277
-	-	-	-	2,388
-	<u>29,881</u>	-	<u>159</u>	<u>72,307</u>
-	7,507	-	-	7,507
-	8,693	-	-	25,994
-	-	-	-	13,787
-	50,477	-	-	50,477
-	478	-	-	1,136
56	22,773	15	-	68,327
-	<u>33,902</u>	<u>35</u>	<u>39</u>	<u>133,188</u>
<u>56</u>	<u>123,830</u>	<u>50</u>	<u>39</u>	<u>300,416</u>
<u>\$ 56</u>	<u>\$ 153,711</u>	<u>\$ 50</u>	<u>\$ 198</u>	<u>\$ 372,723</u>

**NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**Year Ended June 30, 2002**  
(In Thousands)

	City of San Diego	Centre City Development Corporation
<b>REVENUES</b>		
Property Taxes .....	\$ 5,158	\$ -
Special Assessments .....	10,935	-
Sales Taxes .....	51,468	-
Other Local Taxes .....	86,948	-
Licenses and Permits .....	2,391	-
Fines, Forfeitures and Penalties .....	1,604	-
Revenue from Use of Money and Property .....	25,059	-
Revenue from Federal Agencies .....	35,741	-
Revenue from Other Agencies .....	36,491	4,472
Revenue from Private Sources .....	26,794	-
Charges for Current Services .....	20,414	-
Other Revenue .....	1,634	45
Distribution from Partner .....	500	-
<b>TOTAL REVENUES</b> .....	<b>305,137</b>	<b>4,517</b>
<b>EXPENDITURES</b>		
Current:		
General Government and Support .....	19,732	4,517
Public Safety - Police .....	29,618	-
Public Safety - Fire and Life Safety .....	9,032	-
Parks, Recreation, Culture and Leisure .....	74,325	-
Transportation .....	65,962	-
Sanitation and Health .....	2,316	-
Neighborhood Services .....	32,219	-
Capital Projects .....	12,747	-
Debt Service:		
Principal Retirement .....	4,320	-
Interest .....	2,037	-
<b>TOTAL EXPENDITURES</b> .....	<b>252,328</b>	<b>4,517</b>
<b>EXCESS (DEFICIENCY) OF REVENUES</b> <b>OVER EXPENDITURES</b> .....	<b>52,809</b>	<b>-</b>
<b>OTHER FINANCING SOURCES (USES)</b>		
Transfers from Proprietary Funds .....	3,302	-
Transfers from Other Funds .....	116,709	-
Transfers from Component Unit .....	350	-
Transfers to Proprietary Funds .....	(145)	-
Transfers to Other Funds .....	(136,378)	-
Transfers to Component Unit .....	(8,757)	-
Proceeds from Tax Allocation Bonds .....	-	-
Proceeds from Capital Leases .....	706	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b> .....	<b>(24,213)</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCES</b> .....	<b>28,596</b>	<b>-</b>
Fund Balances at Beginning of Year, as Restated .....	147,845	-
<b>FUND BALANCES AT END OF YEAR</b> .....	<b>\$ 176,441</b>	<b>\$ -</b>



Public Facilities Financing Authority	Redevelopment Agency	San Diego Industrial Development Authority	Southeastern Economic Development Corporation	Total
\$ -	\$ 21,610	\$ -	\$ -	\$ 26,768
-	-	-	-	10,935
-	-	-	-	51,468
-	-	-	-	86,948
-	-	-	-	2,391
-	-	-	-	1,604
-	6,758	3	-	31,820
-	-	-	-	35,741
-	-	-	1,495	42,458
-	424	-	-	27,218
-	-	-	-	20,414
-	5	-	4	1,688
-	-	-	-	500
-	28,797	3	1,499	339,953
308	2,737	-	1,546	28,840
-	-	-	-	29,618
-	-	-	-	9,032
-	-	-	-	74,325
-	-	-	-	65,982
-	-	-	-	2,316
-	3,769	-	-	35,988
-	4,473	-	-	17,220
-	-	-	-	4,320
-	-	-	-	2,037
308	10,979	-	1,546	269,878
(308)	17,818	3	(47)	70,275
-	-	-	-	3,302
350	1,068	-	-	118,127
-	200	-	-	550
-	-	-	-	(145)
-	(58,316)	-	-	(194,694)
-	-	-	-	(8,757)
-	56,917	-	-	56,917
-	-	-	-	706
350	(131)	-	-	(23,994)
42	17,687	3	(47)	46,281
14	106,143	47	86	254,135
\$ 56	\$ 123,830	\$ 50	\$ 39	\$ 300,416

**NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN UNDESIGNATED FUND BALANCES  
 BUDGET AND ACTUAL (BUDGETARY BASIS)  
 Year Ended June 30, 2002  
 (In Thousands)**

<u>City of San Diego</u>		
	<u>Actual on Budgetary Basis</u>	<u>Final Budget</u>
<b>REVENUES</b>		
Property Taxes .....	\$ 5,111	\$ 5,051
Special Assessments .....	10,890	10,889
Sales Taxes .....	49,786	51,343
Other Local Taxes .....	86,769	89,563
Fines, Forfeitures and Penalties .....	1,233	988
Revenue from Use of Money and Property .....	18,854	23,252
Revenue from Federal Agencies .....	705	848
Revenue from Other Agencies .....	18,467	27,465
Revenue from Private Sources .....	273	361
Charges for Current Services .....	19,818	20,431
Other Revenue .....	360	440
Distribution from Partner .....	500	1,200
Excess Revenue Appropriated .....	-	723
<b>TOTAL REVENUES</b> .....	<b>212,766</b>	<b>232,554</b>
<b>EXPENDITURES</b>		
Current:		
General Government and Support .....	6,357	12,589
Public Safety - Police .....	10,678	11,721
Public Safety - Fire and Life Safety .....	7,543	7,585
Parks, Recreation, Culture and Leisure .....	74,213	96,815
Transportation .....	52,461	54,612
Sanitation and Health .....	2,010	2,168
Neighborhood Services .....	5,004	5,513
Capital Projects .....	5,659	7,777
Debt Service:		
Principal Retirement .....	707	654
Interest .....	144	141
<b>TOTAL EXPENDITURES</b> .....	<b>164,776</b>	<b>199,575</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b> .....	<b>47,990</b>	<b>32,979</b>
<b>OTHER FINANCING SOURCES (USES)</b>		
Transfers from Proprietary Funds .....	1,700	-
Transfers from Other Funds .....	81,856	82,292
Transfers from Component Unit .....	350	250
Transfers to Proprietary Funds .....	(145)	(145)
Transfers to Other Funds .....	(114,972)	(123,372)
Transfers to Component Unit .....	(7,016)	(15,153)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b> .....	<b>(38,227)</b>	<b>(56,128)</b>
<b>NET CHANGE IN FUND BALANCES</b> .....	<b>9,763</b>	<b>(23,149)</b>
Fund Balances Undesignated at July 1, 2001, as Restated .....	45,064	45,064
Reserved for Encumbrances at July 1, 2001, as Restated .....	17,531	17,531
Designated for Subsequent Years' Expenditures at July 1, 2001, as Restated .....	8,324	8,324
Designated for Subsequent Years' Expenditures at June 30, 2002 .....	(11,900)	-
<b>FUND BALANCES UNDESIGNATED AT JUNE 30, 2002</b> .....	<b>\$ 68,782</b>	<b>\$ 47,770</b>

Centre City Development Corporation		Southeastern Economic Development Corporation		Total		Variance with Final Budget Positive (Negative)
Actual on Budgetary Basis	Final Budget	Actual on Budgetary Basis	Final Budget	Actual on Budgetary Basis	Final Budget	
\$ -	\$ -	\$ -	\$ -	\$ 5,111	\$ 5,051	\$ 60
-	-	-	-	10,890	10,889	1
-	-	-	-	49,786	51,343	(1,557)
-	-	-	-	86,769	89,563	(2,794)
-	-	-	-	1,233	988	245
-	-	-	-	18,854	23,252	(4,398)
-	-	-	-	705	848	(143)
4,472	4,739	1,495	1,649	24,434	33,853	(9,419)
-	-	-	-	273	361	(88)
45	30	4	-	19,818	20,431	(613)
-	-	-	-	409	470	(61)
-	-	-	-	500	1,200	(700)
-	-	-	-	-	723	(723)
<u>4,517</u>	<u>4,769</u>	<u>1,499</u>	<u>1,649</u>	<u>218,782</u>	<u>238,972</u>	<u>(20,190)</u>
4,517	4,769	1,546	1,649	12,420	19,007	6,587
-	-	-	-	10,678	11,721	1,043
-	-	-	-	7,543	7,585	42
-	-	-	-	74,213	96,815	22,602
-	-	-	-	52,461	54,612	2,151
-	-	-	-	2,010	2,168	158
-	-	-	-	5,004	5,513	509
-	-	-	-	5,659	7,777	2,118
-	-	-	-	707	654	(53)
-	-	-	-	144	141	(3)
<u>4,517</u>	<u>4,769</u>	<u>1,546</u>	<u>1,649</u>	<u>170,839</u>	<u>205,993</u>	<u>35,154</u>
-	-	(47)	-	47,943	32,979	14,964
-	-	-	-	1,700	-	1,700
-	-	-	-	81,856	82,292	(436)
-	-	-	-	350	250	100
-	-	-	-	(145)	(145)	-
-	-	-	-	(114,972)	(123,372)	8,400
-	-	-	-	(7,016)	(15,153)	8,137
-	-	-	-	(38,227)	(56,128)	17,901
-	-	(47)	-	9,716	(23,149)	32,865
-	-	86	-	45,150	45,064	86
-	-	-	-	17,531	17,531	-
-	-	-	-	8,324	8,324	-
-	-	-	-	(11,900)	-	(11,900)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 39</u>	<u>\$ -</u>	<u>\$ 68,821</u>	<u>\$ 47,770</u>	<u>\$ 21,051</u>

**CITY OF SAN DIEGO  
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE  
COMBINING BALANCE SHEET  
June 30, 2002  
(In Thousands)**

	Budgeted				
	Acquisition, Improvement and Operation	Environmental Growth	Police Decentralization	Public Transportation	Qualcomm Stadium Operations
<b>ASSETS</b>					
Cash or Equity in Pooled Cash and Investments .....	\$ 9,539	\$ 5,111	\$ 3,272	\$ 2,191	\$ 1,795
Cash With Custodian/Fiscal Agent .....	-	-	-	-	-
Investments at Fair Value .....	-	-	-	-	-
Receivables:					
Taxes - Net .....	-	2,927	-	-	-
Accounts - Net .....	756	-	-	-	530
Claims - Net .....	7	-	-	-	-
Special Assessments - Net .....	305	-	-	-	-
Notes .....	-	-	-	-	-
Accrued Interest .....	53	24	-	17	16
Grants .....	-	-	-	-	-
From Other Funds .....	-	-	-	-	-
From Other Agencies .....	-	-	-	-	-
Advances to Other Funds .....	398	1,565	-	-	-
Advances to Other Agencies .....	470	-	-	-	-
Prepaid and Reimbursable Items and Deposits .....	-	-	-	-	4
<b>TOTAL ASSETS</b> .....	<b>\$ 11,528</b>	<b>\$ 9,627</b>	<b>\$ 3,272</b>	<b>\$ 2,208</b>	<b>\$ 2,345</b>
<b>LIABILITIES</b>					
Accounts Payable .....	\$ 857	\$ 2	\$ 752	\$ -	\$ 258
Accrued Wages and Benefits .....	68	-	-	-	236
Other Accrued Liabilities .....	-	-	-	-	-
Due to Other Funds .....	-	-	-	-	-
Due to Component Unit .....	-	-	-	-	-
Due to Other Agencies .....	-	-	-	-	-
Deferred Revenue .....	933	-	-	-	222
Advances from Other Funds .....	-	-	-	-	-
Sundry Trust Liabilities .....	-	-	-	-	-
<b>TOTAL LIABILITIES</b> .....	<b>1,858</b>	<b>2</b>	<b>752</b>	<b>-</b>	<b>716</b>
<b>FUND EQUITY:</b>					
Fund Balances:					
Reserved for Encumbrances .....	1,074	245	-	2	254
Reserved for Advances and Deposits .....	867	1,565	-	-	-
Unreserved:					
Designated for Unrealized Gains .....	52	29	-	12	4
Designated for Subsequent Years' Expenditures .....	28	223	-	-	409
Undesignated .....	7,649	7,563	2,520	2,194	962
<b>TOTAL FUND EQUITY</b> .....	<b>9,670</b>	<b>9,625</b>	<b>2,520</b>	<b>2,208</b>	<b>1,629</b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b> .....	<b>\$ 11,528</b>	<b>\$ 9,627</b>	<b>\$ 3,272</b>	<b>\$ 2,208</b>	<b>\$ 2,345</b>

					Unbudgeted		
Special Gas Tax Street Improvement	Street Division Operations	Transient Occupancy Tax	Zoological Exhibits	Other Special Revenue	Grants	Other Special Revenue	Total
\$ 1,514	\$ 3,083	\$ 49,855	\$ 69	\$ 6,404	\$ 5,595	\$ 72,195	\$ 160,623
-	-	-	-	-	-	261	261
-	-	-	-	-	-	1,065	1,065
-	-	4,504	59	-	-	3	7,493
1,954	230	620	-	1,738	-	1,554	7,382
1	18	-	-	-	-	85	111
-	-	-	-	-	-	1,106	1,411
-	-	10	-	-	468	250	728
44	5	75	-	31	123	-	388
-	-	-	-	17	17,380	-	17,397
-	-	426	-	890	-	-	1,316
-	-	708	-	-	131	-	839
-	11,263	-	-	82	-	1	13,309
-	-	855	-	-	3,954	82	5,361
-	9	-	-	-	-	319	332
<b>\$ 3,513</b>	<b>\$ 14,608</b>	<b>\$ 57,053</b>	<b>\$ 128</b>	<b>\$ 9,162</b>	<b>\$ 27,651</b>	<b>\$ 76,921</b>	<b>\$ 218,016</b>
\$ -	\$ 30	\$ 463	\$ -	\$ 67	\$ 1,386	\$ 461	\$ 4,276
2	899	28	-	331	86	11	1,661
-	86	-	-	-	-	-	86
-	-	-	-	583	-	1,291	1,874
-	-	639	-	-	-	267	906
-	-	-	-	-	178	-	178
27	248	631	-	111	17,442	10,014	29,628
-	-	-	-	278	-	300	578
-	-	-	-	-	2,388	-	2,388
<b>29</b>	<b>1,263</b>	<b>1,761</b>	<b>-</b>	<b>1,370</b>	<b>21,480</b>	<b>12,344</b>	<b>41,575</b>
50	1,096	7,865	-	277	89	6,349	17,301
-	11,263	-	-	82	-	10	13,787
41	6	208	-	19	62	225	658
421	980	7,565	128	2,146	-	33,583	45,483
<b>2,972</b>	<b>-</b>	<b>39,654</b>	<b>-</b>	<b>5,268</b>	<b>6,020</b>	<b>24,410</b>	<b>99,212</b>
<b>3,484</b>	<b>13,345</b>	<b>55,292</b>	<b>128</b>	<b>7,792</b>	<b>6,171</b>	<b>64,577</b>	<b>176,441</b>
<b>\$ 3,513</b>	<b>\$ 14,608</b>	<b>\$ 57,053</b>	<b>\$ 128</b>	<b>\$ 9,162</b>	<b>\$ 27,651</b>	<b>\$ 76,921</b>	<b>\$ 218,016</b>

**CITY OF SAN DIEGO**  
**NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**Year Ended June 30, 2012**  
**(In Thousands)**

	Budgeted				
	Acquisition, Improvement and Operation	Environmental Growth	Police Decentralization	Public Transportation	Qualcomm Stadium Operations
<b>REVENUES</b>					
Property Taxes .....	\$ -	\$ -	\$ -	\$ -	\$ -
Special Assessments .....	10,890	-	-	-	-
Sales Taxes .....	924	-	9,252	-	-
Other Local Taxes .....	-	13,290	-	-	-
Licenses and Permits .....	-	-	-	-	-
Fines, Forfeitures and Penalties .....	-	-	-	-	-
Revenue from Use of Money and Property .....	300	155	-	9	16,389
Revenue from Federal Agencies .....	-	-	-	-	-
Revenue from Other Agencies .....	-	-	-	-	-
Revenue from Private Sources .....	42	-	-	-	-
Charges for Current Services .....	2,161	-	-	-	-
Other Revenue .....	198	-	-	-	34
Distribution from Partner .....	-	-	-	-	-
<b>TOTAL REVENUES</b> .....	<b>14,515</b>	<b>13,445</b>	<b>9,252</b>	<b>9</b>	<b>16,423</b>
<b>EXPENDITURES</b>					
Current:					
General Government and Support .....	1,127	-	-	-	-
Public Safety - Police .....	-	-	8,459	-	-
Public Safety - Fire and Life Safety .....	-	-	-	-	-
Parks, Recreation, Culture and Leisure .....	8,023	1,559	-	-	17,766
Transportation .....	-	-	-	17	-
Sanitation and Health .....	-	-	-	-	-
Neighborhood Services .....	4,890	-	-	-	-
Capital Projects .....	-	152	-	-	863
Debt Service:					
Principal Retirement .....	-	-	-	-	53
Interest .....	-	-	-	-	42
<b>TOTAL EXPENDITURES</b> .....	<b>14,040</b>	<b>1,711</b>	<b>8,459</b>	<b>17</b>	<b>18,724</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b> .....	<b>475</b>	<b>11,734</b>	<b>793</b>	<b>(8)</b>	<b>(2,301)</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers from Proprietary Funds .....	-	-	-	-	-
Transfers from Other Funds .....	1,211	-	-	3,950	7,511
Transfers from Component Unit .....	-	-	-	-	-
Transfers to Proprietary Funds .....	-	-	-	-	-
Transfers to Other Funds .....	(17)	(1,010)	(3,047)	(3,910)	(5,389)
Transfers to Component Unit .....	-	-	-	-	-
Proceeds from Capital Leases .....	-	-	-	-	706
<b>TOTAL OTHER FINANCING SOURCES (USES)</b> .....	<b>1,194</b>	<b>(7,010)</b>	<b>(3,047)</b>	<b>40</b>	<b>2,828</b>
<b>NET CHANGE IN FUND BALANCES</b> .....	<b>1,669</b>	<b>4,724</b>	<b>(2,254)</b>	<b>32</b>	<b>527</b>
Fund Balances at Beginning of Year .....	8,001	4,901	4,774	2,176	1,102
<b>FUND BALANCES AT END OF YEAR</b> .....	<b>\$ 9,670</b>	<b>\$ 9,625</b>	<b>\$ 2,520</b>	<b>\$ 2,208</b>	<b>\$ 1,629</b>

**THE CITY OF SAN DIEGO**

					Unbudgeted		
Special Gas Tax Street Improvement	Street Division Operations	Transient Occupancy Tax	Zoological Exhibits	Other Special Revenue	Grants	Other Special Revenue	Total
\$ -	\$ -	\$ -	\$ 5,111	\$ -	\$ -	\$ 47	\$ 5,158
-	-	-	-	-	-	45	10,935
-	1,000	38,610	-	-	-	1,682	51,468
23,346	-	47,018	-	3,115	-	179	86,948
-	-	-	-	-	-	2,391	2,391
-	12	-	-	1,221	-	371	1,604
396	15	1,207	-	346	783	5,459	25,059
-	-	-	-	705	34,562	474	35,741
-	1,443	16,955	-	69	16,087	1,937	36,491
-	131	100	-	-	-	26,521	26,794
14	1,468	256	-	15,919	-	596	20,414
3	8	89	-	28	510	764	1,634
-	-	-	-	500	-	-	500
<u>23,759</u>	<u>4,077</u>	<u>104,235</u>	<u>5,111</u>	<u>21,903</u>	<u>51,942</u>	<u>40,466</u>	<u>305,137</u>
221	-	965	-	3,182	580	13,657	19,732
-	-	-	-	2,047	18,097	1,015	29,618
-	-	-	-	7,520	1,239	273	9,032
-	-	34,681	5,348	139	3,774	3,035	74,325
22	49,583	-	-	-	-	16,360	65,962
-	-	74	-	1,821	109	312	2,316
-	-	-	-	-	21,989	5,340	32,219
2,329	-	1,466	-	454	2,309	5,174	12,747
-	654	-	-	-	1,860	1,753	4,320
-	102	-	-	-	1,455	438	2,037
<u>2,572</u>	<u>50,339</u>	<u>37,186</u>	<u>5,348</u>	<u>15,163</u>	<u>51,412</u>	<u>47,357</u>	<u>252,328</u>
<u>21,187</u>	<u>(46,262)</u>	<u>67,049</u>	<u>(237)</u>	<u>6,740</u>	<u>530</u>	<u>(6,891)</u>	<u>52,809</u>
-	-	1,225	-	475	-	1,602	3,302
2,307	45,695	20,832	-	350	1,591	33,262	116,709
-	-	350	-	-	-	-	350
(145)	-	-	-	-	-	-	(145)
(23,024)	(458)	(63,887)	-	(7,513)	(4,180)	(17,943)	(136,378)
-	-	(6,332)	-	-	-	(2,425)	(8,757)
-	-	-	-	-	-	-	706
<u>(20,862)</u>	<u>45,237</u>	<u>(47,812)</u>	<u>-</u>	<u>(6,688)</u>	<u>(2,589)</u>	<u>14,496</u>	<u>(24,213)</u>
325	(1,025)	19,237	(237)	52	(2,059)	7,605	28,596
<u>3,159</u>	<u>14,370</u>	<u>36,055</u>	<u>365</u>	<u>7,740</u>	<u>8,230</u>	<u>56,972</u>	<u>147,845</u>
<u>\$ 3,484</u>	<u>\$ 13,345</u>	<u>\$ 55,292</u>	<u>\$ 128</u>	<u>\$ 7,792</u>	<u>\$ 6,171</u>	<u>\$ 64,577</u>	<u>\$ 176,441</u>

**CITY OF SAN DIEGO**  
**NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE**  
**COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN UNDESIGNATED FUND BALANCES**  
**BUDGET AND ACTUAL (BUDGETARY BASIS)**  
**Year Ended June 30, 2002**  
**(In Thousands)**

	Acquisition, Improvement and Operation				
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>					
Property Taxes .....	\$ -	\$ -	\$ -	\$ -	\$ -
Special Assessments .....	10,890	-	10,890	10,889	1
Sales Taxes .....	924	-	924	924	-
Other Local Taxes .....	-	-	-	-	-
Fines, Forfeitures and Penalties .....	-	-	-	-	-
Revenue from Use of Money and Property .....	300	20	320	222	98
Revenue from Federal Agencies .....	-	-	-	-	-
Revenue from Other Agencies .....	-	-	-	-	-
Revenue from Private Sources .....	42	-	42	144	(102)
Charges for Current Services .....	2,161	-	2,161	2,328	(167)
Other Revenue .....	198	-	198	358	(160)
Distribution from Partner .....	-	-	-	-	-
Excess Revenue Appropriated .....	-	-	-	-	-
<b>TOTAL REVENUES</b> .....	<b>14,515</b>	<b>20</b>	<b>14,535</b>	<b>14,865</b>	<b>(330)</b>
<b>EXPENDITURES</b>					
Current:					
General Government and Support .....	1,127	81	1,208	1,497	289
Public Safety - Police .....	-	-	-	-	-
Public Safety - Fire and Life Safety .....	-	-	-	-	-
Parks, Recreation, Culture and Leisure .....	8,023	877	8,900	14,420	5,520
Transportation .....	-	52	52	52	-
Sanitation and Health .....	-	-	-	-	-
Neighborhood Services .....	4,890	114	5,004	5,513	509
Capital Projects .....	-	-	-	-	-
Debt Service:					
Principal Retirement .....	-	-	-	-	-
Interest .....	-	-	-	-	-
<b>TOTAL EXPENDITURES</b> .....	<b>14,040</b>	<b>1,124</b>	<b>15,164</b>	<b>21,482</b>	<b>6,318</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b> .....	<b>475</b>	<b>(1,104)</b>	<b>(629)</b>	<b>(6,617)</b>	<b>5,988</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers from Proprietary Funds .....	-	-	-	-	-
Transfers from Other Funds .....	1,211	-	1,211	1,258	(47)
Transfers from Component Unit .....	-	-	-	-	-
Transfers to Proprietary Funds .....	-	-	-	-	-
Transfers to Other Funds .....	(17)	-	(17)	(17)	-
Transfers to Component Unit .....	-	-	-	-	-
Proceeds from Capital Leases .....	-	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b> .....	<b>1,194</b>	<b>-</b>	<b>1,194</b>	<b>1,241</b>	<b>(47)</b>
<b>NET CHANGE IN FUND BALANCES</b> .....	<b>\$ 1,669</b>	<b>\$ (1,104)</b>	<b>565</b>	<b>(5,376)</b>	<b>5,941</b>
Fund Balances Undesignated at July 1, 2001 .....			6,378	6,378	-
Reserved for Encumbrances at July 1, 2001 .....			690	690	-
Designated for Subsequent Years' Expenditures at July 1, 2001 .....			44	44	-
Designated for Subsequent Years' Expenditures at June 30, 2002 .....			(28)	-	(28)
<b>FUND BALANCES UNDESIGNATED AT JUNE 30, 2002</b> .....			<b>\$ 7,649</b>	<b>\$ 1,736</b>	<b>\$ 5,913</b>



Environmental Growth					Police Decentralization				
Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	9,252	-	9,252	11,808	(2,557)
13,290	-	13,290	10,452	2,838	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
155	(24)	131	106	23	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
13,445	(24)	13,421	10,560	2,861	9,252	-	9,252	11,809	(2,557)
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	8,459	-	8,459	8,992	533
-	-	-	-	-	-	-	-	-	-
1,559	150	1,709	2,593	884	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
152	95	247	471	224	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
1,711	245	1,956	3,064	1,108	8,459	-	8,459	8,992	533
-	-	-	-	-	-	-	-	-	-
11,734	(269)	11,465	7,496	3,969	793	-	793	2,817	(2,024)
-	-	-	-	-	-	-	-	-	-
-	-	-	902	(902)	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
(7,010)	(717)	(7,727)	(7,727)	-	(3,047)	-	(3,047)	(3,047)	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
(7,010)	(717)	(7,727)	(8,625)	(902)	(3,047)	-	(3,047)	(3,047)	-
\$ 4,724	\$ (986)	3,738	871	3,067	\$ (2,254)	\$ -	(2,254)	(230)	(2,024)
-	-	3,689	3,689	-	-	-	4,774	4,774	-
-	-	139	139	-	-	-	-	-	-
-	-	240	240	-	-	-	-	-	-
-	-	(223)	-	(223)	-	-	-	-	-
-	-	\$ 7,563	\$ 4,719	\$ 2,844	\$ 2,520	\$ -	\$ 4,544	\$ (2,024)	

**CITY OF SAN DIEGO**  
**NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE**  
**COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN UNDESIGNATED FUND BALANCES**  
**BUDGET AND ACTUAL (BUDGETARY BASIS)**  
**Year Ended June 30, 2002**  
**(In Thousands)**

	Public Transportation				
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>					
Property Taxes .....	\$ -	\$ -	\$ -	\$ -	\$ -
Special Assessments .....	-	-	-	-	-
Sales Taxes .....	-	-	-	-	-
Other Local Taxes .....	-	-	-	-	-
Fines, Forfeitures and Penalties .....	-	-	-	-	-
Revenue from Use of Money and Property .....	9	22	31	250	(219)
Revenue from Federal Agencies .....	-	-	-	-	-
Revenue from Other Agencies .....	-	-	-	-	-
Revenue from Private Sources .....	-	-	-	-	-
Charges for Current Services .....	-	-	-	-	-
Other Revenue .....	-	-	-	-	-
Distribution from Partner .....	-	-	-	-	-
Excess Revenue Appropriated .....	-	-	-	-	-
<b>TOTAL REVENUES</b> .....	<b>9</b>	<b>22</b>	<b>31</b>	<b>250</b>	<b>(219)</b>
<b>EXPENDITURES</b>					
Current:					
General Government and Support .....	-	-	-	-	-
Public Safety - Police .....	-	-	-	-	-
Public Safety - Fire and Life Safety .....	-	-	-	-	-
Parks, Recreation, Culture and Leisure .....	-	-	-	-	-
Transportation .....	17	2	19	321	302
Sanitation and Health .....	-	-	-	-	-
Neighborhood Services .....	-	-	-	-	-
Capital Projects .....	-	-	-	-	-
Debt Service:					
Principal Retirement .....	-	-	-	-	-
Interest .....	-	-	-	-	-
<b>TOTAL EXPENDITURES</b> .....	<b>17</b>	<b>2</b>	<b>19</b>	<b>321</b>	<b>302</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b> .....	<b>(8)</b>	<b>20</b>	<b>12</b>	<b>(71)</b>	<b>83</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers from Proprietary Funds .....	-	-	-	-	-
Transfers from Other Funds .....	3,950	-	3,950	4,010	(60)
Transfers from Component Unit .....	-	-	-	-	-
Transfers to Proprietary Funds .....	-	-	-	-	-
Transfers to Other Funds .....	(3,910)	-	(3,910)	(3,910)	-
Transfers to Component Unit .....	-	-	-	-	-
Proceeds from Capital Leases .....	-	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b> .....	<b>40</b>	<b>-</b>	<b>40</b>	<b>100</b>	<b>(60)</b>
<b>NET CHANGE IN FUND BALANCES</b> .....	<b>\$ 32</b>	<b>\$ 20</b>	<b>52</b>	<b>29</b>	<b>23</b>
Fund Balances Undesignated at July 1, 2001 .....			2,139	2,139	
Reserved for Encumbrances at July 1, 2001 .....			3	3	
Designated for Subsequent Years' Expenditures at July 1, 2001 .....					
Designated for Subsequent Years' Expenditures at June 30, 2002 .....					
<b>FUND BALANCES UNDESIGNATED AT JUNE 30, 2002</b> .....			<b>\$ 2,194</b>	<b>\$ 2,171</b>	<b>\$ 23</b>

Qualcomm Stadium Operations					Special Gas Tax Street Improvement				
Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	23,346	-	23,346	22,846	500
16,389	24	16,413	21,620	(5,207)	396	8	404	408	(4)
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	14	-	14	-	14
34	-	34	31	3	3	-	3	50	(47)
-	-	-	-	-	-	-	-	-	-
<u>16,423</u>	<u>24</u>	<u>16,447</u>	<u>21,651</u>	<u>(5,204)</u>	<u>23,759</u>	<u>8</u>	<u>23,787</u>	<u>23,304</u>	<u>483</u>
-	-	-	-	-	221	20	241	241	-
-	-	-	-	-	-	-	-	-	-
17,766	229	17,995	23,412	5,417	22	-	22	50	28
-	-	-	-	-	-	-	-	-	-
963	(681)	182	674	492	2,329	31	2,360	2,727	367
53	-	53	-	(53)	-	-	-	-	-
42	-	42	39	(3)	-	-	-	-	-
<u>18,724</u>	<u>(452)</u>	<u>18,272</u>	<u>24,125</u>	<u>5,853</u>	<u>2,572</u>	<u>51</u>	<u>2,623</u>	<u>3,018</u>	<u>395</u>
<u>(2,301)</u>	<u>476</u>	<u>(1,825)</u>	<u>(2,474)</u>	<u>649</u>	<u>21,187</u>	<u>(43)</u>	<u>21,144</u>	<u>20,296</u>	<u>858</u>
-	-	-	-	-	-	-	-	-	-
7,511	-	7,511	7,511	-	2,307	-	2,307	2,307	-
-	-	-	-	-	(145)	-	(145)	(145)	-
(5,389)	-	(5,389)	(5,819)	430	(23,024)	-	(23,024)	(23,362)	338
-	-	-	-	-	-	-	-	-	-
706	(706)	-	-	-	-	-	-	-	-
<u>2,828</u>	<u>(706)</u>	<u>2,122</u>	<u>1,692</u>	<u>430</u>	<u>(20,862)</u>	<u>-</u>	<u>(20,862)</u>	<u>(21,200)</u>	<u>338</u>
<u>\$ 527</u>	<u>\$ (230)</u>	<u>297</u>	<u>(782)</u>	<u>1,079</u>	<u>\$ 325</u>	<u>\$ (43)</u>	<u>282</u>	<u>(914)</u>	<u>1,196</u>
-	-	281	261	-	-	-	2,257	2,257	-
-	-	786	788	-	-	-	254	254	-
-	-	27	27	-	-	-	600	600	-
-	-	<u>(409)</u>	<u>(409)</u>	<u>-</u>	-	-	<u>(421)</u>	<u>-</u>	<u>(421)</u>
-	-	<u>\$ 962</u>	<u>\$ 292</u>	<u>\$ 670</u>	-	-	<u>\$ 2,972</u>	<u>\$ 2,197</u>	<u>\$ 775</u>

**CITY OF SAN DIEGO  
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE  
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN UNDESIGNATED FUND BALANCES  
BUDGET AND ACTUAL (BUDGETARY BASIS)  
Year Ended June 30, 2002  
(In Thousands)**

	Street Division Operations				
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>					
Property Taxes .....	\$ -	\$ -	\$ -	\$ -	\$ -
Special Assessments .....	-	-	-	-	-
Sales Taxes .....	1,000	-	1,000	-	1,000
Other Local Taxes .....	-	-	-	-	-
Fines, Forfeitures and Penalties .....	12	-	12	-	12
Revenue from Use of Money and Property .....	15	(6)	9	9	-
Revenue from Federal Agencies .....	-	-	-	-	-
Revenue from Other Agencies .....	1,443	-	1,443	1,465	(22)
Revenue from Private Sources .....	131	-	131	33	98
Charges for Current Services .....	1,468	-	1,468	2,040	(572)
Other Revenue .....	8	-	8	1	7
Distribution to Partner .....	-	-	-	-	-
Excess Revenue Appropriated .....	-	-	-	723	(723)
<b>TOTAL REVENUES</b> .....	<b>4,077</b>	<b>(6)</b>	<b>4,071</b>	<b>4,271</b>	<b>(200)</b>
<b>EXPENDITURES</b>					
Current:					
General Government and Support .....	-	-	-	-	-
Public Safety - Police .....	-	-	-	-	-
Public Safety - Fire and Life Safety .....	-	-	-	-	-
Parks, Recreation, Culture and Leisure .....	-	-	-	-	-
Transportation .....	49,583	2,785	52,368	54,189	1,821
Sanitation and Health .....	-	-	-	-	-
Neighborhood Services .....	-	-	-	-	-
Capital Projects .....	-	-	-	-	-
Debt Service:					
Principal Retirement .....	854	-	854	854	-
Interest .....	102	-	102	102	-
<b>TOTAL EXPENDITURES</b> .....	<b>50,339</b>	<b>2,785</b>	<b>53,124</b>	<b>54,945</b>	<b>1,821</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b> .....	<b>(46,262)</b>	<b>(2,791)</b>	<b>(49,053)</b>	<b>(50,674)</b>	<b>1,621</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers from Proprietary Funds .....	-	-	-	-	-
Transfers from Other Funds .....	45,695	-	45,695	46,336	(641)
Transfers from Component Unit .....	-	-	-	-	-
Transfers to Proprietary Funds .....	-	-	-	-	-
Transfers to Other Funds .....	(458)	-	(458)	(458)	-
Transfers to Component Unit .....	-	-	-	-	-
Proceeds from Capital Leases .....	-	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b> .....	<b>45,237</b>	<b>-</b>	<b>45,237</b>	<b>45,878</b>	<b>(641)</b>
<b>NET CHANGE IN FUND BALANCES</b> .....	<b>\$ (1,025)</b>	<b>\$ (2,791)</b>	<b>(3,816)</b>	<b>(4,796)</b>	<b>980</b>
Fund Balances Undesignated at July 1, 2001 .....	-	-	-	-	-
Reserved for Encumbrances at July 1, 2001 .....	-	-	4,796	4,796	-
Designated for Subsequent Years' Expenditures at July 1, 2001 .....	-	-	-	-	-
Designated for Subsequent Years' Expenditures at June 30, 2002 .....	-	-	(980)	-	(980)
<b>FUND BALANCES UNDESIGNATED AT JUNE 30, 2002</b> .....	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

Transient Occupancy Tax

Zoological Exhibits

Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,111	\$ -	\$ 5,111	\$ 5,051	\$ 60
38,610	-	38,610	38,610	-	-	-	-	-	-
47,018	-	47,018	56,265	(9,247)	-	-	-	-	-
1,207	(37)	1,170	140	1,030	-	-	-	-	-
16,955	-	16,955	25,914	(8,959)	-	-	-	-	-
100	-	100	184	(84)	-	-	-	-	-
256	-	256	40	216	-	-	-	-	-
89	-	89	-	89	-	-	-	-	-
<u>104,235</u>	<u>(37)</u>	<u>104,198</u>	<u>121,153</u>	<u>(16,955)</u>	<u>5,111</u>	<u>-</u>	<u>5,111</u>	<u>5,051</u>	<u>60</u>
965	739	1,704	6,971	5,267	-	-	-	-	-
34,681	5,436	40,117	50,897	10,780	5,348	5,348	5,348	-	-
74	55	129	154	25	-	-	-	-	-
1,466	950	2,416	3,449	1,033	-	-	-	-	-
<u>37,186</u>	<u>7,180</u>	<u>44,366</u>	<u>61,471</u>	<u>17,105</u>	<u>5,348</u>	<u>-</u>	<u>5,348</u>	<u>5,348</u>	<u>-</u>
<u>67,049</u>	<u>(7,217)</u>	<u>59,832</u>	<u>59,682</u>	<u>150</u>	<u>(237)</u>	<u>-</u>	<u>(237)</u>	<u>(297)</u>	<u>60</u>
1,225	-	1,225	-	1,225	-	-	-	-	-
20,832	-	20,832	19,291	1,541	-	-	-	-	-
350	-	350	-	350	-	-	-	-	-
(63,887)	-	(63,887)	(79,032)	15,145	-	-	-	-	-
(6,332)	(684)	(7,016)	(7,143)	127	-	-	-	-	-
<u>(47,812)</u>	<u>(684)</u>	<u>(48,496)</u>	<u>(66,684)</u>	<u>18,388</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
\$ <u>19,237</u>	\$ <u>(7,901)</u>	11,336	(7,202)	18,538	\$ <u>(237)</u>	\$ <u>-</u>	(237)	(297)	60
		20,517	20,517	-			-	-	-
		9,982	9,982	-			-	-	-
		5,404	5,404	-			365	365	-
		<u>(7,565)</u>	<u>(7,565)</u>	<u>-</u>			<u>(128)</u>	<u>-</u>	<u>(128)</u>
		\$ <u>39,654</u>	\$ <u>28,681</u>	\$ <u>10,973</u>			\$ <u>-</u>	\$ <u>68</u>	\$ <u>(68)</u>

**CITY OF SAN DIEGO  
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE  
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN UNDESIGNATED FUND BALANCES  
BUDGET AND ACTUAL (BUDGETARY BASIS)  
Year Ended June 30, 2002  
(In Thousands)**

	Other Special Revenue				
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>					
Property Taxes .....	\$ -	\$ -	\$ -	\$ -	\$ -
Special Assessments .....	-	-	-	-	-
Sales Taxes .....	-	-	-	-	-
Other Local Taxes .....	3,115	-	3,115	-	3,115
Fines, Forfeitures and Penalties .....	1,221	-	1,221	988	233
Revenue from Use of Money and Property .....	348	30	378	496	(118)
Revenue from Federal Agencies .....	705	-	705	848	(143)
Revenue from Other Agencies .....	89	-	89	86	(17)
Revenue from Private Sources .....	-	-	-	-	-
Charges for Current Services .....	15,919	-	15,919	16,023	(104)
Other Revenue .....	28	-	28	-	28
Distribution from Partner .....	500	-	500	1,200	(700)
Excess Revenue Appropriated .....	-	-	-	-	-
<b>TOTAL REVENUES</b> .....	<b>21,903</b>	<b>30</b>	<b>21,933</b>	<b>19,640</b>	<b>2,293</b>
<b>EXPENDITURES</b>					
Current:					
General Government and Support .....	3,182	22	3,204	3,880	876
Public Safety - Police .....	2,047	172	2,219	2,728	510
Public Safety - Fire and Life Safety .....	7,520	23	7,543	7,586	42
Parks, Recreation, Culture and Leisure .....	139	5	144	145	1
Transportation .....	-	-	-	-	-
Sanitation and Health .....	1,821	80	1,881	2,014	133
Neighborhood Services .....	-	-	-	-	-
Capital Projects .....	454	-	454	456	2
Debt Service:					
Principal Retirement .....	-	-	-	-	-
Interest .....	-	-	-	-	-
<b>TOTAL EXPENDITURES</b> .....	<b>15,163</b>	<b>282</b>	<b>15,445</b>	<b>16,809</b>	<b>1,364</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b> .....	<b>6,740</b>	<b>(252)</b>	<b>6,488</b>	<b>2,831</b>	<b>3,657</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers from Proprietary Funds .....	475	-	475	-	475
Transfers from Other Funds .....	350	-	350	677	(327)
Transfers from Component Unit .....	-	-	-	250	(250)
Transfers to Proprietary Funds .....	-	-	-	-	-
Transfers to Other Funds .....	(7,513)	-	(7,513)	-	(7,513)
Transfers to Component Unit .....	-	-	-	(8,010)	8,010
Proceeds from Capital Leases .....	-	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b> .....	<b>(6,888)</b>	<b>-</b>	<b>(6,888)</b>	<b>(7,083)</b>	<b>385</b>
<b>NET CHANGE IN FUND BALANCES</b> .....	<b>\$ 52</b>	<b>\$ (252)</b>	<b>(200)</b>	<b>(4,252)</b>	<b>4,052</b>
Fund Balances Undesignated at July 1, 2001 .....	-	-	5,069	5,069	-
Reserved for Encumbrances at July 1, 2001 .....	-	-	901	901	-
Designated for Subsequent Years' Expenditures at July 1, 2001 .....	-	-	1,844	1,844	-
Designated for Subsequent Years' Expenditures at June 30, 2002 .....	-	-	(2,146)	-	(2,146)
<b>FUND BALANCES UNDESIGNATED AT JUNE 30, 2002</b> .....	<b>\$ 5,268</b>	<b>\$ 3,362</b>	<b>\$ 5,268</b>	<b>\$ 3,362</b>	<b>\$ 1,906</b>

Total				
Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
\$ 5,111	\$ -	\$ 5,111	\$ 5,051	\$ 60
10,890	-	10,890	10,889	1
49,786	-	49,786	51,343	(1,557)
86,769	-	86,769	89,563	(2,794)
1,233	-	1,233	988	245
18,817	37	18,854	23,252	(4,398)
705	-	705	848	(143)
18,487	-	18,487	27,485	(8,998)
273	-	273	381	(88)
19,818	-	19,818	20,431	(613)
360	-	360	440	(80)
500	-	500	1,200	(700)
			723	(723)
<u>212,729</u>	<u>37</u>	<u>212,766</u>	<u>232,554</u>	<u>(19,788)</u>
5,495	862	6,357	12,589	6,232
10,506	172	10,678	11,721	1,043
7,520	23	7,543	7,585	42
67,516	6,697	74,213	96,815	22,602
49,622	2,839	52,461	54,612	2,151
1,895	115	2,010	2,188	158
4,990	114	5,004	5,513	509
5,264	395	5,659	7,777	2,118
707	-	707	654	(53)
144	-	144	141	(3)
<u>153,559</u>	<u>11,217</u>	<u>164,776</u>	<u>199,575</u>	<u>34,799</u>
<u>59,170</u>	<u>(11,180)</u>	<u>47,990</u>	<u>32,979</u>	<u>15,011</u>
1,700	-	1,700	-	1,700
81,856	-	81,856	82,292	(436)
350	-	350	250	100
(145)	-	(145)	(145)	-
(114,255)	(717)	(114,972)	(123,372)	8,400
(6,332)	(684)	(7,016)	(15,153)	8,137
706	(706)	-	-	-
<u>(38,120)</u>	<u>(2,107)</u>	<u>(38,227)</u>	<u>(56,126)</u>	<u>17,901</u>
<u>\$ 23,050</u>	<u>\$ (13,287)</u>	9,763	(23,149)	32,912
		45,064	45,064	-
		17,531	17,531	-
		8,324	8,324	-
		<u>(11,900)</u>		<u>(11,900)</u>
		<u>\$ 68,782</u>	<u>\$ 47,770</u>	<u>\$ 21,012</u>





**CITY OF SAN DIEGO  
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE  
ENVIRONMENTAL GROWTH FUND  
COMBINING BALANCE SHEET  
June 30, 2002  
( In Thousands )**

	<u>Two-Thirds Requirement</u>	<u>One-Third Requirement</u>	<u>Total</u>
<b>ASSETS</b>			
Cash or Equity in Pooled Cash and Investments .....	\$ 2,348	\$ 2,763	\$ 5,111
Receivables:			
Taxes - Net .....	1,951	976	2,927
Accrued Interest .....	8	16	24
Advances to Other Funds.....	1,339	226	1,565
<b>TOTAL ASSETS .....</b>	<b><u>\$ 5,646</u></b>	<b><u>\$ 3,981</u></b>	<b><u>\$ 9,627</u></b>
<b>LIABILITIES</b>			
Accounts Payable .....	\$ -	\$ 2	\$ 2
<b>FUND EQUITY</b>			
Fund Balances:			
Reserved for Encumbrances .....	-	245	245
Reserved for Advances and Deposits .....	1,339	226	1,565
Unreserved:			
Designated for Unrealized Gains .....	12	17	29
Designated for Subsequent Years' Expenditures .....	-	223	223
Undesignated .....	4,295	3,268	7,563
<b>TOTAL FUND EQUITY .....</b>	<b><u>5,646</u></b>	<b><u>3,979</u></b>	<b><u>9,625</u></b>
<b>TOTAL LIABILITIES AND FUND EQUITY .....</b>	<b><u>\$ 5,646</u></b>	<b><u>\$ 3,981</u></b>	<b><u>\$ 9,627</u></b>

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
Year Ended June 30, 2002  
( In Thousands )**

	<u>Two-Thirds Requirement</u>	<u>One-Third Requirement</u>	<u>Total</u>
<b>REVENUES</b>			
Other Local Taxes .....	\$ 8,861	\$ 4,429	\$ 13,290
Revenue from Use of Money and Property .....	75	80	155
<b>TOTAL REVENUES .....</b>	<b><u>8,936</u></b>	<b><u>4,509</u></b>	<b><u>13,445</u></b>
<b>EXPENDITURES</b>			
Current:			
Parks, Recreation, Culture and Leisure .....	-	1,559	1,559
Capital Projects .....	-	152	152
<b>TOTAL EXPENDITURES .....</b>	<b><u>-</u></b>	<b><u>1,711</u></b>	<b><u>1,711</u></b>
<b>EXCESS OF REVENUES OVER EXPENDITURES .....</b>	<b><u>8,936</u></b>	<b><u>2,798</u></b>	<b><u>11,734</u></b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers to Other Funds .....	(6,916)	(94)	(7,010)
<b>NET CHANGE IN FUND BALANCES .....</b>	<b>2,020</b>	<b>2,704</b>	<b>4,724</b>
Fund Balances at Beginning of Year .....	3,626	1,275	4,901
<b>FUND BALANCES AT END OF YEAR .....</b>	<b><u>\$ 5,646</u></b>	<b><u>\$ 3,979</u></b>	<b><u>\$ 9,625</u></b>

CITY OF SAN DIEGO  
 NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE  
 ENVIRONMENTAL GROWTH FUND  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN UNDESIGNATED FUND BALANCES  
 BUDGET AND ACTUAL (BUDGETARY BASIS)  
 Year Ended June 30, 2002  
 (In Thousands)

	Two-Thirds Requirement				Variance with Final Budget Positive (Negative)
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	
<b>REVENUES</b>					
Other Local Taxes .....	\$ 8,861	\$ -	\$ 8,861	\$ 7,003	\$ 1,858
Revenue from Use of Money and Property .....	75	(12)	63	54	9
<b>TOTAL REVENUES</b> .....	<b>8,936</b>	<b>(12)</b>	<b>8,924</b>	<b>7,057</b>	<b>1,867</b>
<b>EXPENDITURES</b>					
Current:					
Parks, Recreation, Culture and Leisure .....	-	-	-	-	-
Capital Projects .....	-	-	-	-	-
<b>TOTAL EXPENDITURES</b> .....	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b> .....	<b>8,936</b>	<b>(12)</b>	<b>8,924</b>	<b>7,057</b>	<b>1,867</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers from Other Funds .....	-	-	-	902	(902)
Transfers to Other Funds .....	(6,916)	(717)	(7,633)	(7,633)	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b> .....	<b>(6,916)</b>	<b>(717)</b>	<b>(7,633)</b>	<b>(6,731)</b>	<b>(902)</b>
<b>NET CHANGE IN FUND BALANCES</b> .....	<b>\$ 2,020</b>	<b>\$ (729)</b>	1,291	326	965
Fund Balances Undesignated at July 1, 2001 .....			3,004	3,004	-
Reserved for Encumbrances at July 1, 2001 .....			-	-	-
Designated for Subsequent Years' Expenditures at July 1, 2001 .....			-	-	-
Designated for Subsequent Years' Expenditures at June 30, 2002 .....			-	-	-
<b>FUND BALANCES UNDESIGNATED AT JUNE 30, 2002</b> .....			<b>\$ 4,295</b>	<b>\$ 3,330</b>	<b>\$ 965</b>

**THE CITY OF SAN DIEGO ANNUAL FINANCIAL REPORT**

One-Third Requirement					Total				
Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
\$ 4,429	\$ -	\$ 4,429	\$ 3,449	\$ 980	\$ 13,290	\$ -	\$ 13,290	\$ 10,452	\$ 2,838
80	(12)	68	54	14	155	(24)	131	108	23
4,509	(12)	4,497	3,503	994	13,445	(24)	13,421	10,560	2,861
1,559	150	1,709	2,593	884	1,559	150	1,709	2,593	884
152	95	247	471	224	152	95	247	471	224
1,711	245	1,956	3,064	1,108	1,711	245	1,956	3,064	1,108
2,798	(257)	2,541	439	2,102	11,734	(269)	11,465	7,496	3,969
-	-	-	-	-	-	-	-	902	(902)
(94)	-	(94)	(94)	-	(7,010)	(717)	(7,727)	(7,727)	-
(94)	-	(94)	(94)	-	(7,010)	(717)	(7,727)	(6,825)	(902)
<u>\$ 2,704</u>	<u>\$ (257)</u>	2,447	345	2,102	<u>\$ 4,724</u>	<u>\$ (986)</u>	3,738	671	3,067
		665	665	-			3,669	3,669	-
		139	139	-			139	139	-
		240	240	-			240	240	-
		(223)	-	(223)			(223)	-	(223)
		<u>\$ 3,268</u>	<u>\$ 1,389</u>	<u>\$ 1,879</u>			<u>\$ 7,563</u>	<u>\$ 4,719</u>	<u>\$ 2,844</u>



**NONMAJOR  
GOVERNMENTAL  
FUNDS**

**DEBT SERVICE**



**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.

**CITY OF SAN DIEGO**

**PRE-ARRAIGNMENT DETENTION FACILITY**

This fund was established to account for the payment of principal and interest and to maintain a reserve for certificates of participation issued in fiscal year 1992. The certificates were issued to fund construction of a misdemeanor pre-arraignment detention facility. Certificate payments are made from funds appropriated during the annual budget process. The reserve is to be used only in the event there are insufficient funds available to pay the annual principal or interest requirement.

**PUBLIC SAFETY COMMUNICATIONS PROJECT**

This fund was established to account for the payment of principal and interest on general obligation bonds issued in 1991. These bonds are serviced by property taxes.

**OTHER SPECIAL ASSESSMENTS FUNDS**

These funds were established to account for the payment of principal and interest for bonds issued under the Improvement Bond Act of 1915 and the Mello-Roos Community Facilities District Act of 1982. These bonds are serviced by assessments and special taxes levied on property owners within each assessment area.

**BLENDED COMPONENT UNITS**

**CITY OF SAN DIEGO METROPOLITAN TRANSIT DEVELOPMENT BOARD AUTHORITY**

This fund was established to account for the debt service activities of the City of San Diego Metropolitan Transit Development Board Authority (the "Authority") Joint Powers Agency. The Authority was created to acquire, construct, maintain and operate public transit facilities. The Authority's debt service fund is used to account for the payment of long-term debt principal and interest. This fund is serviced by investment income, lease payments from the City of San Diego, and proceeds from lease revenue bonds and certificates of participation.

**CONVENTION CENTER EXPANSION FINANCING AUTHORITY**

This fund was established to account for the debt service activities of the Convention Center Expansion Financing Authority (the "Authority"). The Authority is a joint powers entity of the City of San Diego and the San Diego Unified Port District and was established to finance, acquire, and construct an expansion to the existing convention center. The Authority's debt service fund is used to account for the payment of long-term debt principal and interest.

**DEBT SERVICE FUNDS (Continued)****BLENDED COMPONENT UNITS (Continued)****PUBLIC FACILITIES FINANCING AUTHORITY**

This fund was established to account for the debt service activities of the Public Facilities Financing Authority (the "Authority"). The Authority is a joint powers entity of the City of San Diego and the Redevelopment Agency of the City of San Diego and was created to finance and construct public capital facility improvements of the Agency or the City. The Authority's debt service fund is used to account for the payment of long-term debt principal and interest.

**REDEVELOPMENT AGENCY**

This fund was established to account for the debt service activities of the Redevelopment Agency of the City of San Diego (the "Agency"). The Agency was established to provide a method for revitalizing deteriorated and blighted areas of the City of San Diego. This fund is serviced by property tax increments, sale of real estate, and investment income.

**SAN DIEGO FACILITIES AND EQUIPMENT LEASING CORPORATION**

This fund was established to account for the debt service activities of the San Diego Facilities and Equipment Leasing Corporation (the "Corporation"). The Corporation was established to acquire and lease to the City of San Diego real and personal property to be used in the municipal operations of the City. The City makes lease payments from annual appropriations payable out of any source of legally available funds.

**SAN DIEGO OPEN SPACE PARK FACILITIES DISTRICT #1**

This fund was established for the purpose of acquiring open space properties to implement the Open Space element of the City of San Diego General Plan. This fund was established to account for financial resources accumulated for the payment of long-term debt principal and interest. This fund is serviced by City contributions and investment income.





**COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS - DEBT SERVICE  
June 30, 2002  
( In Thousands )**

	City of San Diego	City of San Diego/MTDB Authority
<b>ASSETS</b>		
Cash or Equity in Pooled Cash and Investments .....	\$ 3,532	\$ -
Cash With Custodian/Fiscal Agent .....	-	2,763
Investments at Fair Value .....	20,227	9,646
Receivables:		
Taxes - Net .....	29	-
Special Assessments - Net .....	553	-
Accrued Interest .....	45	-
From Other Funds .....	-	-
From Other Agencies .....	-	-
Prepaid and Reimbursable Items and Deposits .....	-	-
<b>TOTAL ASSETS</b> .....	<b>\$ 24,386</b>	<b>\$ 12,409</b>
<b>LIABILITIES</b>		
Matured Bonds, Notes and Interest Payable .....	\$ 3	\$ -
Deferred Revenue .....	361	-
Advances From Other Funds .....	-	-
<b>TOTAL LIABILITIES</b> .....	<b>364</b>	<b>-</b>
<b>FUND EQUITY</b>		
Fund Balances:		
Reserved for Debt Service .....	24,004	12,003
Unreserved:		
Designated for Unrealized Gains .....	18	406
<b>TOTAL FUND EQUITY</b> .....	<b>24,022</b>	<b>12,409</b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b> .....	<b>\$ 24,386</b>	<b>\$ 12,409</b>

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS - DEBT SERVICE  
Year Ended June 30, 2002  
(In Thousands)**

<b>REVENUES</b>		
Property Taxes .....	\$ 2,313	\$ -
Special Assessments .....	11,556	-
Revenue from Use of Money and Property .....	943	709
Revenue from Private Sources .....	-	-
<b>TOTAL REVENUES</b> .....	<b>14,812</b>	<b>709</b>
<b>EXPENDITURES</b>		
Current:		
General Government and Support .....	7	-
Debt Service:		
Principal Retirement .....	5,645	6,370
Interest .....	8,517	2,822
<b>TOTAL EXPENDITURES</b> .....	<b>14,169</b>	<b>9,192</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b> .....	<b>643</b>	<b>(8,483)</b>
<b>OTHER FINANCING SOURCES (USES)</b>		
Transfers from Other Funds .....	6,570	8,550
Transfers to Other Funds .....	(5,742)	-
Proceeds from Revenue Bonds .....	-	-
Proceeds from Tax Allocation Bonds .....	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b> .....	<b>828</b>	<b>8,550</b>
<b>NET CHANGE IN FUND BALANCES</b> .....	<b>1,471</b>	<b>67</b>
Fund Balances at Beginning of Year, as Restated .....	22,551	12,342
<b>FUND BALANCES AT END OF YEAR</b> .....	<b>\$ 24,022</b>	<b>\$ 12,409</b>

Convention Center Expansion Financing Authority	Public Facilities Financing Authority	Redevelopment Agency	San Diego Facilities and Equipment Leasing Corporation	San Diego Open Space Park Facilities District #1	Total
\$ -	\$ -	\$ 132	\$ -	\$ 1,729	\$ 5,393
469	-	22,071	-	-	25,303
-	80,699	15,285	2,124	-	127,981
-	-	-	-	-	29
-	-	-	-	-	553
-	462	-	-	17	524
-	-	142	-	-	142
-	-	-	-	-	-
-	-	27	-	1,170	1,197
<u>\$ 469</u>	<u>\$ 81,161</u>	<u>\$ 37,657</u>	<u>\$ 2,124</u>	<u>\$ 2,916</u>	<u>\$ 161,122</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3
-	-	-	-	-	361
-	-	-	-	1,339	1,339
-	-	-	-	1,339	1,703
469	81,012	34,633	1,991	1,567	155,679
-	149	3,024	133	10	3,740
<u>469</u>	<u>81,161</u>	<u>37,657</u>	<u>2,124</u>	<u>1,577</u>	<u>159,419</u>
<u>\$ 469</u>	<u>\$ 81,161</u>	<u>\$ 37,657</u>	<u>\$ 2,124</u>	<u>\$ 2,916</u>	<u>\$ 161,122</u>
\$ -	\$ -	\$ 20,154	\$ -	\$ -	\$ 22,467
-	-	-	-	-	11,556
249	(1,576)	1,480	152	256	2,213
-	-	745	-	-	745
<u>249</u>	<u>(1,576)</u>	<u>22,379</u>	<u>152</u>	<u>256</u>	<u>36,981</u>
451	29	1,484	712	-	2,683
4,020	3,875	6,218	3,485	4,345	33,958
<u>9,681</u>	<u>6,119</u>	<u>13,197</u>	<u>3,039</u>	<u>2,571</u>	<u>45,946</u>
14,152	10,023	20,899	7,236	6,916	82,587
<u>(13,903)</u>	<u>(11,599)</u>	<u>1,480</u>	<u>(7,084)</u>	<u>(6,660)</u>	<u>(45,606)</u>
13,393	10,388	1,734	6,648	6,916	54,199
(6,880)	(194)	(104)	-	-	(12,920)
-	37,857	-	-	-	37,857
-	-	1,508	-	-	1,508
<u>6,513</u>	<u>48,051</u>	<u>3,138</u>	<u>6,648</u>	<u>6,916</u>	<u>80,644</u>
(7,390)	36,452	4,618	(436)	256	35,038
7,859	44,709	33,039	2,560	1,321	124,381
<u>\$ 469</u>	<u>\$ 81,161</u>	<u>\$ 37,657</u>	<u>\$ 2,124</u>	<u>\$ 1,577</u>	<u>\$ 159,419</u>



**COMBINING BALANCE SHEET**  
**CITY OF SAN DIEGO**  
**NONMAJOR GOVERNMENTAL FUNDS - DEBT SERVICE**  
**June 30, 2002**  
**( in Thousands )**

	Budgeted		Unbudgeted	Total
	Pre-Arraignment Detention Facility	Public Safety Communications Project	Other Special Assessments	
<b>ASSETS</b>				
Cash or Equity in Pooled Cash and Investments .....	\$ -	\$ 1,982	\$ 1,550	\$ 3,532
Investments at Fair Value .....	-	-	20,227	20,227
Receivables:				
Taxes - Net .....	-	29	-	29
Special Assessments - Net .....	-	-	553	553
Accrued Interest .....	-	10	35	45
<b>TOTAL ASSETS</b> .....	<b>\$ -</b>	<b>\$ 2,021</b>	<b>\$ 22,365</b>	<b>\$ 24,386</b>
<b>LIABILITIES</b>				
Matured Bonds, Notes and Interest Payable .....	\$ -	\$ -	\$ 3	\$ 3
Deferred Revenue .....	-	-	361	361
<b>TOTAL LIABILITIES</b> .....	<b>-</b>	<b>-</b>	<b>364</b>	<b>364</b>
<b>FUND EQUITY</b>				
Fund Balances:				
Reserved for Debt Service .....	-	2,009	21,995	24,004
Unreserved:				
Designated for Unrealized Gains .....	-	12	6	18
<b>TOTAL FUND EQUITY</b> .....	<b>-</b>	<b>2,021</b>	<b>22,001</b>	<b>24,022</b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b> .....	<b>\$ -</b>	<b>\$ 2,021</b>	<b>\$ 22,365</b>	<b>\$ 24,386</b>

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**CITY OF SAN DIEGO**  
**NONMAJOR GOVERNMENTAL FUNDS - DEBT SERVICE**  
**Year Ended June 30, 2002**  
**(In Thousands)**

<b>REVENUES</b>				
Property Taxes .....	\$ -	\$ 2,313	\$ -	\$ 2,313
Special Assessments .....	-	-	11,556	11,556
Revenue from Use of Money and Property .....	97	32	814	943
<b>TOTAL REVENUES</b> .....	<b>97</b>	<b>2,345</b>	<b>12,370</b>	<b>14,812</b>
<b>EXPENDITURES</b>				
Current:				
General Government and Support .....	-	-	7	7
Debt Service:				
Principal Retirement .....	1,900	1,155	2,590	5,645
Interest .....	152	1,197	7,168	8,517
<b>TOTAL EXPENDITURES</b> .....	<b>2,052</b>	<b>2,352</b>	<b>9,765</b>	<b>14,169</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b> .....	<b>(1,955)</b>	<b>(7)</b>	<b>2,605</b>	<b>643</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers from Other Funds .....	969	-	5,601	6,570
Transfers to Other Funds .....	-	-	(5,742)	(5,742)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b> .....	<b>969</b>	<b>-</b>	<b>(141)</b>	<b>828</b>
<b>NET CHANGE IN FUND BALANCES</b> .....	<b>(886)</b>	<b>(7)</b>	<b>2,464</b>	<b>1,471</b>
Fund Balances at Beginning of Year .....	986	2,028	19,537	22,551
<b>FUND BALANCES AT END OF YEAR</b> .....	<b>\$ -</b>	<b>\$ 2,021</b>	<b>\$ 22,001</b>	<b>\$ 24,022</b>

**COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN UNDESIGNATED FUND BALANCES**  
**CITY OF SAN DIEGO**  
**NONMAJOR GOVERNMENTAL FUNDS - DEBT SERVICE**  
**BUDGET AND ACTUAL (BUDGETARY BASIS)**  
**Year Ended June 30, 2002**  
**(In Thousands)**

	Pre-Arrestment Detention Facility				Variance with Final Budget Positive (Negative)
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	
<b>REVENUES</b>					
Property Taxes .....	\$ -	\$ -	\$ -	\$ -	\$ -
Revenue from Use of Money and Property .....	97	-	97	97	-
<b>TOTAL REVENUES</b> .....	<u>97</u>	<u>-</u>	<u>97</u>	<u>97</u>	<u>-</u>
<b>EXPENDITURES</b>					
Current:					
General Government and Support .....	-	-	-	-	-
Debt Service:					
Principal Retirement .....	1,500	-	1,900	1,900	-
Interest .....	152	-	152	152	-
<b>TOTAL EXPENDITURES</b> .....	<u>2,052</u>	<u>-</u>	<u>2,052</u>	<u>2,052</u>	<u>-</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b> .....	<u>(1,955)</u>	<u>-</u>	<u>(1,955)</u>	<u>(1,955)</u>	<u>-</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers from Other Funds .....	969	-	969	969	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b> .....	<u>969</u>	<u>-</u>	<u>969</u>	<u>969</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCES</b> .....	<u>\$ (936)</u>	<u>\$ -</u>	<u>(986)</u>	<u>(986)</u>	<u>-</u>
Reserved for Debt Service at July 1, 2001 .....			986	986	-
Reserved for Debt Service at June 30, 2002 .....			-	-	-
<b>FUND BALANCES UNDESIGNATED AT JUNE 30, 2002</b> .....			<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Public Safety Communications Project					Total				
Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
\$ 2,313	\$ -	\$ 2,313	\$ 2,352	\$ (39)	\$ 2,313	\$ -	\$ 2,313	\$ 2,352	\$ (39)
32	7	39	-	39	129	7	136	97	39
<u>2,345</u>	<u>7</u>	<u>2,352</u>	<u>2,352</u>	<u>-</u>	<u>2,442</u>	<u>7</u>	<u>2,449</u>	<u>2,449</u>	<u>-</u>
-	-	-	-	-	-	-	-	-	-
1,155	-	1,155	1,155	-	3,055	-	3,055	3,055	-
<u>1,197</u>	<u>-</u>	<u>1,197</u>	<u>1,197</u>	<u>-</u>	<u>1,349</u>	<u>-</u>	<u>1,349</u>	<u>1,349</u>	<u>-</u>
<u>2,352</u>	<u>-</u>	<u>2,352</u>	<u>2,352</u>	<u>-</u>	<u>4,404</u>	<u>-</u>	<u>4,404</u>	<u>4,404</u>	<u>-</u>
<u>(7)</u>	<u>7</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,962)</u>	<u>7</u>	<u>(1,955)</u>	<u>(1,955)</u>	<u>-</u>
-	-	-	-	-	969	-	969	969	-
-	-	-	-	-	969	-	969	969	-
<u>\$ (7)</u>	<u>\$ 7</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>\$ (993)</u>	<u>\$ 7</u>	<u>(986)</u>	<u>(986)</u>	<u>-</u>
		2,009	2,009	-			2,995	2,995	-
		<u>(2,009)</u>	<u>(2,009)</u>	<u>-</u>			<u>(2,009)</u>	<u>(2,009)</u>	<u>-</u>
		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>			<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>





**NONMAJOR  
GOVERNMENTAL  
FUNDS**

**CAPITAL PROJECTS**



**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 funds and trust funds).

**CITY OF SAN DIEGO**

**CAPITAL OUTLAY FUND**

This fund was established per Section 77 of the City Charter to account for the acquisition, construction and completion of permanent public improvements and real property. Capital Outlay Fund revenues are derived from the sale of City-owned real property supplemented by sales tax revenue.

**OTHER CONSTRUCTION FUND**

This fund was established to account for a variety of capital projects such as park and street improvements and construction of public facilities in new development areas. Revenues in this fund are derived from such sources as contributions from developers, grants from Federal, State and other governmental agencies, special assessments, special taxes, fees, and interest derived therefrom.

**BLENDED COMPONENT UNITS**

**CONVENTION CENTER EXPANSION FINANCING AUTHORITY**

This fund was established to account for the capital improvement activities of the Convention Center Expansion Financing Authority (the "Authority"). The Authority, created by the City of San Diego and the San Diego Unified Port District, facilitates the financing, acquisition and construction of an expansion to the existing convention center. Revenues are derived from the issuance of bonds, revenue from other agencies and interest earnings on investments.

**PUBLIC FACILITIES FINANCING AUTHORITY**

This fund was established to account for the capital improvement acquisition and construction activities of the Public Facilities Financing Authority (the "Authority") Joint Powers Agency. The Authority, created by the City of San Diego and the Redevelopment Agency of the City of San Diego (the "Agency"), facilitates the financing and construction of public capital improvements of the City or the Agency. Revenues are derived from the issuance of bonds and interest earnings on investments.

**REDEVELOPMENT AGENCY**

This fund was established to account for the capital improvement activities of the Redevelopment Agency of the City of San Diego (the "Agency"). The Agency was established to provide a method for revitalizing deteriorated and blighted areas of the City of San Diego. Funds are derived from the City of San Diego, from the issuance of bonds for specific redevelopment projects, sale of real estate and investment income.

**CAPITAL PROJECTS FUNDS (Continued)**

**BLENDED COMPONENT UNITS (Continued)**

**SAN DIEGO FACILITIES AND EQUIPMENT LEASING CORPORATION**

This fund was established to account for the capital improvement activities of the San Diego Facilities and Equipment Leasing Corporation (the "Corporation"). The Corporation was established as a non-profit organization to acquire and lease to the City of San Diego real and personal property to be used in the municipal operations of the City. This fund accounts for proceeds from the issuance of Certificates of Participation used to finance construction projects in Balboa and Mission Bay parks.



**COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECTS  
June 30, 2002  
( In Thousands )**

	<u>City of San Diego</u>	<u>Convention Center Expansion Financing Authority</u>
<b>ASSETS</b>		
Cash or Equity in Pooled Cash and Investments .....	\$ 241,362	\$ -
Cash With Custodian/Fiscal Agent.....	-	-
Investments at Fair Value .....	16,494	1,399
Receivables:		
Accounts - Net .....	1,468	-
Notes .....	15	-
Accrued Interest .....	1,302	-
Grants .....	15,206	-
From Other Funds .....	5,682	-
From Other Agencies .....	95	-
Advances to Other Funds .....	-	-
Land Held for Resale.....	-	-
Prepaid and Reimbursable Items and Deposits.....	-	-
<b>TOTAL ASSETS .....</b>	<b><u>\$ 281,624</u></b>	<b><u>\$ 1,399</u></b>
<b>LIABILITIES</b>		
Accounts Payable .....	\$ 49	\$ -
Due to Other Funds .....	5,666	426
Due to Other Agencies .....	182	-
Deferred Revenue .....	16,856	-
Sundry Trust Liabilities.....	-	-
<b>TOTAL LIABILITIES .....</b>	<b><u>22,753</u></b>	<b><u>426</u></b>
<b>FUND EQUITY</b>		
Fund Balances:		
Reserved for Land Held for Resale.....	-	-
Reserved for Encumbrances .....	25,057	-
Unreserved:		
Designated for Unrealized Gains .....	1,229	-
Designated for Subsequent Years' Expenditures .....	122,034	973
Undesignated .....	110,551	-
<b>TOTAL FUND EQUITY .....</b>	<b><u>258,871</u></b>	<b><u>973</u></b>
<b>TOTAL LIABILITIES AND FUND EQUITY .....</b>	<b><u>\$ 281,624</u></b>	<b><u>\$ 1,399</u></b>

<u>Public Facilities Financing Authority</u>	<u>Redevelopment Agency</u>	<u>San Diego Facilities And Equipment Leasing Corporation</u>	<u>Total</u>
\$ 21,581	\$ 47,085	\$ 2	\$ 310,030
-	-	3	3
194,221	-	14	212,128
-	-	-	1,468
-	12,555	-	12,570
1,135	239	-	2,676
-	-	-	15,206
-	13,558	-	19,240
-	-	-	95
152	699	-	851
-	74,067	-	74,067
-	3	-	3
<u>\$ 217,089</u>	<u>\$ 148,206</u>	<u>\$ 19</u>	<u>\$ 648,337</u>
\$ 8,377	\$ 5,147	\$ -	\$ 13,573
906	-	-	6,998
-	-	-	182
-	12,639	-	29,495
-	5,585	-	5,585
<u>9,283</u>	<u>23,371</u>	<u>-</u>	<u>55,833</u>
-	74,067	-	74,067
182,843	27,287	-	235,187
143	230	-	1,602
24,288	20,759	19	168,073
532	2,492	-	113,575
<u>207,806</u>	<u>124,835</u>	<u>19</u>	<u>592,504</u>
<u>\$ 217,089</u>	<u>\$ 148,206</u>	<u>\$ 19</u>	<u>\$ 648,337</u>

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECTS  
Year Ended June 30, 2002  
( In Thousands )**

	City of San Diego	Convention Center Expansion Financing Authority
<b>REVENUES</b>		
Property Taxes .....	\$ -	\$ -
Sales Taxes .....	30,718	-
Licenses and Permits .....	741	-
Revenue from Use of Money and Property .....	13,719	250
Revenue from Federal Agencies .....	4,963	-
Revenue from Other Agencies .....	41,196	-
Revenue from Private Sources .....	44,821	-
Other Revenue .....	3,701	-
<b>TOTAL REVENUES</b> .....	<b>139,859</b>	<b>250</b>
<b>EXPENDITURES</b>		
Current:		
General Government and Support .....	1,779	-
Parks, Recreation, Culture and Leisure .....	193	-
Transportation .....	6,568	-
Neighborhood Services .....	28	-
Capital Projects .....	133,705	9,301
<b>TOTAL EXPENDITURES</b> .....	<b>142,273</b>	<b>9,301</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b> .....	<b>(2,414)</b>	<b>(9,051)</b>
<b>OTHER FINANCING SOURCES (USES)</b>		
Transfers from Proprietary Funds .....	55	-
Transfers from Other Funds .....	43,087	2,125
Transfers to Proprietary Funds .....	(498)	-
Transfers to Other Funds .....	(63,409)	(4,840)
Proceeds from Revenue Bonds .....	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b> .....	<b>(20,765)</b>	<b>(2,715)</b>
<b>NET CHANGE IN FUND BALANCES</b> .....	<b>(23,179)</b>	<b>(11,766)</b>
Fund Balances at Beginning of Year, as Restated .....	282,050	12,739
<b>FUND BALANCES AT END OF YEAR</b> .....	<b>\$ 258,871</b>	<b>\$ 973</b>



Public Facilities Financing Authority	Redevelopment Agency	San Diego Facilities And Equipment Leasing Corporation	Total
\$ -	\$ 3,889	\$ -	\$ 3,889
-	-	-	30,718
-	-	-	741
1,575	12,628	1	28,173
-	-	-	4,963
-	-	-	41,196
58,854	9,203	-	112,878
-	784	-	4,485
<u>60,429</u>	<u>26,504</u>	<u>1</u>	<u>227,043</u>
8,741	14,770	-	25,290
10,185	322	-	10,700
-	-	-	6,568
-	7,445	-	7,473
<u>27,603</u>	<u>20,254</u>	<u>-</u>	<u>190,863</u>
<u>46,529</u>	<u>42,791</u>	<u>-</u>	<u>240,894</u>
<u>13,900</u>	<u>(16,287)</u>	<u>1</u>	<u>(13,851)</u>
-	-	-	55
58,724	30,473	-	134,409
-	-	-	(498)
(21,717)	(4,094)	-	(94,060)
<u>156,899</u>	<u>-</u>	<u>-</u>	<u>156,899</u>
<u>193,906</u>	<u>26,379</u>	<u>-</u>	<u>196,805</u>
207,806	10,092	1	182,954
-	114,743	18	409,550
<u>\$ 207,806</u>	<u>\$ 124,835</u>	<u>\$ 19</u>	<u>\$ 592,504</u>

**COMBINING BALANCE SHEET  
CITY OF SAN DIEGO  
NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECTS  
June 30, 2002  
( In Thousands )**

	<u>Capital Outlay</u>	<u>Other Construction</u>	<u>Total</u>
<b>ASSETS</b>			
Cash or Equity in Pooled Cash and Investments .....	\$ 14,859	\$ 226,503	\$ 241,362
Investments at Fair Value .....	-	16,494	16,494
Receivables:			
Accounts - Net .....	550	918	1,468
Notes .....	-	15	15
Accrued Interest .....	22	1,280	1,302
Grants .....	12,361	2,845	15,206
From Other Funds .....	-	5,682	5,682
From Other Agencies .....	-	95	95
<b>TOTAL ASSETS</b> .....	<u>\$ 27,792</u>	<u>\$ 253,832</u>	<u>\$ 281,624</u>
<b>LIABILITIES</b>			
Accounts Payable .....	\$ 9	\$ 40	\$ 49
Due to Other Funds .....	5,666	-	5,666
Due to Other Agencies .....	30	152	182
Deferred Revenue .....	14,604	2,252	16,856
<b>TOTAL LIABILITIES</b> .....	<u>20,309</u>	<u>2,444</u>	<u>22,753</u>
<b>FUND EQUITY</b>			
Fund Balances:			
Reserved for Encumbrances .....	1,991	23,066	25,057
Unreserved:			
Designated for Unrealized Gains .....	4	1,225	1,229
Designated for Subsequent Years' Expenditures .....	4,555	117,479	122,034
Undesignated .....	933	109,618	110,551
<b>TOTAL FUND EQUITY</b> .....	<u>7,483</u>	<u>251,388</u>	<u>258,871</u>
<b>TOTAL LIABILITIES AND FUND EQUITY</b> .....	<u>\$ 27,792</u>	<u>\$ 253,832</u>	<u>\$ 281,624</u>

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
CITY OF SAN DIEGO  
NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECTS  
Year Ended June 30, 2002  
( In Thousands )**

	<u>Capital Outlay</u>	<u>Other Construction</u>	<u>Total</u>
<b>REVENUES</b>			
Sales Taxes .....	\$ 2,005	\$ 28,713	\$ 30,718
Licenses and Permits .....	-	741	741
Revenue from Use of Money and Property .....	443	13,276	13,719
Revenue from Federal Agencies .....	4,605	358	4,963
Revenue from Other Agencies .....	37,477	3,719	41,196
Revenue from Private Sources .....	10	44,811	44,821
Other Revenue .....	2,238	1,463	3,701
<b>TOTAL REVENUES</b> .....	<u>46,778</u>	<u>93,081</u>	<u>139,859</u>
<b>EXPENDITURES</b>			
Current:			
General Government and Support .....	214	1,565	1,779
Parks, Recreation, Culture and Leisure .....	(2)	195	193
Transportation .....	-	6,568	6,568
Neighborhood Services .....	-	28	28
Capital Projects .....	50,735	82,970	133,705
<b>TOTAL EXPENDITURES</b> .....	<u>50,947</u>	<u>91,326</u>	<u>142,273</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b> .....			
	<u>(4,169)</u>	<u>1,755</u>	<u>(2,414)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers from Proprietary Funds .....	-	55	55
Transfers from Other Funds .....	35,081	8,006	43,087
Transfers to Proprietary Funds .....	-	(498)	(498)
Transfers to Other Funds .....	(35,356)	(28,053)	(63,409)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b> .....	<u>(275)</u>	<u>(20,490)</u>	<u>(20,765)</u>
<b>NET CHANGE IN FUND BALANCES</b> .....	<u>(4,444)</u>	<u>(18,735)</u>	<u>(23,179)</u>
Fund Balances at Beginning of Year .....	11,927	270,123	282,050
<b>FUND BALANCES AT END OF YEAR</b> .....	<u>\$ 7,483</u>	<u>\$ 251,388</u>	<u>\$ 258,871</u>



**NONMAJOR  
GOVERNMENTAL  
FUNDS**

**PERMANENT**



**PERMANENT FUNDS**

**CITY OF SAN DIEGO**

**CARMEL VALLEY SEWER MAINTENANCE**

This fund was established to fund the City's share of maintenance costs for a private sewer system in the Carmel Valley community. The original contribution was received from a developer and interest earnings derived therefrom will finance a fifty-year maintenance period.

**CEMETERY PERPETUITY**

This fund was established to account for the Mt. Hope Cemetery endowment. Investment earnings derived from the endowment supplement grave sales revenues in order to finance cemetery operations.

**EFFIE SERGEANT**

This fund was established to account for a donation to benefit the North Park Branch Library. Investment earnings are used to finance library services and programs.

**GLADYS EDNA PETERS**

This fund was established to account for a donation to benefit the Rancho Bernardo Branch Library. Investment earnings are used to procure and maintain a collection of large print books and periodicals.

**LOS PENASQUITOS CANYON**

This fund was established to account for the Los Penasquitos Canyon Preserve Trust Fund. Investment earnings are used to finance operations, land acquisitions, historical restoration, and maintenance of the Penasquitos Preserve Park.

**MONTEZUMA ROAD MEDIAN MAINTENANCE**

This fund was established to account for an endowment from San Diego State University. Investment earnings derived therefrom are used to finance the maintenance of medians along Montezuma Road.

**SOUTHCREST PARK ESTATES II**

This fund was established to finance the City's landscape maintenance costs for the Southcrest Park Estates II, a residential development within the Southcrest Redevelopment project area. The original contribution was received from a developer, and investment earnings derived therefrom will finance the permanent maintenance costs.

**COMBINING BALANCE SHEET  
CITY OF SAN DIEGO  
NONMAJOR GOVERNMENTAL FUNDS - PERMANENT  
June 30, 2002  
(In Thousands)**

	<b>Carmel Valley Sewer Maintenance</b>	<b>Cemetery Perpetuity</b>
<b>ASSETS</b>		
Cash or Equity in Pooled Cash and Investments .....	\$ 40	\$ 97
Cash With Custodian/Fiscal Agent .....	-	471
Investments at Fair Value .....	-	8,326
Receivables:		
Accounts - Net .....	-	17
Accrued Interest .....	-	12
<b>TOTAL ASSETS</b> .....	<b>\$ 40</b>	<b>\$ 8,923</b>
<b>FUND EQUITY:</b>		
Fund Balances:		
Reserved for Permanent Endowments .....	40	8,923
<b>TOTAL FUND EQUITY</b> .....	<b>\$ 40</b>	<b>\$ 8,923</b>

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
CITY OF SAN DIEGO  
NONMAJOR GOVERNMENTAL FUNDS - PERMANENT  
Year Ended June 30, 2002  
(In Thousands)**

<b>REVENUES</b>		
Revenue from Use of Money and Property .....	\$ 2	\$ 291
Charges for Current Services .....	-	68
Other Revenue .....	-	-
<b>TOTAL REVENUES</b> .....	<b>2</b>	<b>359</b>
<b>EXPENDITURES</b>		
Current:		
General Government and Support .....	-	-
Parks, Recreation, Culture and Leisure .....	-	-
<b>TOTAL EXPENDITURES</b> .....	<b>-</b>	<b>-</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b> .....	<b>2</b>	<b>359</b>
<b>OTHER FINANCING SOURCES (USES)</b>		
Transfers to Other Funds .....	-	(416)
<b>NET CHANGE IN FUND BALANCES</b> .....	<b>2</b>	<b>(57)</b>
Fund Balances at Beginning of Year .....	38	8,980
<b>FUND BALANCES AT END OF YEAR</b> .....	<b>\$ 40</b>	<b>\$ 8,923</b>



**THE CITY OF SAN DIEGO ANNUAL FINANCIAL REPORT**

<u>Effie Sergeant</u>	<u>Gladys Edna Peters</u>	<u>Los Penasquitos Canyon</u>	<u>Montazuma Road Median Maintenance</u>	<u>Southcrest Park Estates II</u>	<u>Total</u>
\$ 53	\$ 2	\$ -	\$ 103	\$ 10	\$ 305
22	9	59	-	-	561
409	321	2,325	-	-	11,381
-	-	-	-	-	17
-	-	-	-	-	12
<u>\$ 484</u>	<u>\$ 332</u>	<u>\$ 2,384</u>	<u>\$ 103</u>	<u>\$ 10</u>	<u>\$ 12,276</u>
<u>484</u>	<u>332</u>	<u>2,384</u>	<u>103</u>	<u>10</u>	<u>12,276</u>
<u>\$ 484</u>	<u>\$ 332</u>	<u>\$ 2,384</u>	<u>\$ 103</u>	<u>\$ 10</u>	<u>\$ 12,276</u>
\$ 18	\$ 13	\$ (17)	\$ 3	\$ -	\$ 310
-	-	-	-	-	68
-	-	-	100	10	110
<u>18</u>	<u>13</u>	<u>(17)</u>	<u>103</u>	<u>10</u>	<u>488</u>
-	-	3	-	-	3
<u>3</u>	<u>15</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16</u>
<u>3</u>	<u>15</u>	<u>3</u>	<u>-</u>	<u>-</u>	<u>21</u>
15	(2)	(20)	103	10	467
-	-	(114)	-	-	(530)
15	(2)	(134)	103	10	(63)
<u>469</u>	<u>334</u>	<u>2,518</u>	<u>-</u>	<u>-</u>	<u>12,339</u>
<u>\$ 484</u>	<u>\$ 332</u>	<u>\$ 2,384</u>	<u>\$ 103</u>	<u>\$ 10</u>	<u>\$ 12,276</u>



**NONMAJOR BUSINESS-  
TYPE FUNDS**

**ENTERPRISE**



## 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 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. These funds use full accrual accounting.

### CITY OF SAN DIEGO

#### AIRPORTS FUND

This fund was established to account for the operation, maintenance and development of both City-owned airports—Montgomery and Brown Fields. Airports Fund revenues are derived from such sources as rent/lease revenue, usage fees, earnings on investments and aid from other governmental agencies.

#### CITY STORE FUND

This fund was established to account for activities of the City's entrepreneurial program. This program operates retail store outlets for the purpose of selling surplus city materials and other items promoting the City of San Diego.

#### DEVELOPMENT SERVICES

This fund was established to account for construction management, development project review, permitting, and inspection services for the City.

#### ENVIRONMENTAL SERVICES FUND

This fund was established to account for refuse disposal, collection, energy conservation, resource management, and other environmental programs.

#### GOLF COURSE FUND

This fund was established to operate, maintain, and improve physical conditions and initiate capital improvement programs for Torrey Pines and Balboa golf courses. Revenues are derived from green fees and leases.

#### RECYCLING FUND

This fund was established to account for the planning, implementation, operation and management of City recycling and waste diversion programs. Revenues are derived from the Recycling Fee on all waste generated in the City or disposed of at the City landfill.

**ENTERPRISE FUNDS (Continued)****BLENDED COMPONENT UNIT****SAN DIEGO DATA PROCESSING CORPORATION**

This fund accounts for the operations of the San Diego Data Processing Corporation, Inc. ("SDDPC"). SDDPC was formed for the purpose of providing data processing services to public agencies, primarily the City of San Diego, which is the sole member of the Corporation. The Corporation also provides telecommunication services to the City. Rates are charged for the various services provided as per operating agreements and are subject to change each year.



**NONMAJOR BUSINESS-TYPE FUNDS - OTHER ENTERPRISE  
COMBINING STATEMENT OF NET ASSETS  
June 30, 2002  
( In Thousands )**

	City of San Diego	
	Airports	City Store
<b>ASSETS</b>		
Cash or Equity in Pooled Cash and Investments .....	\$ 6,297	\$ 192
Cash with Custodian/Fiscal Agent .....	-	76
Receivables:		
Accounts - Net .....	475	-
Accrued Interest .....	37	1
Grants .....	355	-
From Other Funds .....	-	-
Advances to Other Funds .....	210	-
Inventories .....	-	35
Prepaid and Reimbursable Items and Deposits .....	-	5
Restricted Assets:		
Cash or Equity in Pooled Cash and Investments - Interest and Redemption Funds .....	-	-
Capital Assets - Depreciable .....	6,756	12
Capital Assets - Non-Depreciable .....	2,507	-
<b>TOTAL ASSETS</b> .....	<b>16,637</b>	<b>321</b>
<b>LIABILITIES</b>		
Accounts Payable .....	11	28
Accrued Wages and Benefits .....	164	-
Other Accrued Liabilities .....	-	-
Long-Term Debt Due Within One Year .....	-	-
Due to Other Funds .....	-	-
Due to Other Agencies .....	-	-
Deferred Revenue .....	-	-
Deposits/Advances from Others .....	-	-
Estimated Landfill Closure and Postclosure Care .....	-	-
Capital Lease Obligations .....	-	-
Net Pension Liability .....	46	-
Contracts and Notes Payable .....	-	-
<b>TOTAL LIABILITIES</b> .....	<b>221</b>	<b>28</b>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt .....	9,263	12
Unrestricted .....	7,153	281
<b>TOTAL NET ASSETS</b> .....	<b>\$ 16,416</b>	<b>\$ 293</b>

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



<u>Development Services</u>	<u>Environmental Services</u>	<u>Golf Course</u>	<u>Recycling</u>	<u>San Diego Data Processing Corporation</u>	<u>Total</u>
\$ 6,469	\$ 28,542	\$ 5,340	\$ 12,216	\$ 725	\$ 59,781
-	-	-	-	-	76
35	1,589	23	2,396	1,910	6,428
(112)	314	33	74	-	347
12	-	-	18	-	385
1,291	354	-	-	-	1,645
15	4,900	847	4,363	-	10,335
-	-	-	-	312	347
-	-	-	-	1,244	1,249
-	22,748	-	-	124	22,872
3,196	7,304	1,827	8,916	18,348	46,359
-	<u>92,132</u>	<u>9,488</u>	-	<u>1,987</u>	<u>106,114</u>
<u>10,906</u>	<u>157,883</u>	<u>17,558</u>	<u>27,983</u>	<u>24,650</u>	<u>256,938</u>
632	614	8	62	3,587	4,942
4,105	1,829	425	969	2,350	9,842
-	-	-	-	2,813	2,813
-	86	-	1,294	-	1,380
354	-	-	-	-	354
-	-	1	7	-	8
4,204	211	-	71	-	4,486
-	44	-	-	-	44
-	10,821	-	-	-	10,821
-	189	-	6,043	-	6,232
1,108	492	117	137	-	1,900
-	-	-	-	3,944	3,944
<u>10,403</u>	<u>14,286</u>	<u>551</u>	<u>8,583</u>	<u>12,694</u>	<u>46,766</u>
2,842	99,161	11,315	1,579	20,335	144,507
(2,339)	44,436	5,692	17,821	(8,379)	64,665
<u>\$ 503</u>	<u>\$ 143,597</u>	<u>\$ 17,007</u>	<u>\$ 19,400</u>	<u>\$ 11,956</u>	<u>\$ 209,172</u>

**NONMAJOR BUSINESS-TYPE FUNDS - OTHER ENTERPRISE  
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
Year Ended June 30, 2002  
(In Thousands)**

	City of San Diego	
	Airports	City Store
<b>OPERATING REVENUES</b>		
Charges for Services .....	\$ -	\$ 738
Contributions .....	-	3
Usage Fees .....	3,358	-
Other .....	237	-
<b>TOTAL OPERATING REVENUES</b> .....	<b>3,595</b>	<b>741</b>
<b>OPERATING EXPENSES</b>		
Maintenance and Operations .....	1,978	332
Cost of Materials Issued .....	-	309
Taxes .....	-	-
Administration .....	618	89
Depreciation .....	480	1
<b>TOTAL OPERATING EXPENSES</b> .....	<b>3,076</b>	<b>731</b>
<b>OPERATING INCOME (LOSS)</b> .....	<b>519</b>	<b>10</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Earnings on Investments .....	282	9
Federal Grant Assistance .....	89	-
Other Agency Grant Assistance .....	4	-
Gain (Loss) on Sale/Retirement of Capital Assets .....	-	(3)
Debt Service Interest Payments .....	-	-
Other .....	-	-
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b> .....	<b>375</b>	<b>6</b>
<b>INCOME (LOSS) BEFORE CONTRIBUTIONS AND OPERATING TRANSFERS</b> .....	<b>894</b>	<b>16</b>
Capital Contributions .....	168	-
Transfers from Governmental Funds .....	-	-
Transfers Out .....	-	-
Transfers to Governmental Funds .....	(7)	-
<b>CHANGE IN NET ASSETS</b> .....	<b>1,055</b>	<b>16</b>
Net Assets at Beginning of Year .....	15,361	277
<b>NET ASSETS AT END OF YEAR</b> .....	<b>\$ 16,416</b>	<b>\$ 293</b>

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

<u>Development Services</u>	<u>Environmental Services</u>	<u>Golf Course</u>	<u>Recycling</u>	<u>San Diego Data Processing Corporation</u>	<u>Total</u>
\$ 44,445	\$ 1,012	\$ 6,753	\$ 1,029	\$ 57,192	\$ 111,169
-	-	-	-	-	3
-	33,076	683	13,874	-	50,991
<u>193</u>	<u>181</u>	<u>6</u>	<u>2,860</u>	<u>1,207</u>	<u>4,484</u>
<u>44,638</u>	<u>34,269</u>	<u>7,442</u>	<u>17,563</u>	<u>58,399</u>	<u>166,647</u>
44,812	27,550	4,904	13,064	-	92,640
-	-	-	-	-	309
-	-	-	-	7,636	7,636
580	4,320	712	1,960	43,921	52,200
<u>504</u>	<u>546</u>	<u>138</u>	<u>894</u>	<u>6,336</u>	<u>8,899</u>
<u>45,896</u>	<u>32,416</u>	<u>5,754</u>	<u>15,918</u>	<u>57,893</u>	<u>161,684</u>
<u>(1,258)</u>	<u>1,853</u>	<u>1,688</u>	<u>1,645</u>	<u>506</u>	<u>4,963</u>
603	2,454	333	790	-	4,471
-	-	-	-	-	89
-	918	-	-	-	922
(22)	(10)	-	6	-	(29)
(19)	-	-	(338)	-	(357)
<u>-</u>	<u>1,029</u>	<u>-</u>	<u>3</u>	<u>-</u>	<u>1,032</u>
<u>562</u>	<u>4,391</u>	<u>333</u>	<u>461</u>	<u>-</u>	<u>6,128</u>
(696)	6,244	2,021	2,106	506	11,091
-	-	2,108	-	-	2,276
643	-	-	-	-	643
(24)	(22)	(1)	(2)	-	(49)
<u>(146)</u>	<u>(237)</u>	<u>(1,303)</u>	<u>(95)</u>	<u>(500)</u>	<u>(2,289)</u>
(223)	5,985	2,825	2,009	6	11,673
<u>726</u>	<u>137,612</u>	<u>14,182</u>	<u>17,391</u>	<u>11,950</u>	<u>197,499</u>
\$ 503	\$ 143,597	\$ 17,007	\$ 19,400	\$ 11,956	\$ 209,172

**NONMAJOR BUSINESS-TYPE FUNDS - OTHER ENTERPRISE  
COMBINING STATEMENT OF CASH FLOWS  
Year Ended June 30, 2002  
( In Thousands )**

	City of San Diego	
	Airports	City Store
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from Customers and Users .....	\$ 4,266	\$ 741
Payments to Suppliers .....	(1,313)	(724)
Payments to Employees .....	(1,275)	-
<b>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b> .....	<b>1,678</b>	<b>17</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Transfers from Governmental Funds .....	-	-
Transfers Out .....	-	-
Transfers to Governmental Funds .....	(7)	-
Operating Grants Received .....	(24)	-
Proceeds from Advances and Deposits .....	-	-
Payments for Advances and Deposits .....	(9)	-
<b>NET CASH PROVIDED BY (USED FOR) NONCAPITAL FINANCING ACTIVITIES</b> .....	<b>(40)</b>	<b>-</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from issuance of Long-Term Debt .....	-	-
Proceeds from Contributed Capital .....	168	-
Acquisition of Capital Assets .....	(256)	-
Principal Payments on Capital Leases .....	-	-
Principal Payments on Long-Term Debt .....	-	-
Interest Paid on Long-Term Debt .....	-	-
<b>NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES</b> .....	<b>(88)</b>	<b>-</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest and Dividends Received on Investments .....	304	10
<b>NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES</b> .....	<b>304</b>	<b>10</b>
Net Increase (Decrease) in Cash and Cash Equivalents .....	1,854	27
Cash and Cash Equivalents at Beginning of Year .....	4,443	241
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b> .....	<b>\$ 6,297</b>	<b>\$ 268</b>
<b>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</b>		
Operating Income (Loss) .....	\$ 519	\$ 10
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:		
Depreciation .....	480	1
Changes in Assets and Liabilities:		
(Increase) Decrease in Receivables:		
Accounts - Net .....	670	-
From Other Funds .....	-	-
Increase (Decrease) in Inventories .....	-	-
Increase (Decrease) in Prepaid and Reimbursable Items and Deposits .....	-	-
Increase (Decrease) in Accounts Payable .....	(13)	6
Increase (Decrease) in Accrued Wages and Benefits .....	13	-
Increase (Decrease) in Other Accrued Liabilities .....	-	-
Increase (Decrease) in Due to Other Funds .....	-	-
Increase (Decrease) in Deferred Revenue .....	-	-
Increase (Decrease) in Net Pension Liability .....	9	-
Increase (Decrease) in Estimated Landfill Closure and Postclosure Care .....	-	-
Other Nonoperating Revenue (Expenses) .....	-	-
<b>Total Adjustments</b> .....	<b>1,159</b>	<b>7</b>
<b>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b> .....	<b>\$ 1,678</b>	<b>\$ 17</b>

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

Development Services	Environmental Services	Golf Course	Recycling	San Diego Data Processing Corporation	Total
\$ 41,243	\$ 35,413	\$ 7,523	\$ 17,613	\$ 58,145	\$ 164,944
(10,719)	(19,053)	(2,397)	(7,382)	(15,569)	(57,137)
(33,657)	(11,384)	(3,259)	(7,389)	(33,827)	(90,891)
(3,133)	4,976	1,867	2,862	8,649	16,916
643	-	-	-	-	643
(24)	(22)	(1)	(2)	-	(49)
(146)	(237)	(1,303)	(95)	(500)	(2,286)
3	918	-	(18)	-	879
-	6	-	-	-	6
93	(382)	(85)	(828)	-	(1,191)
569	303	(1,389)	(943)	(500)	(2,000)
-	-	-	1,880	2,200	4,080
(674)	(2,546)	2,108	-	-	2,276
-	(82)	(3,568)	(2,044)	(7,208)	(16,296)
(19)	-	-	(1,115)	(10)	(1,207)
-	-	-	-	(2,425)	(2,425)
(19)	-	-	(338)	-	(357)
(693)	(2,628)	(1,460)	(1,617)	(7,443)	(13,929)
757	2,763	383	877	-	5,094
757	2,763	383	877	-	5,094
(2,500)	5,414	(599)	1,179	706	6,081
8,969	45,876	5,939	11,037	143	76,648
\$ 6,469	\$ 51,290	\$ 5,340	\$ 12,216	\$ 849	\$ 82,729
\$ (1,258)	\$ 1,853	\$ 1,688	\$ 1,645	\$ 506	\$ 4,963
504	546	138	894	6,336	8,899
(26)	(54)	81	13	(253)	431
158	87	-	-	-	245
-	-	-	-	568	568
-	-	-	-	306	306
546	281	(93)	25	1,648	2,400
290	161	29	190	(89)	594
-	-	-	7	(373)	(366)
(87)	-	-	-	-	(87)
(3,527)	83	-	35	-	(3,409)
267	89	24	50	-	439
-	901	-	-	-	901
-	1,029	-	3	-	1,032
(1,875)	3,123	179	1,217	8,143	11,953
\$ (3,133)	\$ 4,976	\$ 1,867	\$ 2,862	\$ 8,649	\$ 16,916



# **INTERNAL SERVICE FUNDS**





## 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 and/or funds.

### CITY OF SAN DIEGO

#### CENTRAL GARAGE AND MACHINE SHOP FUND

This fund was established to account for the acquisition, replacement, maintenance and fueling of the City's motive equipment (excluding Fire and Police vehicles).

#### CENTRAL STORES FUND

This fund was established to provide centralized storeroom services to all City departments.

#### PRINT SHOP FUND

This fund was established to provide printing and reproduction services to all City departments.

#### SELF INSURANCE FUND

This fund was established to account for self insurance activities, including worker's compensation and long-term disability programs for employees. Revenues are derived from rates charged to departments as a percentage of payroll. This fund also accounts for the public liability reserve, which was established for the purpose of paying claims in excess of annual appropriations. Annually, any unspent balance of appropriations from the liability claims account is transferred to fund this reserve, per City policy.

#### SPECIAL ENGINEERING FUND

This fund was established to provide project planning, design, engineering systems management and support, and construction management and inspection services for water and wastewater capital improvements.

#### MISCELLANEOUS INTERNAL SERVICE FUND

This fund accounts for various administrative activities including risk management administration, administration and operation of various employee related programs such as unused compensatory time, unused sick leave and unemployment insurance, and citywide training. Revenues are derived from rates or fees charged to the departments for specific services rendered.

**INTERNAL SERVICE FUNDS  
CITY OF SAN DIEGO  
COMBINING STATEMENT OF NET ASSETS  
June 30, 2002  
( In Thousands )**

	Central Garage and Machine Shop	Central Stores	Print Shop
<b>ASSETS</b>			
Cash or Equity in Pooled Cash and Investments .....	\$ 38,425	\$ 863	\$ 1,435
Receivables:			
Accounts - Net .....	66	2,154	108
Claims - Net .....	4	-	-
Contributions .....	-	-	-
Accrued Interest .....	-	-	-
Advances to Other Funds .....	36	92	71
Inventories .....	-	3,787	-
Prepaid and Reimbursable Items and Deposits .....	621	-	-
Capital Assets - Depreciable .....	75,809	220	1,339
<b>TOTAL ASSETS</b> .....	<b>114,961</b>	<b>7,116</b>	<b>2,953</b>
<b>LIABILITIES</b>			
Accounts Payable .....	1,051	2,435	116
Accrued Wages and Benefits .....	1,414	117	259
Liability Claims .....	-	-	-
Interest Accrued on Long-Term Debt .....	322	-	-
Long-Term Debt Due Within One Year .....	6,877	-	-
Advances from Other Funds .....	64,274	3,282	-
Capital Lease Obligations .....	19,570	-	-
Net Pension Liability .....	365	45	67
<b>TOTAL LIABILITIES</b> .....	<b>93,873</b>	<b>5,879</b>	<b>442</b>
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt .....	49,312	220	1,339
Unrestricted .....	(28,224)	1,017	1,172
<b>TOTAL NET ASSETS</b> .....	<b>\$ 21,088</b>	<b>\$ 1,237</b>	<b>\$ 2,511</b>

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

<u>Self Insurance</u>	<u>Special Engineering Fund</u>	<u>Miscellaneous Internal Service</u>	<u>Total</u>
\$ 12,067	\$ 3,025	\$ 10,046	\$ 65,861
371	-	8	2,707
7	-	-	11
-	-	404	404
-	7	34	41
-	181	24	404
-	-	-	3,787
-	-	-	621
-	1,269	-	78,637
<u>12,445</u>	<u>4,482</u>	<u>10,516</u>	<u>152,473</u>
820	96	106	4,624
-	1,621	6,929	10,340
42,600	-	-	42,600
-	-	-	322
-	-	-	6,877
-	-	-	67,556
-	-	-	19,570
-	360	213	1,050
<u>43,420</u>	<u>2,077</u>	<u>7,248</u>	<u>152,939</u>
-	1,269	-	52,140
<u>(30,975)</u>	<u>1,136</u>	<u>3,268</u>	<u>(52,606)</u>
<u>\$ (30,975)</u>	<u>\$ 2,405</u>	<u>\$ 3,268</u>	<u>\$ (466)</u>

**INTERNAL SERVICE FUNDS  
CITY OF SAN DIEGO  
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
Year Ended June 30, 2002  
( In Thousands )**

	Central Garage and Machine Shop	Central Stores	Print Shop
<b>OPERATING REVENUES</b>			
Charges for Services .....	\$ 1,840	\$ 29,701	\$ 5,780
Contributions .....	-	-	-
Usage Fees .....	31,275	-	-
Other .....	686	188	-
<b>TOTAL OPERATING REVENUES</b> .....	<b>34,301</b>	<b>29,889</b>	<b>5,780</b>
<b>OPERATING EXPENSES</b>			
Benefit and Claim Payments .....	-	-	-
Maintenance and Operations .....	21,428	1,341	5,331
Cost of Materials Issued .....	-	28,543	-
Administration .....	1,198	127	356
Depreciation .....	9,973	22	123
<b>TOTAL OPERATING EXPENSES</b> .....	<b>32,599</b>	<b>30,033</b>	<b>5,810</b>
<b>OPERATING INCOME (LOSS)</b> .....	<b>1,702</b>	<b>(144)</b>	<b>(30)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Earnings on Investments .....	-	(2)	1
Debt Service Interest Payments .....	(1,085)	-	-
Gain/(Loss) on Sale/Retirement of Capital Assets .....	96	(3)	(6)
Other .....	280	-	-
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b> .....	<b>(709)</b>	<b>(5)</b>	<b>(5)</b>
<b>INCOME (LOSS) BEFORE OPERATING TRANSFERS</b> .....	<b>993</b>	<b>(149)</b>	<b>(35)</b>
Transfers In .....	-	-	-
Transfers from Governmental Funds .....	-	-	-
Transfers Out .....	-	-	-
Transfers to Governmental Funds .....	(84)	(42)	(8)
<b>CHANGE IN NET ASSETS</b> .....	<b>909</b>	<b>(191)</b>	<b>(43)</b>
Net Assets at Beginning of Year, as Restated .....	20,179	1,428	2,554
<b>Net Assets at End of Year</b> .....	<b>\$ 21,088</b>	<b>\$ 1,237</b>	<b>\$ 2,511</b>

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

Self Insurance	Special Engineering Fund	Miscellaneous Internal Service	Total
\$ -	\$ 21,181	\$ 677	\$ 59,179
24,122	-	21,310	45,432
-	-	-	31,775
<u>470</u>	<u>-</u>	<u>10</u>	<u>1,354</u>
<u>24,592</u>	<u>21,181</u>	<u>21,997</u>	<u>137,740</u>
38,300	-	16,056	54,356
-	12,296	-	40,396
-	-	-	28,543
-	7,872	7,579	17,132
<u>-</u>	<u>523</u>	<u>-</u>	<u>10,641</u>
<u>38,300</u>	<u>20,691</u>	<u>23,635</u>	<u>151,068</u>
<u>(13,708)</u>	<u>490</u>	<u>(1,638)</u>	<u>(13,328)</u>
-	(71)	234	162
-	-	-	(1,085)
-	19	-	106
<u>2,903</u>	<u>1</u>	<u>-</u>	<u>3,184</u>
<u>2,903</u>	<u>(51)</u>	<u>234</u>	<u>2,367</u>
(10,805)	439	(1,404)	(10,961)
1,980	-	204	2,184
6,454	-	245	6,699
-	-	(1,980)	(1,980)
<u>(1,280)</u>	<u>(102)</u>	<u>(53)</u>	<u>(1,569)</u>
(3,651)	337	(2,988)	(5,627)
<u>(27,324)</u>	<u>2,068</u>	<u>6,256</u>	<u>5,161</u>
<u>\$ (30,975)</u>	<u>\$ 2,405</u>	<u>\$ 3,268</u>	<u>\$ (466)</u>

**INTERNAL SERVICE FUNDS  
CITY OF SAN DIEGO  
COMBINING STATEMENT OF CASH FLOWS  
Year Ended June 30, 2002  
( In Thousands )**

	<u>Central Garage and Machine Shop</u>	<u>Central Stores</u>	<u>Print Shop</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from Customers and Users .....	\$ 34,596	\$ 29,079	\$ 5,793
Payments to Suppliers .....	(12,909)	(27,407)	(3,851)
Payments to Employees .....	(9,962)	(1,400)	(1,805)
<b>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES .....</b>	<b>11,725</b>	<b>272</b>	<b>137</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Transfers In .....	-	-	-
Transfers from Governmental Funds .....	-	-	-
* Transfers Out .....	-	-	-
Transfers to Governmental Funds .....	(84)	(42)	(8)
Proceeds from Advances and Deposits .....	11,727	-	-
Payments for Advances and Deposits .....	-	(46)	(12)
<b>NET CASH PROVIDED BY (USED FOR) NONCAPITAL FINANCING ACTIVITIES .....</b>	<b>11,643</b>	<b>(88)</b>	<b>(20)</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Proceeds from Issuance of Long-Term Debt .....	10,623	-	-
Acquisition of Capital Assets .....	(21,689)	(91)	(638)
Proceeds from the Sale of Capital Assets .....	945	-	-
Principal Payment on Capital Lease .....	(6,018)	-	-
Interest Paid on Long-Term Debt .....	(1,042)	-	-
<b>NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES .....</b>	<b>(17,181)</b>	<b>(91)</b>	<b>(638)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest and Dividends Received on Investments .....	-	(2)	1
<b>NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES .....</b>	<b>-</b>	<b>(2)</b>	<b>1</b>
 Net Increase (Decrease) in Cash and Cash Equivalents .....	 6,187	 91	 (520)
Cash and Cash Equivalents at Beginning of Year .....	32,238	772	1,955
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR .....</b>	<b>\$ 38,425</b>	<b>\$ 863</b>	<b>\$ 1,435</b>
<b>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</b>			
Operating Income (Loss) .....	\$ 1,702	\$ (144)	\$ (30)
<b>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:</b>			
Depreciation .....	9,973	22	123
Changes in Assets and Liabilities:			
(Increase) Decrease in Receivables:			
Accounts - Net .....	16	(810)	13
Claims - Net .....	(1)	-	-
(Increase) Decrease in Inventories .....	-	(312)	-
(Increase) Decrease in Prepaid and Reimbursable Items and Deposits .....	(162)	-	-
Increase (Decrease) in Accounts Payable .....	(227)	1,498	(3)
Increase (Decrease) in Accrued Wages and Benefits .....	67	9	19
Increase (Decrease) in Liability Claims .....	-	-	-
Increase (Decrease) in Net Pension Liability .....	77	9	15
Other Nonoperating Revenue (Expenses) .....	280	-	-
<b>Total Adjustments .....</b>	<b>10,023</b>	<b>416</b>	<b>167</b>
<b>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES .....</b>	<b>\$ 11,725</b>	<b>\$ 272</b>	<b>\$ 137</b>

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

Self Insurance	Special Engineering	Miscellaneous Internal Service	Total
\$ 27,369	\$ 21,182	\$ 24,302	\$ 142,321
(8,197)	(7,311)	(2,711)	(62,386)
<u>(25,462)</u>	<u>(12,407)</u>	<u>(19,532)</u>	<u>(70,568)</u>
(6,290)	1,464	2,059	9,367
1,980	-	204	2,184
6,454	-	245	6,699
-	-	(1,980)	(1,980)
(1,280)	(102)	(53)	(1,569)
-	-	-	11,727
-	(16)	-	(74)
<u>7,154</u>	<u>(118)</u>	<u>(1,584)</u>	<u>16,987</u>
-	-	-	10,623
-	(414)	-	(22,832)
-	-	-	945
-	-	-	(6,018)
-	-	-	(1,042)
-	(414)	-	(18,324)
-	(70)	269	198
-	(70)	269	198
864	862	744	8,228
<u>11,203</u>	<u>2,163</u>	<u>9,302</u>	<u>57,633</u>
\$ 12,067	\$ 3,025	\$ 10,046	\$ 65,861
\$ (13,708)	\$ 480	\$ (1,636)	\$ (13,328)
-	523	-	10,641
(127)	-	2,305	1,397
2	-	-	1
-	-	-	(312)
-	-	-	(162)
(603)	77	23	765
-	277	(556)	(184)
5,243	-	1,876	7,119
-	96	49	246
<u>2,903</u>	<u>1</u>	<u>-</u>	<u>3,184</u>
<u>7,418</u>	<u>974</u>	<u>3,697</u>	<u>22,695</u>
\$ (6,290)	\$ 1,464	\$ 2,059	\$ 9,367





# **FIDUCIARY FUNDS**



## FIDUCIARY FUNDS

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The resources of fiduciary funds are not available to support the City's programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

### PENSION TRUST FUNDS

#### CITY OF SAN DIEGO

##### CITY EMPLOYEES' RETIREMENT SYSTEM FUND

The City Employees' Retirement System ("CERS") Fund is under the control of the Retirement Board of Administration. It is a defined benefit plan, whereby funds are accumulated from contributions from both the City and employees, plus earnings from Fund investments. Disbursements are made for retirements, disability and death benefit payments, and refunds.

##### SUPPLEMENTAL PENSION SAVINGS PLAN FUND

The Supplemental Pension Savings Plan Fund is a defined contribution plan, where benefits depend solely on amounts contributed to the plan by both the City and employees, plus investment earnings. Disbursements are made from the fund for terminations, retirements, allowable yearly withdrawals, and loans.

### BLENDED COMPONENT UNIT

#### CENTRE CITY DEVELOPMENT CORPORATION

The Centre City Development Corporation ("CCDC") pension fund accounts for the Corporation's defined contribution pension plans. Benefits depend solely on amounts contributed to the plans by both the Corporation and employees, plus investment earnings.

### AGENCY FUNDS

#### CITY OF SAN DIEGO

These funds were established to account for assets held by the City as an agent for individuals, private organizations, other governments and/or funds, including federal and state income taxes withheld from employees, 401(k) plan, parking citation revenues, and employee benefit plans.

**COMBINING STATEMENT OF FIDUCIARY NET ASSETS  
PENSION TRUST FUNDS  
June 30, 2002  
(In Thousands)**

	City of San Diego Reporting Entity			Total
	City Employees' Retirement System	Supplemental Pension Savings Plan	Centre City Development Corporation	
<b>ASSETS</b>				
Cash or Equity in Pooled Cash and Investments .....	\$ 2,719	\$ 58	\$ -	\$ 2,777
Cash with Custodian/Fiscal Agent .....	240,878	355,142	5,180	601,200
Investments at Fair Value .....	2,457,969	-	-	2,457,969
Receivables:				
Contributions .....	12,763	2,273	-	15,036
Accrued Interest .....	11,109	-	-	11,109
Loans .....	-	19,966	-	19,966
Securities Sold .....	47,378	-	-	47,378
Prepaid and Reimbursable Items and Deposits .....	1	-	-	1
Capital Assets - Net .....	291	-	-	291
<b>TOTAL ASSETS</b> .....	<b>2,773,103</b>	<b>377,439</b>	<b>5,180</b>	<b>3,155,727</b>
<b>LIABILITIES</b>				
Accounts Payable .....	2,940	-	-	2,940
Accrued Wages and Benefits .....	437	-	-	437
Deferred Revenue .....	243	-	-	243
Net Pension Liabilities .....	99	-	-	99
Securities Purchased .....	241,929	-	-	241,929
<b>TOTAL LIABILITIES</b> .....	<b>245,648</b>	<b>-</b>	<b>-</b>	<b>245,648</b>
<b>NET ASSETS</b>				
Held in Trust for Pension Benefits and Other Purposes .....	\$ 2,527,460	\$ 377,439	\$ 5,180	\$ 2,910,079

**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
Year Ended June 30, 2002  
(In Thousands)**

<b>ADDITIONS</b>				
Employer Contributions .....	\$ 79,852	\$ 22,818	\$ 456	\$ 103,126
Employee Contributions .....	82,343	22,766	146	105,255
Charges for Services .....	451	-	-	451
Earnings on Investments .....	(75,935)	(24,396)	(518)	(100,849)
<b>TOTAL OPERATING ADDITIONS</b> .....	<b>86,711</b>	<b>21,188</b>	<b>84</b>	<b>107,983</b>
<b>DEDUCTIONS</b>				
Benefit and Claim Payments .....	150,915	36,195	93	187,203
Administration .....	7,590	-	1	7,591
Depreciation .....	35	-	-	35
<b>TOTAL OPERATING DEDUCTIONS</b> .....	<b>158,540</b>	<b>36,195</b>	<b>94</b>	<b>194,829</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Gain (Loss) on Sale/Retirement of Capital Assets .....	8	-	-	8
<b>CHANGE IN NET ASSETS</b> .....	<b>(71,821)</b>	<b>(15,007)</b>	<b>(10)</b>	<b>(86,838)</b>
Net Assets at Beginning of Year, as Restated .....	2,599,281	392,446	5,190	2,996,917
<b>NET ASSETS AT END OF YEAR</b> .....	<b>\$ 2,527,460</b>	<b>\$ 377,439</b>	<b>\$ 5,180</b>	<b>\$ 2,910,079</b>

**COMBINING STATEMENT OF FIDUCIARY NET ASSETS  
AGENCY FUNDS  
June 30, 2002  
(In Thousands)**

	<u>Employee Benefits</u>	<u>Employees' 401(k)</u>	<u>Other Miscellaneous Agency</u>	<u>Total</u>
<b>ASSETS</b>				
Cash or Equity in Pooled Cash and Investments .....	\$ 7,441	\$ 400	\$ 89,336	\$ 97,177
Investments at Fair Value .....	-	104,059	-	104,059
Receivables:				
Accounts - Net .....	48	-	6,489	6,537
Accrued Interest .....	7	-	1	8
Loans .....	-	5,599	-	5,599
<b>TOTAL ASSETS .....</b>	<b><u>\$ 7,496</u></b>	<b><u>\$ 110,058</u></b>	<b><u>\$ 95,826</u></b>	<b><u>\$ 213,380</u></b>
<b>LIABILITIES</b>				
Accounts Payable .....	\$ 214	\$ -	\$ 2,585	\$ 2,799
Employees' 401(k) Plans .....	-	110,058	-	110,058
Due to Other Funds.....	-	-	75,564	75,564
Advances from Other Funds.....	1,979	-	-	1,979
Deposits/Advances from Others .....	-	-	9,452	9,452
Sundry Trust Liabilities .....	5,303	-	8,225	13,528
<b>TOTAL LIABILITIES .....</b>	<b><u>\$ 7,496</u></b>	<b><u>\$ 110,058</u></b>	<b><u>\$ 95,826</u></b>	<b><u>\$ 213,380</u></b>

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
AGENCY FUNDS  
Year Ended June 30, 2002  
(In Thousands)**

	<u>Beginning Balance, as Restated</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
<b>Employee Benefits</b>				
<b>ASSETS</b>				
Cash or Equity in Pooled Cash and Investments .....	\$ 6,233	\$ 59,288	\$ 58,080	\$ 7,441
Receivables:				
Accounts - Net .....	53	414	419	48
Accrued Interest .....	11	139	143	7
<b>TOTAL ASSETS</b> .....	<u>\$ 6,297</u>	<u>\$ 59,841</u>	<u>\$ 58,642</u>	<u>\$ 7,496</u>
<b>LIABILITIES</b>				
Accounts Payable .....	\$ 1,885	\$ 27,052	\$ 28,723	\$ 214
Advances from Other Funds .....	2,085	-	106	1,979
Sundry Trust Liabilities .....	2,327	63,048	60,072	5,303
<b>TOTAL LIABILITIES</b> .....	<u>\$ 6,297</u>	<u>\$ 90,100</u>	<u>\$ 88,901</u>	<u>\$ 7,496</u>
<b>Employees' 401(k)</b>				
<b>ASSETS</b>				
Cash or Equity in Pooled Cash and Investments .....	\$ 360	\$ 27,280	\$ 27,240	\$ 400
Investments at Fair Value .....	99,276	35,709	30,926	104,059
Receivables:				
Loans .....	5,833	2,540	2,574	5,599
<b>TOTAL ASSETS</b> .....	<u>\$ 105,269</u>	<u>\$ 65,529</u>	<u>\$ 60,740</u>	<u>\$ 110,058</u>
<b>LIABILITIES</b>				
Employees' 401(k) Plans .....	\$ 105,269	\$ 22,327	\$ 17,538	\$ 110,058
<b>TOTAL LIABILITIES</b> .....	<u>\$ 105,269</u>	<u>\$ 22,327</u>	<u>\$ 17,538</u>	<u>\$ 110,058</u>

	Beginning Balance, as Restated	Additions	Deductions	Ending Balance
<b>Other Miscellaneous Agency</b>				
<b>ASSETS</b>				
Cash or Equity in Pooled Cash and Investments .....	\$ 92,217	\$ 1,249,225	\$ 1,252,106	\$ 89,336
Receivables:				
Accounts - Net .....	6,310	6,267	6,088	6,489
Accrued Interest .....	2	11	12	1
<b>TOTAL ASSETS .....</b>	<b>\$ 98,529</b>	<b>\$ 1,255,503</b>	<b>\$ 1,258,206</b>	<b>\$ 95,826</b>
<b>LIABILITIES</b>				
Accounts Payable .....	\$ 1,668	\$ 100,324	\$ 99,407	\$ 2,585
Due to Other Funds.....	78,061	77,952	80,449	75,564
Deposits/Advances from Others .....	10,455	3,363	4,366	9,452
Sundry Trust Liabilities .....	8,345	147,896	148,016	8,225
<b>TOTAL LIABILITIES .....</b>	<b>\$ 98,529</b>	<b>\$ 329,535</b>	<b>\$ 332,238</b>	<b>\$ 95,826</b>

**TOTAL AGENCY FUNDS**

<b>ASSETS</b>				
Cash or Equity in Pooled Cash and Investments .....	\$ 98,810	\$ 1,335,793	\$ 1,337,426	\$ 97,177
Investments at Fair Value .....	99,276	35,709	30,926	104,059
Receivables:				
Accounts - Net .....	6,363	6,681	6,507	6,537
Accrued Interest .....	13	150	155	8
Loans .....	5,633	2,540	2,574	5,599
<b>TOTAL ASSETS .....</b>	<b>\$ 210,095</b>	<b>\$ 1,380,873</b>	<b>\$ 1,377,588</b>	<b>\$ 213,380</b>
<b>LIABILITIES</b>				
Accounts Payable .....	\$ 3,553	\$ 127,376	\$ 128,130	\$ 2,799
Employees' 401(k) Plans .....	105,269	22,327	17,538	110,058
Due to Other Funds.....	78,061	77,952	80,449	75,564
Advances from Other Funds .....	2,085	-	106	1,979
Deposits/Advances from Others .....	10,455	3,363	4,366	9,452
Sundry Trust Liabilities .....	10,672	210,944	208,088	13,528
<b>TOTAL LIABILITIES .....</b>	<b>\$ 210,095</b>	<b>\$ 441,962</b>	<b>\$ 438,677</b>	<b>\$ 213,380</b>





## APPENDIX C

### SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

*The following is a summary of certain provisions of the Trust Indenture and the Lease which are not described elsewhere. This summary does not purport to be comprehensive and reference should be made to the respective agreement for a full and complete statement of the provisions thereof.*

#### DEFINITIONS

“Additional Lease Payment” shall mean any amount payable by the City under the terms of the Lease Agreement, other than a Lease Payment.

“Authorized Denominations” means with reference to Bonds, \$5,000 or any integral multiple thereof.

“Authority Representative” means the Director of Financial Management of the Authority, the Treasurer of the Authority or another official designated by such officer and authorized to act on behalf of the Authority under or with respect to the Trust Indenture and all other agreements related to the Trust Indenture.

“Authorized Representative of the City” shall mean the City Manager or the Deputy City Manager and any person or persons designated by the City Manager of the City and authorized to act on behalf of the City as certified by a written certificate signed on behalf of the City by the City Clerk or such other officer of the City designated by the City Manager and containing the specimen signature of each such person.

“Authorized Representative of MTDB” shall mean the General Manager and any person or persons designated by the Board of Directors of MTDB and authorized to act on behalf of MTDB as certified by a written certificate signed on behalf of MTDB by the General Manager or such other officer of MTDB designated by the Board of Directors of MTDB and containing the specimen signature of each such person.

“Bond Act” shall mean Article 4, Chapter 5, Division 7 of Title 1 (commencing at Section 6584) of the Government Code of the State of California.

“Bond Counsel” means any firm of attorneys nationally recognized in the field of municipal finance.

“Bond Fund” means the fund of that name established pursuant to the Trust Indenture.

“Bond Owner” or “Owner” shall mean the registered owner of a Bond.

“Bond Register” means the books referred to in the Trust Indenture.

“Bond Registrar” means the Trustee when acting as such.

“Bonds” mean the \$15,255,000 City of San Diego/MTDB Authority 2003 Lease Revenue Refunding Bonds (San Diego Old Town Light Rail Transit Extension Refunding), issued by the Authority pursuant to the Trust Indenture.

“Bond Year” means that certain period beginning and ending on the dates as selected by the Authority in the Tax Certificate with respect to the Bonds.

“Business Day” means any day other than a Saturday or Sunday or a day on which banking institutions are authorized or required by law to be closed for commercial banking purposes in the State of California.

“Certificate of the Authority” means a written certificate, request or requisition signed in the name of the Authority by its Authorized Representative.

“Closing Date” means the date that the Bonds are delivered to the original purchaser.

“Code” means the Internal Revenue Code of 1986, as amended, and the United States Treasury Regulations proposed or in effect with respect thereto.

“Costs of Issuance” means all the costs of issuing the Bonds, including, but not limited to, all printing and document preparation expenses in connection with the Trust Indenture, the Lease Agreement, the Sublease, the Property Lease, the Bonds and the official statement pertaining to the Bonds; rating agency fees; CUSIP Service Bureau charges; market study fees; legal fees and expenses of counsel with respect to the refinancing of the 1993 Project; any computer and other expenses incurred in connection with the Bonds; the fees and expenses of the Trustee, including the fees and expenses of its counsel, and other fees and expenses incurred in connection with the issuance of the Bonds, to the extent such fees and expenses are approved by the Authority.

“Costs of Issuance Fund” means the fund by that name established and held by the Trustee pursuant to the Trust Indenture.

“Defeasance Obligations” means (a) cash, or (b) non-callable Federal Securities.

“Depository” means the securities depository acting as Depository under the Trust Indenture (which may be the City).

“DTC” means The Depository Trust Company, New York, New York, and its successors and assigns.

“Escrow Bank” means U.S. Bank National Association, its successors and assigns.

“Escrow Agreement” means that certain Escrow Agreement dated as of May 1, 2003 by and among the City, the Authority and the Escrow Bank.

“Escrow Fund” means the fund of that name established pursuant to the Trust Indenture.

“Federal Securities” means any direct, noncallable general obligations of 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 and CATS and TGRS), or obligations the payment of principal of and interest on which are guaranteed by the United States of America.

“Fiscal Year” shall mean the twelve month fiscal period of the City which commences on July 1 in every year and ends on June 30 of the succeeding year.

“Fitch” means Fitch Ratings, Inc., a corporation organized and existing under the laws of the State of New York, its successors and assigns and, if such entity shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “Fitch” shall be deemed to refer to any other nationally recognized securities rating agency (other than S&P or Moody’s) designated by the City by notice to the Trustee.

“Insurance Business Day” means any day other than (i) a Saturday or Sunday, or (ii) a day on which the Insurer’s Fiscal Agent or lending institutions in the State of New York are authorized or required by law or executive order to remain closed.

“Insurance Policy” means the Insurance Policy issued by the Insurer insuring the payment when due of the principal and interest on the Bonds as provided therein.

“Insurer” means Ambac Assurance Corporation, a stock insurance company incorporated under the laws of the State of Wisconsin, or any successor thereto or assignee thereof.

“Interest Payment Date” shall mean the date on which an interest installment is required to be paid on the Bonds to the Owners thereof, which shall be each December 1 and June 1, commencing December 1, 2003.

“Lease Agreement” shall mean this Amended and Restated Lease Agreement, dated as of May 1, 2003, between the Authority and the City, and any and all modifications, alterations, amendments and supplements to the Lease Agreement made in accordance with the provisions of the Lease Agreement and the Trust Indenture.

“Lease Payment” shall mean the amount to be paid by the City for the use and occupancy of the Property as set forth in the Lease Agreement, but does not include Additional Lease Payments.

“Lease Payment Account” shall mean the Lease Payment Account of the Bond Fund established by the Trust Indenture.

“Lease Payment Date” shall mean the Business Day prior to each Interest Payment Date.

“Lease Term” shall mean the period during which the Lease Agreement is in effect as specified in the Lease Agreement.

“Moody’s” means Moody’s Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, except that if such corporation shall no longer perform the functions of a securities rating agency for any reason, the term “Moody’s,” shall be deemed to refer to any other nationally recognized securities rating agency selected by the Authority.

“MTDB” means San Diego Metropolitan Transit Development Board, a public agency created pursuant to Division 11 of the Public Utilities Code of the State of California, and its successors.

“Municipal Obligations” mean any evidences of indebtedness which are described in Section 103 of the Code and which are (i) insured obligations rated AA or better by S&P and Aa or better by Moody’s; (ii) obligations backed by a letter of credit rated AA or better by S&P and Aa or better by Moody’s; (iii) general obligations of a state of the United States rated AA/Aa, or better, by S&P and Moody’s; or (iv) any short-term obligations rated A-1+ and MIG1, by S&P and Moody’s; and which obligations in any case are not qualified bonds within the meaning of Section 141(d) of the Code and are a tax-exempt bond within the meaning of Section 1.148-8T(e)(3) of the Regulations.

“Net Proceeds” shall mean any insurance or condemnation proceeds paid with respect to the Property and remaining after payment therefrom of all expenses incurred in the collection thereof; and, with respect to insurance, if and at such time as City elects to provide self-insurance of MTDB or the City under the Lease Agreement, any moneys payable from any such self-insurance fund.

“Nominee” means the nominee of the Depository, which may be the Depository, as determined from time to time pursuant to the Trust Indenture.

“Outstanding” when used as of any particular time with respect to Bonds, means all Bonds theretofore executed and authenticated by the Trustee under the Trust Indenture except:

(1) Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation;

(2) Bonds for the payment or redemption of which funds or Qualified Investments described in paragraph (2) of the definition thereof in the Trust Indenture in the necessary amount shall have theretofore been deposited with the Trustee (whether on or prior to the maturity or redemption date of such Bonds), provided that, if such Bonds are to be redeemed prior to maturity, notice of such redemption shall have been given as provided in the Trust Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice; and

(3) Bonds in lieu of or in exchange for which other Bonds shall have been delivered pursuant to the Trust Indenture, or which shall have been paid pursuant to the Trust Indenture.

Notwithstanding anything herein to the contrary, in the event that the principal and/or interest on the Bonds shall be paid by the Insurer pursuant to the Insurance Policy, the Bonds shall remain Outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the City.

“Owner” means the registered owner, as indicated in the Bond Register, of any Bond.

“Participants” shall mean those broker-dealers, banks and other financial institutions from time to time for which the Depository holds Bonds as securities depository.

“Permitted Encumbrances” shall mean, with respect to the Property and as of any particular time: (i) the Lease Agreement, (ii) the Trustee’s interest in the Property, (iii) the Sublease and (iv) any easements, conditions or exceptions which have been approved in writing by an Authorized

Representative of the City or MTDB and the Insurer and which do not impair or reduce the utility of the Property for its intended purpose.

“Prepayment Account” means the account of that name established in the Bond Fund pursuant to the Trust Indenture.

“Principal Payment Date” shall mean each June 1, commencing June 1, 2003, on which Bonds of any maturity regularly mature for payment of principal.

“Prior Project” shall mean that portion of the Old Town Light Rail Transit Extension, acquired, constructed and installed on public rights of way and on the Right of Way Portion of the Property, including the equipment to be acquired therefor and the Property.

“Property” means collectively, the parcels of real property described in Exhibit A to the Lease Agreement as the same may be amended or supplemented from time to time and respectively identified as the Right of Way Portion and the Maintenance Yard portion.

“Property Lease” shall mean the Amended and Restated Property Lease dated as of May 1, 2003 by and between the MTDB and the Authority pursuant to which MTDB has leased the real property described in Exhibit A of the Lease Agreement to the Authority.

“Purchase Option Price” shall mean as to the Property, the principal amount of the Outstanding Bonds with respect to the Property as set forth in the Lease Agreement, as the same may be amended, plus premium, if any, on the date on which Bonds will be redeemed with such prepayment, plus all other amounts payable pursuant to the Lease Agreement.

“Qualified Investments” mean, if and to the extent permitted by law and by any policy guidelines promulgated by the City:

(1) For all purposes including defeasance investments in refunding escrow accounts (the Trustee is entitled to rely upon investment direction of the City as a certification that such investment is a Permitted Investment):

(a) cash (insured at all times by the Federal Deposit Insurance Corporation); or

(b) obligations of, or obligations guaranteed as to principal and interest by, the U.S. or any agency or instrumentality thereof, when such obligations are based by the full faith and credit of the U.S., including:

- U.S. treasury obligations
- All direct or fully guaranteed obligations
- Farmers Home Administration
- General Services Administration
- Guaranteed Title XI financing
- Government National Mortgage Association (GNMA)
- State and Local Government Series

(c) obligations of Government-Sponsored Agencies that are not backed by the full faith and credit of the U.S. Government, including:

- Federal Home Loan Mortgage Corp. (FHLMC) Debt obligations
- Farm Credit System (formerly Federal Land Banks, Federal Intermediate Credit Banks and Banks for Cooperatives)
- Federal Home Loan Banks (FHL Banks)
- Federal National Mortgage Association (FNMA) Debt obligations
- Financing Corp. (FICO) Debt obligations
- U.S. Agency for International Development (U.S. A.I.D.) Guaranteed notes

Any security used for defeasance must provide for the timely payment of principal and interest and cannot be callable or prepayable prior to maturity or earlier redemption of the rated debt (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).

(2) For all purposes other than defeasance investments in refunding escrow accounts:

(a) obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including: Export-Import Bank, Rural Economic Community Development Administration, U.S. Maritime Administration, Small Business Administration, U.S. Department of Housing & Urban Development (PHA's), Federal Housing Administration and Federal Financing Bank;

(b) direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America: senior debt obligations rated "Aaa" by Moody's or "AAA" by S&P issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC), obligations of the Resolution Funding Corporation (REFCORP), senior debt obligations of the Federal Home Loan Bank System and senior debt obligations of other Government Sponsored Agencies approved by the Insurer;

(c) U.S. dollar denominated deposit accounts and bankers' acceptances with domestic commercial banks (including those of the Trustee and its affiliates) which have rating on their short term certificates of deposit on the date of purchase of "A-1" or "A-1+" by S&P and "P-1" by Moody's and maturing no more than 360 days after the date of purchase (ratings on holding companies are not considered as the rating of the bank);

(d) commercial paper which is rated at the time of purchase in the single highest classification, "A-1+" by S&P and "P-1" by Moody's and which matures not more than 270 days after the date of purchase;

(e) investments in a money market fund rated “AAAm” or “AAAm-G” or better by S&P, including funds for which the Trustee or its affiliates provide investment advisory or other management services;

(f) pre-refunded Municipal Obligations defined as follows: Any bonds or other obligations or any state of the United States of America of any agency, instrumentality or local governmental unit of any such state, which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and

(i) which are rated, based on an irrevocable escrow account or fund (the “escrow”), in the highest rating category of S&P or Moody’s or any successors thereto; or

(ii) (1) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described above, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (2) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate;

(g) municipal obligations rated “Aaa/AAA” or general obligations of states with a rating of at least “A2/A” or higher by both Moody’s and S&P;

(h) investment agreements approved in writing by the Insurer (supported by appropriate opinions of counsel);

(i) the Local Agency Investment Fund of the State, created pursuant to Section 16429.1 of the California Government Code, to the extent the Trustee is authorized to register such investment in its name; and

(j) other forms of investments (including repurchase agreements) approved in writing by the Insurer.

The value of the above investments shall be determined as follows:

“Value” which shall be determined as of the end of each month, means that the value of any investments shall be calculated as follows:

(a) for the purpose of determining the amount of any fund, all Permitted Investments credited to such fund shall be valued at fair market value. The Trustee shall determine the fair market value based on accepted industry standards and from accepted industry providers. Accepted industry providers shall include, but are not

limited to, pricing services provided by Financial Times Interactive Data Corporation, Merrill Lynch, Citigroup Global Markets Inc., Bear Stearns, or Lehman Brothers.

(b) As to certificates of deposit and bankers' acceptances: the face amount thereof, plus accrued interest.

(c) As to any investment not specified above: the value thereof established by prior agreement between the City, the Trustee and the Insurer.

"Qualified Reserve Fund Credit Instrument" shall have the meaning ascribed thereto in the Trust Indenture.

"Rating Category" shall mean one of the long-term or short-term rating categories of Moody's and S&P; provided, however, that any refinement or gradation of a general rating category by a numerical modifier or otherwise shall not be deemed to be a separate Rating Category.

"Rebate Fund" means the fund of that name created by the Trust Indenture.

"Rebate Regulations" shall mean the Treasury Regulations issued under Section 148(f) of the Code.

"Record Date" means the close of business on the fifteenth day of the month immediately preceding any Interest Payment Date.

"Redemption Date" means any date upon which any Bonds are redeemed pursuant to the Trust Indenture.

"Regulations" shall mean the income tax regulations promulgated or proposed by the Department of the Treasury pursuant to the Code, from time to time, as applicable.

"Representation Letter" shall mean the Representation Letter from the Authority to the Depository in substantially the form required by the Depository and on file therewith.

"Reserve Fund" means the fund of that name established pursuant to the Trust Indenture.

"Reserve Fund Surety Bond" means the surety for reserve dated the Closing Date to be provided by the Insurer in an amount equal to the Reserve Requirement as of the Closing Date.

"Reserve Requirement" means as of any date of calculation the lesser of (i) maximum annual debt service remaining on the Bonds, (ii) 125% of average annual debt service on the Bonds and (iii) 10% of the original proceeds of the Bonds, using as the annual period the period from June 2 of any year through June 1 of the following year. Such amount may be represented at any time by a Qualified Reserve Fund Credit Instrument described in the Trust Indenture and shall be initially represented by the Reserve Fund Surety Bond.

"Revenues" means (a) all amounts received by the Authority or the Trustee pursuant to or with respect to the Lease Agreement, including, without limiting the generality of the foregoing, all of the Lease Payments (including both timely and delinquent payments and any late charges), prepayments of Lease Payments, insurance proceeds and condemnation proceeds deposited in the Insurance and Condemnation Fund, but excluding any Additional Payments, and (b) all interest,



profits or other income derived from the investment of amounts in any fund or account established pursuant to the Indenture.

“S&P” means Standard and Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc., or its successor.

“Six-Month Period” shall mean the period of time beginning on the Closing Date and ending six months thereafter, and each six-month period thereafter until the latest maturity date of the Bonds (and any obligations that refund Bonds).

“State” shall mean the State of California.

“Sublease” means the Sublease, dated as of May 1, 2003, by and between the City and MTDB, including any amendments or supplements thereto.

“Sublease Agreement” shall mean the Amended and Restated Sublease Agreement by and between the City and MTDB relating to the Property dated as of May 1, 2003.

“Tax Certificate” shall mean the certificate by that name to be executed by the Authority on a Closing Date to establish certain facts and expectations and which contains certain covenants relevant to compliance with the Code.

“Trust Indenture” shall mean the Trust Indenture between the Authority and the Trustee Relating to the Old Town Light Rail Transit Extension, dated as of May 1, 2003, and any and all amendments and supplements thereto made in accordance with the provisions thereof.

“Trustee” means Wells Fargo Bank, National Association, a national banking association duly organized under the laws of the United States of America, and any successor trustee appointed under the Trust Indenture.

## **TRUST INDENTURE**

### **THE BONDS**

#### **Transfer and Exchange.**

The registration of any Bond may be transferred upon the Bond Register upon surrender of such Bond to the Trustee. Such Bond shall be endorsed or accompanied by delivery of the written instrument of transfer shown in Exhibit A to the Trust Indenture, duly executed by the registered Owner or his duly authorized attorney, and payment of such reasonable transfer fees as the Trustee may establish. Upon such registration of transfer, a new Bond or Bonds for the same aggregate principal amount in Authorized Denominations will be delivered to the transferee in exchange therefor.

The Authority and the Trustee shall deem and treat the person in whose name any Outstanding Bond shall be registered upon the Bond Register as the absolute owner of such Bond, whether the principal of or interest on such Bond shall be overdue or not, for the purpose of receiving payment of principal, premium, if any, and interest on such Bond and for all other purposes, and any such payments so made to any such registered Owner or upon its order shall be valid and effective to

satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid, and neither the Authority nor the Trustee shall be affected by any notice to the contrary.

Bonds may be exchanged at the principal corporate trust office of the Trustee in Los Angeles, California for a like aggregate principal amount of Bonds of the same maturity of other Authorized Denominations. All Bonds surrendered in any such exchange shall thereupon be cancelled by the Trustee. The Trustee may charge the Owner such amount as may be necessary to pay the actual costs for each new Bond issued upon any exchange and the Trustee may require the payment by the Owner requesting such exchange of any tax or other governmental charge required to be paid on such exchange.

The Trustee shall not be required to register the transfer or exchange of any Bond that has been called or is to be called for redemption, during a period beginning at the opening of business 15 days before any selection of Bonds to be redeemed.

#### **Bonds Mutilated, Lost, Destroyed or Stolen.**

If any Bond shall become mutilated, the Trustee, at the expense of the Owner of such Bond, shall authenticate a new Bond of like maturity and tenor in exchange and substitution for the Bond so mutilated, but only upon surrender to the Trustee of the Bond so mutilated. Every mutilated Bond so surrendered to the Trustee shall be cancelled by it and may be destroyed. If any Bond shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee and if such evidence is satisfactory to the Trustee and indemnity satisfactory to the Trustee has been given, the Trustee shall, at the expense of the Bond Owner, authenticate a new Bond of like maturity and tenor in lieu of and in substitution for the Bond so lost, destroyed or stolen. The Trustee may require payment of an appropriate fee for each new Bond delivered under the Trust Indenture and of the expenses which may be incurred by it in carrying out its duties under the Trust Indenture. Any Bond issued under the provisions of the Trust Indenture in lieu of any Bond claimed to be lost, destroyed or stolen shall be equally and proportionately entitled to the benefits of the Trust Indenture with all other Bonds. Notwithstanding any other provision of the Trust Indenture, in lieu of delivering a new Bond for any Bond which has been mutilated, lost, destroyed or stolen, and which has matured, the Trustee, at the direction of the Authority, and upon receipt of the evidence and indemnity described above on lost, destroyed or stolen Bonds shall make payment of the principal and interest on such Bond.

#### **Bond Register.**

The Trustee shall keep or cause to be kept at its corporate trust office in Los Angeles, California sufficient books for the registration and registration of transfer of the Bonds, which books shall, upon reasonable request, be open to inspection by the Authority and the City during regular business hours. Upon presentation for registration of transfer, the Trustee shall, as above provided and under such reasonable regulations as it may prescribe subject to the provisions of the Trust Indenture, register or register the transfer of the Bonds, or cause the same to be registered or cause the registration of the same to be transferred, on such books.

#### **Non-Presentation of Bonds.**

In the event any Bonds shall not be presented for payment when the principal thereof becomes due or on any Redemption Date or Principal Payment Date, if funds sufficient to pay or

redeem the principal of, premium, if any, and accrued interest on such Bonds shall be held by the Trustee for the benefit of the Owner or Owners thereof, all liability of the Authority to the Owner or Owners thereof for the payment of such Bonds shall forthwith cease, determine and be completely discharged and thereupon it shall be the duty of the Trustee to hold such funds without liability for interest thereon, for the benefit of the Owner or Owners of such Bonds who shall thereafter be restricted exclusively to such funds for any claim of whatever nature on, or with respect to, such Bonds.

### **Unclaimed Moneys.**

All moneys which the Trustee shall have received from any source and set aside for the purpose of paying any of the Bonds shall be held in trust for the respective Owners of such Bonds and shall not be invested by the Trustee, for a period of two (2) years after the date on which any payment with respect to such Bonds shall have become due and payable shall be paid to the Authority; provided, however, that the Trustee, before making any such payment, shall at the expense of the Authority cause notice to be given to the Owners of such Bonds, by mail and by a single publication in The Bond Buyer or other financial newspaper in general circulation throughout the United States, not less than ninety (90) days prior to the date of such payment to the effect that said moneys have not been claimed and that after the date named therein any unclaimed balance of said moneys then remaining will be remitted to the Authority. To the extent any interest is earned on such funds, such amounts shall be transferred upon receipt to the Bond Fund. Thereafter, the Owners of such Bonds shall look only to the Authority for payment and then only to the extent of the amount so received by the Authority from the Trustee without any interest thereon, and the Trustee shall have no responsibility with respect to such moneys.

## **FUNDS AND ACCOUNTS**

Subject only to the provisions of the Trust Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein and in accordance with the granting clauses thereof, all of the Revenues and any other amounts (including proceeds of the sale of the Bonds) held in any fund or account established pursuant to the Indenture are hereby pledged by the Authority to the Trustee to secure the payment of the principal of and interest on the Bonds in accordance with their terms and the provisions of the Trust Indenture. Said pledge shall constitute a lien on and security interest in such assets and shall attach, be perfected and be valid and binding from and after the Closing Date, without any physical delivery thereof or further act.

The Authority hereby transfers in trust, grants a security interest in and assigns to the Trustee, for the benefit of the Owners from time to time of the Bonds, all of the Revenues and all of the right, title and interest of the Authority in the Lease Agreement (except for the right to receive any Additional Payments to the extent payable to the Authority and certain rights to indemnification set forth therein). Such assignment is to the Trustee solely in its capacity as Trustee under the Trust Indenture and not in its individual or personal capacity and is subject to the provisions of the Trust Indenture. In acting pursuant to such assignment, the Trustee is entitled to all of the protections, limitations from liability and indemnities provided it under the Trust Indenture. The Trustee shall be entitled to and shall collect and receive all of the Revenues, and any Revenues collected or received by the Authority shall be deemed to be held, and to have been collected or received, by the Authority as the agent of the Trustee and shall forthwith be paid by the Authority to the Trustee. The Trustee also shall be entitled to and shall, subject to the provisions of the Trust Indenture, take all steps, actions and proceedings which the Trustee determines to be reasonably necessary in its judgment to

enforce, either jointly with the Authority or separately, all of the rights of the Authority and all of the obligations of the City under the Lease Agreement.

### **Establishment and Application of Escrow Fund.**

There is established by the Trust Indenture in trust a special fund designated the "Escrow Fund," which shall be held by the Trustee, and which shall be kept separate and apart from all other moneys held by the Trustee. On the Closing Date, all of the moneys deposited in the Escrow Fund under the Trust Indenture shall be immediately transferred to the Escrow Bank, for application to the refunding and defeasance of the 1993 Bonds in accordance with the Escrow Agreement.

### **Costs of Issuance Fund.**

The Trustee shall establish, maintain and hold in trust a separate fund designated as the "Costs of Issuance Fund". The moneys in the Costs of Issuance Fund shall be used and withdrawn by the Trustee to pay the Costs of Issuance upon submission of a written requisition from a Authority Representative stating the person to whom payment is to be made, the amount to be paid, the purpose for which the obligation was incurred and that such payment is a proper charge against said fund. On the second Business Day preceding November 1, 2003, or upon the earlier written request of a Authority Representative, all amounts remaining in the Costs of Issuance Fund shall be transferred by the Trustee to the Bond Fund.

### **Establishment and Application of Bond Fund.**

(a) *General.* There is established by the Trust Indenture in trust a special fund designated the "Bond Fund," which shall be held by the Trustee and which shall be kept separate and apart from all other funds and accounts held by the Trustee. The Trustee shall administer the Bond Fund as provided in the Trust Indenture. The Bond Fund shall be maintained by the Trustee until such date as there are no Bonds Outstanding. Within the Bond Fund, the Trustee shall establish the following accounts and subaccounts:

- (i) the Lease Payment Account; and
- (ii) the Prepayment Account.

(b) *Lease Payment Account.* Lease Payments paid by the City and the proceeds of rental interruption insurance with respect to the Property, if any, and any other amounts received by the Trustee in respect of Lease Payments shall be deposited by the Trustee in the Lease Payment Account. Amounts on deposit in the Lease Payment Account shall be used to pay principal and interest on the Bonds as provided in the Trust Indenture. If the amount on deposit in the Lease Payment Account on the Business Day immediately preceding each Interest Payment Date or Principal Payment Date, as the case may be, is not in an amount equal to the principal and interest due on the Bonds on such date, the Trustee shall transfer from the Reserve Fund, in accordance with the Trust Indenture, the amount necessary to make up the difference. Any other amounts received by the Trustee for credit to the Lease Payment Account shall be held therein and applied as provided in this paragraph. In the event that the amount on deposit in the Lease Payment Account after transfers from the Reserve Fund as provided in the Trust Indenture is not sufficient to pay the full principal and interest due on the Bonds on said Lease Payment Date, the amount on deposit in the Lease Payment Account shall be applied first to the payment of interest due on the Bonds on a pro rata

basis and second to the payment of principal due on the Bonds on a pro rata basis. If the City shall fail to deposit with the Trustee a Lease Payment on the applicable Lease Payment Date, the Trustee shall, within three Insurance Business Days after such Lease Payment Date, notify the Insurer of such failure. The Insurance Policy shall be held by the Trustee and, shall be deemed to be held in the Lease Payment Account.

(c) *Prepayment Account.* Any proceeds of insurance or awards in respect of taking under the power of eminent domain not required to be used for the repair, reconstruction or replacement of any portion of the Property, any damage awards or amounts received by the Trustee with respect to the reletting of the Property or any part thereof after a default by the City pursuant to the Lease Agreement, any amounts deposited by the City upon exercise of its option to purchase all of the Property pursuant to the Lease Agreement, and any other amounts provided for the redemption of Bonds in accordance with the Trust Indenture, shall be deposited by the Trustee in the Prepayment Account. Amounts on deposit in the Prepayment Account shall be used to pay the redemption price on the Bonds as provided in the Trust Indenture. If, on the Business Day immediately preceding each Redemption Date, the amount on deposit in the Prepayment Account is insufficient to pay the principal and accrued interest due on the Bonds for early redemption on such Redemption Date plus any premium due, then amounts for such purpose may be transferred from the Reserve Fund for such purpose. Any other amounts received by the Trustee for deposit into the Prepayment Account shall be held in the Trust Indenture and applied as provided in this paragraph. Any amounts remaining in the Prepayment Account following any Redemption Date shall be remitted to the City.

(d) *Surplus.* Any amounts remaining in the Bond Fund on each June 2 during the term of the Lease Agreement except for amounts held in the Prepayment Account to pay Bonds for which notice of redemption has been given, shall be transferred to the Reserve Fund to the extent that the amount on deposit therein is less than the Reserve Requirement, and any remainder shall be paid to the City.

(e) *Notice to City of Amounts Due.* (1) On or prior to 3:00 p.m., San Diego time, on the third Business Day prior to each Interest Payment Date, the Trustee shall notify the City (i) of the amount of interest due and payable on such Interest Payment Date and (ii) the amount available to pay such interest in the Lease Payment Account in the Bond Fund and other credits thereon, and (iii) the balance of Lease Payments due on such date; (2) if by 2:00 p.m., San Diego time, on the Business Day before each Interest Payment Date, the Trustee shall not have received the Lease Payments due on such date, the Trustee shall on such day exercise best efforts to notify the City of such fact.

(f) *Late Payment of Lease Payments.* If any payment of Lease Payments by the City is received by the Trustee after the date on which such payment was due, the Trustee shall deposit such payment in the Reserve Fund to the extent necessary to replenish the Reserve Fund for amounts transferred therefrom to provide for the payment of principal, interest or premium on the Bonds and shall apply any excess to the Lease Payment Account.

#### **Establishment and Application of Reserve Fund.**

(a) There is established by the Trust Indenture in trust a special fund designated the "Reserve Fund," which shall be held by the Trustee and which shall be kept separate and apart from all other funds and accounts by the Trustee. There shall be deposited in the Reserve Fund on the

Closing Date the Reserve Fund Surety Bond in a stated amount equal to the Reserve Requirement. The Trustee shall administer the Reserve Fund as provided in the Trust Indenture.

The Reserve Fund shall be maintained by the Trustee and applied in accordance with the terms of the Trust Indenture until there are no longer any Bonds Outstanding; provided, however, that amounts on deposit in the Reserve Fund may be used to make the last principal payments on the Bonds to the extent the amount on deposit therein is greater than or equal to the remaining principal payments.

If at the close of business on the Business Day prior to any Interest Payment Date, Principal Payment Date or Redemption Date, amounts on deposit in the Bond Fund are less than the principal and interest payments due on the Bonds on any such date, then the Trustee shall transfer from the Reserve Fund for credit to the Lease Payment Account or the Prepayment Account, as appropriate, of the Bond Fund an amount sufficient to make up such deficiency. In the event of any such transfer, the Trustee shall, within (5) five days thereafter, mail written notice to the Authority of the amount and the date of such transfer.

Interest earned on moneys in the Reserve Fund which has been certified in writing by the Authority to the Trustee to represent Excess Investment Earnings shall be transferred to the Rebate Fund.

Subject to the immediately preceding paragraph, the Trustee shall, not less than semiannually on May 15 and November 15 of each year, transfer any amounts in respect of investment earnings on hand in the Reserve Fund in excess of the Reserve Requirement, if any, to the Lease Payment Account in the Bond Fund for application in accordance with the Trust Indenture.

For purposes of determining whether the Reserve Requirement is met as of any given point in time, the Trustee shall value all Qualified Investments not less often than semiannually on May 15 and November 15 of each year at the cost of such investments (inclusive of accrued but unpaid interest and inclusive of any commissions).

(b) Anything to the contrary in the Trust Indenture notwithstanding the Authority may at any time substitute, with the prior written consent of the Insurer, a "Qualified Reserve Fund Credit Instrument" described below for the moneys then held in the Reserve Fund pursuant to the Trust Indenture and upon such substitution, the City shall be entitled to receive all moneys then held in the Reserve Fund free and clear of the lien of the Trust Indenture. A Qualified Reserve Fund Credit Instrument shall mean any letter of credit or surety bond (i) issued by an institution whose long-term debt is rated "AA" or better by Standard & Poor's Ratings Services and Moody's Investors Service and approved in writing by Standard & Poor's Ratings Services with concurrent written notice to Moody's, (ii) having a term of one year or longer and a stated principal amount available for payment equal to the Reserve Requirement, (iii) the terms of which require payment on one or more draws or demands therefor to the Trustee as beneficiary on the day following demand therefor, conditioned solely on receipt from the Trustee of certification that the conditions to transfer of moneys from the Reserve Fund to the funds and accounts created under the Trust Indenture have occurred and specifying the amount demanded, (iv) accompanied by an opinion of Bond Counsel to the effect that the delivery of the letter of credit or surety bond will not adversely affect the exclusion of interest on the Bonds from gross income for federal tax purposes under Section 103 of the Code and an opinion of other legal counsel to the effect that the letter of credit or surety bond is a valid and

binding obligation of the issuer thereof enforceable against it in accordance with its terms subject only to customary bankruptcy and creditors remedies exceptions applicable to the issuer thereof.

Any such Qualified Reserve Fund Credit Instrument must also permit payment to the Trustee (7) seven days prior to the expiration date thereof unless the Trustee receives the Reserve Requirement either in cash or in the form of a substitute Qualified Reserve Fund Credit Instrument prior to such date.

In the event the Authority delivers a Qualified Reserve Fund Credit Instrument, the Trustee shall hold and apply such instrument pursuant to the Trust Indenture so as to have moneys available thereunder for the purposes and at the times required under the Indenture.

(c) The Trustee shall receive on the Closing Date the Reserve Fund Surety Bond in the stated amount equal to the Reserve Requirement as of the Closing Date. The Reserve Fund Surety Bond constitutes a Qualified Reserve Fund Credit Instrument for purposes of the Trust Indenture.

(1) To the extent the Reserve Fund Surety Bond shall be in full force and effect, the Trustee and the City shall apply amounts represented by the Reserve Fund Surety Bond in accordance with the Reserve Fund Surety Bond and the Trust Indenture. If the Reserve Fund Surety Bond is not in full force and effect, the Trustee shall deposit in the Reserve Fund the amounts required to be deposited therein pursuant to this Agreement and apply moneys in the Reserve Fund in accordance with the Trust Indenture.

(2) As long as the Reserve Fund Surety Bond shall be in full force and effect, the City and Trustee agree to comply with the following provisions:

(i) in the event and to the extent that moneys on deposit in the Lease Payment Account, plus all amounts on deposit in and credited to the Reserve Fund in excess of the amount of the Reserve Fund Surety Bond, are insufficient to pay the amount of principal and interest coming due, then the Trustee shall demand payment under the Reserve Fund Surety Bond at the times and in the amounts as needed to fund in cash the amount payable from the Reserve Fund Surety Bond for application to the Reserve Fund; provided, however, that in the event that the amount on deposit in, or credited to, the Reserve Fund, in addition to the amount available under the Reserve Fund Surety Bond, includes amounts available under a letter of credit, insurance policy, surety bond or other such funding instrument (the "Qualified Reserve Fund Credit Instrument"), draws on the Reserve Fund Surety Bond and the Qualified Reserve Fund Credit Instrument shall be made on a pro rata basis to fund the insufficiency.

(ii) the Trustee shall, upon receipt of moneys received from the draw on the Reserve Fund Surety Bond, as specified in the demand for payment described in (i) above, credit the Reserve Fund to the extent of moneys received pursuant to such demand.

(iii) the Reserve Fund shall be replenished in the following priority: (a) principal and interest on the Reserve Fund Surety Bond and on the Qualified Reserve Fund Credit Instruments shall be paid from first available Lease Payments on a pro rata basis; (b) after all such amounts are paid in full, amounts necessary to

fund the Reserve Fund to the required level, after taking into account the amounts available under the Reserve Fund Surety Bond and the Qualified Reserve Fund Credit Instrument shall be deposited from next available Lease Payments.

(3) If a Reserve Fund Surety Bond is not in full force and effect, the Trustee shall deposit in the Reserve Fund the amounts required to be deposited therein pursuant to the Reserve Requirement of this Agreement and apply moneys in the Reserve Fund in accordance with this Agreement.

### **Surplus.**

After payment or redemption or provision for payment or redemption of all amounts due on the Bonds, and payment of all fees and expenses to the Trustee, or satisfactory provision for such payments having been made, any amounts remaining in any of the Funds or Accounts established under the Trust Indenture and not required for such purposes shall be remitted to the City and used for any lawful purpose thereof.

### **Additional Lease Payments.**

In the event the Trustee receives Additional Lease Payments pursuant to the Lease Agreement such Additional Lease Payments shall be applied by the Trustee solely to the payment of any costs in respect of which such Additional Lease Payments were received, and shall not be commingled in any way with any other funds received by the Trustee pursuant to the Lease Agreement or the Trust Indenture.

### **Repair or Replacement; Application of Insurance Proceeds and Condemnation Awards.**

If the Property or any portion thereof shall be damaged or destroyed, or shall be taken by eminent domain proceedings, the Authority shall, as expeditiously as possible, continuously and diligently prosecute or cause to be prosecuted the repair or replacement thereof, unless the Authority elects not to repair or replace such portion thereof in accordance with the provisions of the Trust Indenture. The Authority shall take such action as is reasonably necessary to obtain compensation for a taking by eminent domain at least equal to the proportionate amount of Outstanding Bonds relating to the portion thereof taken.

The proceeds of any insurance (other than any comprehensive general liability, workers' compensation or rental interruption insurance), including the proceeds of any self-insurance fund, and the proceeds of any condemnation award, received on account of any damage to, destruction or taking of the Property or any portion thereof shall be held by the Trustee in a special account and made available for, and to the extent necessary be applied to, the cost of repair or replacement, but only at the written direction of the Authority and with the written approval of the Insurer.

Notwithstanding the foregoing, the Authority shall notify the Trustee, within sixty (60) days of the receipt by the Trustee of insurance or condemnation proceeds, whether the Authority intends to replace or repair the portion thereof in respect of which such proceeds were received, in which event the Authority shall deposit with the Trustee the full amount of any insurance deductible which the Trustee shall hold in a separate fund, in trust. The Authority shall so replace or repair such portion thereof as required in the Lease Agreement, unless it deposits with the Trustee the full amount of any insurance deductible necessary to redeem the pro rata principal portion of the Bonds



relating to such portion thereof and the Lease Payments with respect to the remaining portion of the Property are sufficient to pay the principal and interest due on the Bonds to remain Outstanding after the Redemption Date. The proceeds of any insurance, including the proceeds of any self-insurance fund or of any condemnation award, not applied to repairing or replacing damaged, destroyed or taken property, or in respect of which notice in writing by the Authority of its intention to apply the same to the work of repairing or replacing the property damaged, destroyed or taken shall not have been given to the Trustee within six months of receipt of such proceeds by the Trustee, or which the Authority shall at any time during such period have notified the Trustee are not to be so applied, shall, with the written approval of the Insurer, forthwith be deposited into the Prepayment Account in the Bond Fund and applied to the redemption of Bonds in the manner specified in the Trust Indenture.

### **Investments Authorized.**

Moneys held by the Trustee in any Fund or Account under the Trust Indenture shall be invested in accordance with the Trust Indenture, and shall be invested in accordance with general instructions of the Authority or at the written direction of the Authority by the Trustee in specified Qualified Investments which are consistent with the Trust Indenture pending application as provided in the Trust Indenture, shall be registered in the name of the Trustee where applicable, as Trustee, and shall be held by the Trustee, where applicable. In the absence of general written instructions of the Authority as to investment, the Authority shall direct the Trustee prior to 9:00 a.m., San Diego time, on the day any Qualified Investment matures or is redeemed as to the reinvestment of such proceeds. All cash held and not otherwise invested at the direction of the Authority shall be invested in clause (2)(e) of the definition of Qualified Investments. The Trustee may purchase or sell to itself or any affiliate, as principal or agent, investments authorized by the Trust Indenture.

The Trustee shall furnish to the Authority Representative no later than the fifteenth day of each month, a report of (i) all investments made by the Trustee, (ii) all amounts on deposit in each Fund and Account, and (iii) all amounts disbursed from and deposited in each Fund and Account maintained under the Trust Indenture during the prior month. The Trustee shall not be responsible or liable for any loss suffered in connection with any investment of funds made by it in accordance with the Trust Indenture.

### **Valuation and Disposition of Investments.**

For the purpose of determining the amount in any fund or account under the Trust Indenture, all Qualified Investments shall be valued at the cost thereof by the Trustee (i) as frequently as deemed necessary by the Insurer, but not less often than annually nor more often than monthly, and (ii) upon any draw upon the Reserve Fund. The Trustee may sell at the best price obtainable, or present for redemption, any Qualified Investment so purchased by the Trustee whenever it shall be necessary in order to provide moneys to meet any required payment, transfer, withdrawal or disbursement from any Fund or Account under the Trust Indenture, and the Trustee shall not be liable or responsible for any loss resulting from such investment or sale except for its own negligence or willful misconduct.

### **Application of Investment Earnings.**

Amounts received in respect of moneys on deposit in any Fund or Account maintained under the Trust Indenture shall be retained therein and treated as a part thereof and shall be applied for the purposes in accordance with the Trust Indenture.

### **Tax Covenants.**

Notwithstanding any other provision of the Trust Indenture, absent an opinion of Bond Counsel that the exclusion from gross income of interest on the Bonds will not be adversely affected for federal income tax purposes, the Authority covenants to comply with all applicable requirements of the Code necessary to preserve such exclusion from gross income and specifically covenants, without limiting the generality of the foregoing, as follows:

(a) *Private Activity.* The Authority will not take or omit to take any action or make any use of the proceeds of the Bonds or of any other moneys or property which would cause the Bonds to be “private activity bonds” within the meaning of Section 141 of the Code.

(b) *Arbitrage.* The Authority will make no use of the proceeds of the Bonds or of any other amounts or property, regardless of the source, or take or omit to take any action which would cause the Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Code.

(c) *Federal Guarantee.* The Authority will make no use of the proceeds of the Bonds or take or omit to take any action that would cause the Bonds to be “federally guaranteed” within the meaning of Section 149(b) of the Code.

(d) *Information Reporting.* The Authority will take or cause to be taken all necessary action to comply with the informational reporting requirement of Section 149(e) of the Code.

(e) *Hedge Bonds.* The Authority will make no use of the proceeds of the Bonds or any other amounts or property, regardless of the source, or take any action or refrain from taking any action that would cause the Bonds to be considered “hedge bonds” within the meaning of Section 149(g) of the Code unless the Authority takes all necessary action to assure compliance with the requirements of Section 149(g) of the Code to maintain the exclusion from gross income of interest on the Bonds for federal income tax purposes; and

(f) *Miscellaneous.* The Authority will take no action or omit to take any action inconsistent with its expectations stated in the Tax Certificate and will comply with the covenants and requirements stated therein and incorporated by reference in the Trust Indenture.

### **Rebate Fund.**

(a) *Establishment.* A special fund is created by the Trust Indenture and designated the “Rebate Fund” which is to be held by the Trustee. Absent an opinion of Bond Counsel that the exclusion from gross income for federal income tax purposes of interest on the Bonds will not be adversely affected, the Authority shall cause to be deposited in each such account of the Rebate Fund

such amounts as are required to be deposited therein pursuant to this Section and the Tax Certificate. All money at any time deposited in the Rebate Fund shall be held by the Trustee in trust for payment to the United States Treasury. All amounts on deposit in the Rebate Fund shall be governed by this Section and the Tax Certificate, unless and to the extent that the Authority delivers to the Trustee an opinion of Bond Counsel that the exclusion from gross income for federal income tax purposes of interest on the Bonds will not be adversely affected if such requirements are not satisfied.

The following requirements shall be satisfied with respect to the Rebate Fund:

(i) *Annual Computation.* Within 55 days of the end of each Bond Year, the Authority shall calculate or cause to be calculated the amount of rebatable arbitrage, in accordance with the Code and the Rebate Regulations (taking into account any applicable exceptions with respect to the computation of the rebatable arbitrage, described, if applicable, in the Tax Certificate for this purpose treating the last day of the applicable Bond Year as a computation date, within the meaning of Section 1.148-1(b) of the Rebate Regulations (the “Rebatable Arbitrage”).

(ii) *Annual Transfer.* Within 55 days of the end of each applicable Bond Year or at the option of the City within 55 days of the end of the fifth (5th) Bond Year and each applicable fifth Bond Year thereafter, upon the written direction of an Authorized Representative, an amount shall be deposited to the Rebate Fund by the Trustee from any legally available funds for such purpose made available by the Authority (as specified by the Authority in the aforesaid written direction), if and to the extent required so that the balance in the Rebate Fund shall equal the amount of Rebatable Arbitrage so calculated in accordance with (i) of this Subsection (a)(1). In the event that immediately following the transfer required by the previous sentence, the amount then on deposit to the credit of the Rebate Fund exceeds the amount required to be on deposit therein, upon written instructions from an Authorized Representative, the Trustee shall withdraw the excess from the Rebate Fund and then credit the excess to the Bond Fund.

(iii) *Payment to the Treasury.* The Trustee shall pay, as directed by an Authorized Representative, to the United States Treasury, out of amounts in the Rebate Fund,

(X) Not later than 60 days after the end of (A) the fifth Bond Year, and (B) each applicable fifth Bond Year thereafter, an amount equal to at least 90% of the Rebatable Arbitrage calculated as of the end of such Bond Year; and

(Y) Not later than 60 days after the payment of all the Bonds, an amount equal to 100% of the Rebatable Arbitrage calculated as of the end of such applicable Bonds Year, and any income attributable to the Rebatable Arbitrage, computed in accordance with Section 148(f) of the Code.

In the event that, prior to the time of any payment required to be made from the Rebate Fund, the amount in the Rebate Fund is not sufficient to make such payment when such payment is due, the Authority shall calculate or cause to be calculated the amount of such deficiency and deposit an amount received from any legally available source equal to such deficiency prior to the time such

payment is due. Each payment required to be made pursuant to this Subsection (a)(1) shall be made to the Internal Revenue Service Center, Ogden, Utah 94201 on or before the date on which such payment is due, and shall be accompanied by Internal Revenue Service Form 8038-G, or shall be made in such other manner as provided under the Code.

(b) *Disposition of Unexpended Funds.* Any funds remaining in the Rebate Fund after redemption and payment of the Bonds, the payments described in Subsection (a)(1)(iii) (whichever is applicable) may be withdrawn by the Authority for payment to the City.

(c) *Survival of Defeasance.* Notwithstanding anything in this Section or the Trust Indenture to the contrary, the obligation to comply with the requirements of this Section shall survive the defeasance of the Bonds.

## DEFEASANCE

(a) *Discharge of Indenture.*

(1) The Bonds may be paid by the Authority in any of the following ways, provided that the Authority also pays or causes to be paid any other sums payable under the Trust Indenture by the Authority:

(i) by paying or causing to be paid the principal of and interest and redemption premiums (if any) on the Bonds, as and when the same become due and payable;

(ii) by depositing with the Trustee, in trust, at or before maturity, money or Defeasance Obligations unless other Qualified Investments are approved by the Insurer, or a combination thereof in an amount sufficient (as provided in the Trust Indenture) to pay or redeem all Bonds then Outstanding; or

(iii) by delivering to the Trustee, for cancellation by it, all of the Bonds then Outstanding.

If the Authority shall also pay or cause to be paid all other sums payable under the Trust Indenture by the Authority, then and in that case, at the election of the Authority (evidenced by a Certificate of the Authority including Trustee fees and expenses, filed with the Trustee, signifying the intention of the Authority to discharge all such indebtedness and the Trust Indenture), and notwithstanding that any Bonds shall not have been surrendered for payment, the Trust Indenture and the availability of Lease Payments, Additional Lease Payments and other assets under the Trust Indenture and all covenants, agreements and other obligations of the Authority under the Trust Indenture shall cease, terminate, become void and be completely discharged and satisfied. In such event, upon the request of the Authority, the Trustee shall execute and deliver to the Authority all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee shall pay over, transfer, assign or deliver all moneys or securities or other property held by them pursuant to the Trust Indenture which are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption to the City after the payment of any amounts due and owing to the Insurer.

(b) *Discharge of Liability on Bonds.* Upon the deposit with the Trustee, in trust, at or before maturity, of money or Defeasance Obligations unless other Qualified Investments are approved by the Insurer, or a combination thereof in the necessary amount (as provided in the Trust Indenture) to pay or redeem any Outstanding Bonds (whether upon or prior to the maturity or the redemption date of such Bonds), provided that, if such Bonds are to be redeemed prior to maturity, notice of such redemption shall have been given as provided in the Trust Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice (including selection by the Trustee of any Bonds of a maturity to be paid and redeemed in part), then all liability of the Authority in respect of such Bonds shall cease, terminate and be completely discharged, and the Owners thereof shall thereafter be entitled only to payment out of such money or securities with the Trustee as aforesaid for their payment, subject, however, to the provisions of the Trust Indenture.

The Authority may at any time surrender to the Trustee for cancellation by it any Bonds previously issued and delivered, which the Authority may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, shall be deemed to be paid and retired.

Notwithstanding anything in the Trust Indenture to the contrary, in the event that the principal and/or interest due on the Bonds shall be paid by the Insurer pursuant to the Insurance Policy, the Bonds shall remain Outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the City, and the availability of Lease Payment, Additional Lease Payments and other assets and all covenants, agreements and other obligations of the City to the Owners shall continue to exist and shall run to the benefit of the Insurer, and the Insurer shall be subrogated to the rights of such Owners.

(c) *Deposit of Money or Securities with Trustee.* Whenever in the Trust Indenture it is provided or permitted that there be deposited with or held in trust by the Trustee money or securities in the necessary amount to pay or redeem any Bonds, the money or securities so to be deposited or held may include money or securities held by the Trustee in the funds and accounts established pursuant to the Trust Indenture (exclusive of the Escrow Fund) and shall be:

(1) lawful money of the United States of America in an amount equal to the principal amount of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption shall have been given as provided in the Trust Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice, the amount to be deposited or held shall be the principal amount of such Bonds and all unpaid interest and premium, if any, thereon to the redemption date; or

(2) Defeasance Obligations the principal of and interest on which when due will, in the written opinion of an independent accountant filed with the City, the Authority, the Trustee and the Insurer, in form and substance acceptable to the City and Insurer, provide money sufficient to pay the principal of and all unpaid interest to maturity, or to the redemption date (with premium, if any), as the case may be, on the Bonds to be paid or redeemed, as such principal, interest and premium, if any, become due, provided that in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in the Trust Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice; provided, in each case, that (i) the Trustee shall have been irrevocably instructed (by the terms of the Trust Indenture or by request of the Authority) to apply such money to the payment of such principal, interest

and premium, if any, on such Bonds, and (ii) the Authority shall have delivered to the Trustee an opinion of Bond Counsel to the effect that such Bonds have been discharged in accordance with the Trust Indenture (which opinion may rely upon and assume the accuracy of the independent accountant's opinion referred to above).

(d) *Payment of Bonds After Discharge of Trust Indenture.* Notwithstanding any provisions of the Trust Indenture, any moneys held by the Trustee in trust for the payment of the principal of, or interest on, any Bonds and remaining unclaimed for two (2) years after the principal of all of the Bonds has become due and payable (whether at maturity or upon call for redemption or by acceleration as provided in the Trust Indenture), if such moneys were so held at such date, or two (2) years after the date of deposit of such moneys if deposited after said date when all of the Bonds became due and payable, shall be repaid to the City on behalf of the Authority free from the trusts created by the Trust Indenture upon receipt of an indemnification agreement acceptable to the Authority, the City and the Trustee indemnifying the Trustee with respect to claims of Owners of Bonds which have not yet been paid, and all liability of the Trustee with respect to such moneys shall thereupon cease; provided, however, that before the repayment of such moneys to the City as aforesaid, the Trustee may (at the cost of the City) first mail to the Owners of Bonds which have not yet been paid, at the addresses shown on the Bond Register, a notice, in such form as may be deemed appropriate by the Trustee with respect to the Bonds so payable and not presented.

## THE TRUSTEE

### **Compensation of Trustee.**

The Authority shall from time to time, on demand, pay to the Trustee such compensation as the Authority and the Trustee shall have previously agreed to for its services in connection with the Trust Indenture and in connection with the Lease Agreement and shall reimburse the Trustee for all its advances and expenditures, including but not limited to advances to and fees and expenses of independent appraisers, accountants, consultants, counsel, agents and attorneys-at-law or other experts employed by it in the exercise and performance of its powers and duties under the Trust Indenture. Prior to the occurrence of any event of default under the Trust Indenture, the Trustee shall perform only such duties as are specifically set forth in the Trust Indenture and no implied duties or obligations shall be read into the Trust Indenture against the Trustee.

### **Removal of Trustee.**

The Insurer and the Authority, as long as no event of default has occurred and is continuing under the Trust Indenture, or the Owners of a majority in aggregate principal amount of all Bonds then Outstanding may by written request at any time and for any reason, remove the Trustee and any successor thereto, and shall thereupon appoint a successor or successors thereto, but any such successor shall be a commercial bank or trust company, organized or doing business in the United States, having a combined capital (exclusive of borrowed capital) and surplus of at least \$75,000,000, shall be authorized to exercise trust powers and shall be subject to supervision or examination by federal or state banking authority. If such commercial 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 purposes of the Trust Indenture the combined capital and surplus of such commercial bank or trust company shall be deemed to be its combined capital and surplus set forth in its most recent report of condition so published. Any removal of the Trustee shall become effective upon acceptance of appointment by the successor Trustee and upon receipt of

written approval of the Insurer. The Authority shall promptly give notice to Moody's and Standard & Poor's of any removal of the Trustee and appointment of a successor Trustee.

### **Resignation of Trustee.**

The Trustee or any successor may at any time resign giving written notice to the Authority and the Insurer and by giving mailed notice by first class mail to the Owners of its intention to resign and of the proposed date of resignation.

Upon receiving such notice of resignation, the Authority shall promptly appoint a successor Trustee by an instrument in writing subject to written approval of the Insurer; provided, however, that in the event the Authority fails to appoint a successor Trustee within thirty (30) days following receipt of such written notice of resignation, the resigning Trustee may petition the appropriate court having jurisdiction to appoint a successor trustee. Any resignation of the Trustee shall become effective upon acceptance of appointment by the successor Trustee and upon receipt of written approval of the Insurer. The Authority shall promptly give notice to Moody's and Standard & Poor's of the appointment of any successor Trustee.

Any successor Trustee appointed by the Authority or any court must satisfy the qualifications set forth in the Trust Indenture.

### **Merger or Consolidation.**

Any company into which the Trustee may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Trustee may sell or transfer all or substantially all of its corporate trust business (provided such company is eligible under the Trust Indenture shall be the successor to the Trustee without the execution or filing of any paper or further act, anything in the Trust Indenture to the contrary notwithstanding.

### **Protection and Rights of Trustee.**

The Trustee undertakes to perform such duties and only such duties as are specifically set forth in the Trust Indenture, and no implied covenants or obligations shall be read into the Trust Indenture against the Trustee.

No provision of the Trust Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties under the Trust Indenture, or in the exercise of any of its rights or powers. The Trustee shall be protected and shall incur no liability in acting upon or processing in good faith without negligence or willful misconduct, any resolution, notice, telegram, request, consent, waiver, certificate, statement, affidavit, voucher, bond, requisition or other paper or document which it shall in good faith believe to be genuine and to have been passed or signed by the proper board or person or to have been prepared and furnished pursuant to any of the provisions of the Trust Indenture, and the Trustee shall be under no duty to make any investigation or inquiry as to any statements contained or matters referred to in any such instrument, but may accept and rely upon the same as conclusive evidence of the truth and accuracy of such statements. The Trustee may, however, in its discretion, make such further inquiry or investigation into such facts or matters as it may see fit, and if the Trustee shall determine to make such further inquiry or investigation it shall be entitled to examine the books, records and premises of

the Authority or the City, personally or by agent or attorney. The Trustee may consult with counsel, who may or may not be counsel to the Authority, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it in good faith reliance thereon.

The Trustee shall not be liable with respect to any action taken or omitted to be taken by either of them in good faith without negligence or willful misconduct in accordance with the written direction of the Owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or relating to the exercise of any trust or power conferred upon the Trustee under the Trust Indenture. The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by the Trust Indenture at the request or direction of any of the Owners pursuant to the Trust Indenture, unless such Owners shall have offered to the Trustee, reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction.

Whenever in the administration of its duties under the Trust Indenture the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Trust Indenture, such matter (unless other evidence in respect thereof be specifically prescribed in the Trust Indenture) shall be deemed to be conclusively proved and established by a certificate of the Authority Representative and such certificate shall be full warranty to the Trustee for any action taken or suffered under the provisions of the Trust Indenture in good faith reliance thereon, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as it may deem reasonable.

The Trustee may become the Owner of Bonds with the same rights it would have if it were not Trustee; may acquire and dispose of bonds or other evidences of indebtedness of the Authority and either may enforce its rights as Owner thereof to the same extent as if it were not Trustee; and either may act as a depository for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Owners of Bonds, whether or not such committee shall represent the Owners of a majority in aggregate principal amount of the Bonds then Outstanding.

The recitals, statements and representations by the Authority contained in the Trust Indenture or in the Bonds shall be taken and construed as made by and on the part of the Authority and not by the Trustee and the Trustee does not assume, and shall not have, any responsibility or obligation for the correctness of any such recital, statement or representation.

The Trustee may execute any of the trusts or powers of the Trust Indenture and perform the duties required of it under the Trust Indenture by or through attorneys, agents or receivers, and shall be entitled to advice of counsel concerning all matters of trust and concerning its duties under the Trust Indenture, and the Trustee shall not be answerable for the default or misconduct of any such attorney, agent, or receiver selected by it with reasonable care.

The Trustee shall not be deemed to have knowledge of an event of default unless it shall have received actual notice at its corporate trust office.



## AMENDMENTS

### Amendments.

The Trust Indenture may be amended in writing by agreement between the parties, but no such amendment shall become effective as to the Owners of Bonds then Outstanding unless and until approved in writing by the Owners of a majority in aggregate principal amount of Bonds then Outstanding and until approved in writing by the Insurer (so long as the Insurer is not in default in its payment obligations under the Insurance Policy). Notwithstanding the foregoing, the Trust Indenture and the rights and obligations provided by the Trust Indenture may also be modified or amended at any time without the consent of any Owners of the Bonds, upon the written agreement of the Authority and the Trustee and upon the written consent of the Insurer (so long as the Insurer is not in default in its payment obligations under the Insurance Policy), but only (1) for the purpose of curing any ambiguity or omission relating thereto, or of curing, correcting or supplementing any defective provision contained in the Trust Indenture, (2) in regard to questions arising under the Trust Indenture which the Authority and the Trustee may deem necessary or desirable and not inconsistent with the Trust Indenture and which shall not adversely affect the interests of the Owners of the Bonds or the Insurer, or (3) for any other reason, provided such modification or amendment does not adversely affect the interests of the Owners of the Bonds or the Insurer; provided further that the Authority and the Trustee may rely in entering into any such amendment or modification of the Trust Indenture upon the opinion of Bond Counsel stating that the requirements of this sentence have been met with respect to such amendment or modification. No amendment shall impair the right of any Owner to receive such Owner's proportionate share of principal and interest in accordance with the terms of its Bond. The Authority shall promptly give notice to Moody's and Standard & Poor's of any amendment to the Trust Indenture, the Lease Agreement or any related documents.

If the Authority should desire to obtain the consent of the Owners to any proposed amendment to the Trust Indenture, the Authority may call a meeting of Owners, by resolution, for the purpose of considering such amendment, which meeting shall be governed by the procedures set forth in the Trust Indenture.

If the Authority shall desire to obtain any such consent in writing without a meeting of Owners, the Authority may, by resolution, propose the amendment to which consent is desired. A copy of such resolution, together with a request to Owners for their consent to the amendment proposed therein, shall be mailed, first class, postage prepaid, to each registered Owner at such Owner's address as it appears on the Bond Register.

The lack of actual receipt by any Owner of such resolution and request for consent and any defects in such resolution and request for consent shall not affect the validity of the proceedings for the obtaining of such consent. A certificate by the Authority Representative, approved by resolution of the Authority, that said resolution and request for consent have been delivered as provided in the Trust Indenture shall be conclusive as against all parties.

Any such written consent shall be binding upon the Owner giving such consent and on any subsequent Owner (whether or not such subsequent Owner has notice thereof) unless such consent is revoked in writing by the Owner giving such consent or by the subsequent Owner. To be effective, any revocation of consent must be filed at the address provided in the request for consent before the adoption of the resolution accepting consents as provided in the Trust Indenture.

After the Owners of at least a majority in aggregate principal amount of the Bonds then Outstanding shall have consented in writing, the Authority shall adopt a resolution accepting such consents and such resolution shall constitute complete evidence of the consent of Owners under the Trust Indenture.

Notice specifying the amendment that has received the consent of Owners as required by the Trust Indenture shall be mailed by the Trustee on behalf of, and at the expense of, the Authority, first class, postage prepaid, not more than sixty (60) days following the final action in the proceedings for the obtaining of such consent, to each registered Owner at such Owner's address as it appears on the Bond Register. Said notice is only for the information of Owners, and failure to mail such notice or any defect therein shall not affect the validity of the proceedings theretofore taken in the obtaining of such consent.

#### **Amendment of Lease Agreement.**

The Authority shall not consent to the amendment, alteration or modification, in whole or in part, of the Lease Agreement or the Property Lease, except with the prior written consent of the Insurer (a) to the extent such amendment, alteration or modification shall cure an ambiguity, supply an omission, or cure or correct a defect or inconsistent provision in such Lease Agreement or the Property Lease, (b) to the extent such amendment, alteration or modification shall insert such provisions clarifying matters or questions arising under the Trust Indenture, the Lease Agreement or the Property Lease as are necessary or desirable and are not contrary to or inconsistent with any of the foregoing Agreements, (c) such other amendment, alteration or modification, if, in the opinion of counsel, such amendment, alteration or modification does not materially adversely affect the rights of the Owners of the Bonds, (d) as may be necessary in connection with the redemption of Bonds pursuant to the provisions of the Trust Indenture, (e) as may be necessary in connection with a substitution of property pursuant to the Lease Agreement or the Property Lease, or (f) with the written consent of the owners of a majority in aggregate principal amount of the Bonds then outstanding, exclusive of Authority-owned Bonds. Any such written consent shall be obtained in the manner provided in the Trust Indenture for amendments to the Trust Indenture. No such amendment, alteration or modification shall be effective unless and until there shall have been filed with the Trustee an opinion of counsel stating that such amendment, alteration or modification has been duly and lawfully entered into by the parties thereto, is authorized or permitted by the Trust Indenture and is valid and binding upon the parties thereto in accordance with its terms.

### **COVENANTS; NOTICES**

#### **Authority to Perform Pursuant to Lease Agreement.**

The Authority covenants and agrees with the Owners of the Bonds to perform all obligations and duties imposed on it under the Lease Agreement.

#### **Extension of Payment of Bonds.**

The Authority shall not directly or indirectly extend the dates upon which the Lease Payments are required to be paid or redeemed, or the time of payment of interest with respect thereto. Nothing in the Trust Indenture shall be deemed to limit the right of the Authority to issue any securities for the purpose of providing funds for the redemption of the Bonds and such issuance shall not be deemed to constitute an extension of the maturity of the Bonds.

**Access to Books and Records.**

The Trustee shall at all times have access to those books and records of the Authority which may be reasonably required to fulfill its duties and obligations under the Trust Indenture or in connection with the Trust Indenture.

**Performance.**

The Authority shall faithfully observe all covenants and other provisions contained in the Trust Indenture, in each Bond issued under the Trust Indenture and in the Lease Agreement. Except as provided in the Lease Agreement or as permitted under the Trust Indenture, the Authority shall not agree to any amendment to the Lease Agreement that would either lengthen the term thereof or reduce the amount of Lease Payments or Additional Lease Payments payable thereunder, or change the time or times of payment of such Lease Payments or Additional Lease Payments, or agree to any other amendment detrimental to the rights of the Owners.

**Prosecution and Defense of Suits.**

The Authority shall promptly, and also upon request of the Insurer, take such action as may be necessary to cure any defect in the title to the Property, or any part thereof, whether now existing or hereafter occurring, and shall prosecute and defend all such suits, actions and all other proceedings as may be appropriate for such purpose.

**Further Assurances.**

The Authority will make, execute and deliver any and all such further resolutions, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Trust Indenture, and for the better assuring and confirming to the Owners of the Bonds the rights and benefits provided in the Trust Indenture.

**Report to California Debt and Investment Advisory Commission.**

In accordance with Section 6599.1(c) of the Government Code of the State of California, the City shall notify the California Debt and Investment Advisory Commission by mail, postage prepaid, within ten (10) days if either (i) the Authority fails to pay principal and interest payable on the Bonds pursuant to the Trust Indenture on any scheduled payment date or (ii) funds representing all or a portion of the Reserve Requirement are withdrawn from the Reserve Fund to pay principal and interest payable pursuant to the Trust Indenture.

The notice given pursuant to the Trust Indenture shall consist of a letter to said Commission stating (i) the name of the Authority and the Bonds and the date of sale of the Bonds, (ii) the scheduled payment, (iii) the draw on the Reserve Fund or the amount of such non-payment.

**EVENTS OF DEFAULT****Events of Default Defined.**

The following shall be "events of default" under the Trust Indenture and the term "Event of Default" shall mean, whenever it is used in the Trust Indenture, any one or more of the following events:

(a) Default in the due and punctual payment of the principal when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by acceleration, or otherwise.

(b) Default in the due and punctual payment of any installment of interest on any Bonds when and as the same shall become due and payable.

(c) Default by the Authority in the observance of any of the other covenants, agreements or conditions on its part in the Trust Indenture or in the Bonds contained, if such default shall have continued for a period of thirty (30) days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the Authority by the Trustee; provided, however, that if in the reasonable opinion of the Authority the default stated in the notice can be corrected, but not within such thirty (30) day period, such default shall not constitute an Event of Default under the Trust Indenture if the Authority shall commence to cure such default within such thirty (30) day period and thereafter diligently and in good faith cure such failure in a reasonable period of time (provided that in the event such breach is not cured within 60 days, the Authority shall obtain the prior written consent of the Insurer to pursue the same to completion beyond the grace period provided in the Trust Indenture).

(d) An event of default shall have occurred under the Lease Agreement.

#### **Notice of Events of Default.**

In the event the Authority is in default, the Trustee shall promptly give notice of such default known to the Trustee to the Owners of the Bonds. Such notice shall state that the Authority is in default and shall provide a brief description of such default. The Trustee in its discretion may withhold notice if it deems it in the best interests of the Bond Owners. The notice provided for in the Trust Indenture shall be given by mail to the Owners within 30 days of such occurrence of default but in no event shall the Trustee be required to give such notice until at least ten (10) days after it has actual knowledge of such default.

#### **Remedies Upon Event of Default.**

If any Event of Default shall occur, then, and in each and every such case during the continuance of such Event of Default, the Trustee may, with the prior consent of the Insurer, and shall at the written direction of the Insurer or at the written direction of the Owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding with the prior consent of the Insurer, upon notice in writing to the Authority and the City, declare the principal of all of the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in the Trust Indenture or in the Bonds contained to the contrary notwithstanding, provided, pursuant to the Lease Agreement, in no event may Lease Payments be accelerated.

Any such declaration is subject to the condition that if, at any time after such declaration and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, the Authority or the City shall deposit with the Trustee a sum sufficient to pay all the principal of and installments of interest on the Bonds payment of which is overdue, with interest on such overdue principal at the rate borne by the respective Bonds to the extent permitted by law, and

the reasonable fees, charges and expenses of the Trustee (including, without limitation, fees and expenses of its attorneys), and any and all other Events of Default known to the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee and the Insurer or provision deemed by the Trustee and the Insurer to be adequate shall have been made therefor, then, and in every such case, the Trustee, with the written consent of the Insurer, if such declaration was made by the Trustee, may, rescind and annul such declaration and its consequences and waive such Event of Default; but no such rescission and annulment shall extend to or shall affect any subsequent Event of Default, or shall impair or exhaust any right or power consequent thereon.

Notwithstanding anything to the contrary contained in the Trust Indenture, so long as the Insurer is not in default in its payment obligations under the Insurance Policy, no remedy shall be exercised hereunder without the prior written consent of the Insurer and the Insurer shall have the right to direct the exercise of any remedy under the Trust Indenture.

### **Collection of Lease Payments.**

The Trustee shall take any appropriate action to cause the Authority and the City to pay any Lease Payments not paid when due, upon written request and authorization by the Owners of a majority in aggregate principal amount of the Bonds then Outstanding and unpaid, and upon being satisfactorily indemnified against any expense and liability with respect thereto and receiving payment for its fees and expenses.

### **Trustee to Represent Bond Owners.**

The Trustee is hereby irrevocably appointed (and the successive respective Owners of the Bonds, by taking and holding the same, shall be conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney-in-fact of the Owners of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Owners under the provisions of the Bonds, the Trust Indenture and applicable provisions of any law. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the Bond Owners, the Trustee may, upon the written consent of the Insurer, and shall, at the written request of the Insurer or upon the written request of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding and with the prior consent of the Insurer, and upon being indemnified to its satisfaction therefor, proceed to protect or enforce its rights or the rights of such Owners by such appropriate action, suit, mandamus or other proceedings as it shall deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained in the Trust Indenture, or in aid of the execution of any power granted in the Trust Indenture, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee or in such Owners under the Bonds, the Trust Indenture or any relevant law; and upon instituting such proceeding, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver of the Revenues and other assets pledged under the Trust Indenture, pending such proceedings. All rights of action under the Trust Indenture or the Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of all the Owners of such Bonds, subject to the provisions of the Trust Indenture. Notwithstanding the foregoing, all Owner's directions or institution of remedies upon default under the Trust Indenture shall be subject to the prior written consent of the Insurer.

The Insurer, acting alone, shall have the right to direct all remedies upon an Event of Default. Further, no waiver of an Event of Default shall be granted without obtaining the prior written consent of the Insurer.

**No Remedy Exclusive.**

No remedy in the Trust Indenture conferred upon or reserved to the Trustee is intended to be exclusive and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Trust Indenture and the Lease Agreement, or now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any default shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Trustee or the Owners to exercise any remedy reserved to it or them, it shall not be necessary to give any notice other than such notice as may be required in the Trust Indenture or by law.

**No Additional Waiver Implied by One Waiver.**

In the event any provision contained in the Trust Indenture should be breached by a party and thereafter waived by the other party, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach under the Trust Indenture.

**Bond Owners' Direction.**

Any provision in the Trust Indenture to the contrary notwithstanding, the Owners of a majority in aggregate principal amount of the Bonds then Outstanding shall have the right, upon the prior written consent of the Insurer, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, and upon indemnification of the Trustee to its reasonable satisfaction, to direct the method of conducting all remedial proceedings taken by the Trustee under the Trust Indenture, provided that such direction shall not be otherwise than in accordance with law and the provisions of the Trust Indenture, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bond Owners not parties to such direction.

**Limitation on Bond Owners' Right to Sue.**

No Owner of any Bonds shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Trust Indenture, the Lease Agreement or any other applicable law with respect to such Bonds, unless (a) such Owner shall have given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers granted by the Trust Indenture or to institute such suit, action or proceeding in its own name; (c) such Owner or Owners shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; (d) the Trustee shall have failed to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee; and (e) no direction inconsistent with such written request shall have been given to the Trustee during such sixty (60) day period by the Owners of a majority in aggregate principal amount of the Bonds then Outstanding.

Such notification, request, tender of indemnity and refusal or omission are hereby declared, in every case, to be conditions precedent to the exercise by any Owner of Bonds of any remedy under the Trust Indenture or under law; it being understood and intended that no one or more Owners of Bonds shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Trust Indenture or the rights of any other Owners of Bonds, or to enforce any right under the Bonds, the Trust Indenture, the Lease Agreement or other applicable law with respect to the Bonds, except in the manner provided in the Trust Indenture, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner provided in the Trust Indenture and for the benefit and protection of all Owners of the Outstanding Bonds, subject to the provisions of the Trust Indenture.

#### **Application of Proceeds in Event of Default.**

All payments received by the Trustee after a default by the Authority and termination of the Lease Agreement pursuant to the Lease Agreement, and all damages received by the Trustee from the enforcement of any rights and powers of the Trustee under the Lease Agreement, shall after payment of all fees, expenses and advance made of the Trustee including without limitation fees and expenses of its attorneys, be deposited by the Trustee into the Bond Fund and shall be thereafter applied in accordance with the provisions of the Trust Indenture.

#### **Insurer's Rights.**

Anything in the Trust Indenture to the contrary notwithstanding, upon the occurrence and continuance of an Event of Default, the Insurer shall 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 Trust Indenture.

### **LIMITATION OF LIABILITY**

#### **No Liability of Authority for Trustee Performance.**

The Authority shall not have any obligation or liability to the Trustee or to the Owners of the Bonds with respect to the performance by the Trustee of any duty imposed upon either of them under the Trust Indenture, including the distribution of principal and interest to the Owners of the Bonds.

#### **No Liability of Trustee for Lease Payments by Authority.**

The Trustee shall have no obligation or liability to the Owners of the Bonds with respect to the payment of the Lease Payments by the Authority when due, or with respect to the performance by the Authority of any other covenant made by it in the Lease Agreement.

#### **No Liability of Authority Except as Stated.**

Except for (i) the payment of Lease Payments and Additional Lease Payments when due in accordance with the terms of the Lease Agreement, and (ii) the performance by the Authority of its obligations and duties as set forth in the Lease Agreement and in the Trust Indenture, the Authority shall have no obligation or liability to the Trustee or the Owners.

### **Limited Liability of Trustee.**

The Trustee shall have no obligation or responsibility for providing information to the Owners concerning the investment quality of the Bonds, for the sufficiency or collection of any Lease Payments or for the actions or representations of any other person in connection with the Trust Indenture. The Trustee shall have no obligation or liability to the other party to the Trust Indenture or to the Owners with respect to the failure or refusal of any other party to the Trust Indenture to perform any covenant or agreement made by either of them under the Trust Indenture, the Lease Agreement or any related document or agreement, but shall be responsible solely for the performance of the duties expressly imposed upon it under the Trust Indenture. The recitals of facts, covenants and agreements contained in the Trust Indenture and in the Bonds shall be taken as statements, covenants and agreements of the Authority, and the Trustee assumes no responsibility for the correctness of the same and makes no representation as to the validity or sufficiency of the Trust Indenture, the Lease Agreement, any related document or agreement, or the Bonds, or as to the value of or title to the Property, and shall not incur any responsibility in respect thereof, other than in connection with the duties or obligations assigned to or imposed upon it in the Trust Indenture. The Trustee shall not be liable in connection with the performance of its duties under the Trust Indenture, except for its own negligence or willful misconduct.

### **Limitation of Rights.**

Nothing in the Trust Indenture or in the Bonds expressed or implied is intended or shall be construed to give any person other than the Authority, the Trustee, the Insurer and the Owners of the Bonds any legal or equitable right, remedy or claim under or in respect of the Trust Indenture or any covenant, condition or provision of the Trust Indenture; and all such covenants, conditions and provisions are and shall be for the sole and exclusive benefit of the Authority, the Trustee, the Insurer and such Owners.

### **Liability of Authority Limited to Revenues.**

Notwithstanding anything in the Trust Indenture or in the Bonds contained, the Authority shall not be required to advance any moneys derived from any source other than the Revenues and other assets pledged under the Trust Indenture for any of the purposes in the Trust Indenture mentioned, whether for the payment of the principal of or interest on the Bonds or for any other purpose of the Trust Indenture. Nevertheless, the Authority may, but shall not be required to, advance for any of the purposes thereof any funds of the Authority which may be made available to it for such purposes.

### **Limited Obligation of Authority.**

The obligation of the Authority to pay the Bonds does not constitute an obligation of the Authority for which the Authority is obligated to levy or pledge any form of taxation or for which the Authority has levied or pledged any form of taxation. The obligation of the Authority to pay the Bonds does not constitute an indebtedness of the Authority, the State of California, or any of its political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction. The obligation of the City to pay Lease Payments is abated during any period in which, by reason of material damage, destruction or condemnation, there is substantial interference with the use and right of possession by the City of the Property. Failure of the City to pay Lease Payments



during any such period shall not constitute a default under the Lease Agreement, the Trust Indenture or this Bond.

## MISCELLANEOUS

### **Destruction of Cancelled Bonds.**

Whenever in the Trust Indenture provision is made for the surrender to or cancellation by the Trustee and the delivery to the Authority of any Bonds, the Trustee may in lieu of such cancellation and delivery, destroy such Bonds and deliver a certificate evidencing such destruction to the Authority.

### **Rights of the Insurer.**

(a) Notwithstanding any provision of the Trust Indenture to the contrary, the rights of the Insurer to direct or consent to City, Authority, Trustee or Owner actions under the Trust Indenture shall be suspended during any period in which the Insurer is in default in its payment obligations under the Insurance Policy and shall be of no force or effect in the event the Insurance Policy is no longer in effect or the Insurer asserts that the Insurance Policy is not in effect or the Insurer shall have provided written notice that it waives such rights.

(b) Any provision of the Trust Indenture expressly recognizing or granting rights in or to the Insurer may not be amended in any manner which affects the rights of the Insurer thereunder without the prior written consent of the Insurer.

(c) The Insurer is a third-party beneficiary of the Trust Indenture, the Lease Agreement and the Sublease and may enforce any right, remedy or claim given, conferred or granted thereunder.

(d) Nothing in the Trust Indenture expressed or implied is intended or shall be construed to confer upon, or to give or grant to, any person or entity, other than the City, the Authority, the Trustee, the Insurer, and the Owners, any right, remedy or claim under or by reason of the Trust Indenture or any covenant, condition or stipulation hereof, and all covenants, stipulations, promises and agreements in the Trust Indenture contained by and on behalf of the City shall be for the sole and exclusive benefit of the Trustee, the Insurer and the Owners.

(e) Unless other provided in the Trust Indenture, the Insurer's consent shall be required in addition to Owner consent, when required, for the following purposes; (i) execution and delivery of any supplement hereto or any amendment, supplement or change to or modification of the Lease Agreement or the Property 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.

(f) Any reorganization or liquidation plan with respect to the City or the Authority must be acceptable to the Insurer. In the event of any reorganization or liquidation, the Insurer shall have the right to vote on behalf of all Owners who hold Insurer-insured Bonds absent a default by the Insurer under the applicable Insurance Policy insuring such Bonds.

(g) Notwithstanding any other provision of the Trust Indenture, in determining whether the rights of the Owners will be adversely affected by any action taken pursuant to the terms and

provisions of the Trust Indenture, the Trustee shall consider the effect on the Owners as if there were no Insurance Policy.

(h) The Trustee may be removed at any time at the request of the Insurer for any breach of the provisions of the Trust Indenture.

(i) The Insurer shall receive prior written notice of any resignation by the Trustee.

(j) Notwithstanding any other provision of the Trust Indenture, no removal, resignation or termination of the Trustee shall take effect until a successor, acceptable to the Insurer, is appointed.

**Claims Under Insurance Policy: Payments by and to Insurer.**

As long as the Insurance Policy shall be in full force and effect, the City, the Authority and the Trustee agree to 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 established hereunder to pay the principal of or interest on the Bonds on such Interest Payment Date. If the Trustee determines that there will be insufficient funds in such funds and accounts, the Trustee shall so notify the Insurer. Such notice shall specify the amount of the anticipated deficiency, the Bonds to which such deficiency is applicable and whether such Bonds will be deficient as to principal or interest, or both. If the Trustee has not so notified the Insurer one (1) day prior to an Interest Payment Date, the Insurer will make payments of principal or interest due on the Bonds on or before the first day next following the date on which the Insurer shall have received notice of nonpayment from the Trustee;

(b) the Trustee shall, after giving notice to the Insurer as provided in (a) above, make available to the Insurer and, at the Insurer's direction, to The Bank of New York, in New York, New York, as insurance trustee for the Insurer or any successor insurance trustee (the "Insurance Trustee"), the registration books maintained by the Trustee and all records relating to the funds and accounts maintained under this Indenture;

(c) the Trustee shall provide the Insurer and the Insurance Trustee with a list of Owners of Bonds entitled to receive principal or interest payments from the Insurer under the terms of the Insurance Policy, and shall make arrangements with the Insurance Trustee (i) to mail checks to the Owners of Bonds entitled to receive full or partial interest payments from the Insurer and (ii) to pay principal upon Bonds surrendered to the Insurance Trustee by the Owners of Bonds entitled to receive full or partial principal or payments from the Insurer;

(d) the Trustee shall, at the time it provides notice to the Insurer pursuant to (a) above, notify Owners of Bonds entitled to receive the payment of principal or interest on thereto from the Insurer (i) as to the fact of such entitlement, (ii) that the Insurer will remit to them all or a part of the interest payments next coming due upon proof of Bond Owner entitlement to interest payments and delivery to the Insurance Trustee, in form satisfactory to the Insurance Trustee, of an appropriate assignment of such Owner's right to payment, (iii) that should they be entitled to receive full payment of principal from the Insurer, they must surrender their Bonds (along with an appropriate instrument of assignment in form satisfactory to the Insurance Trustee to permit ownership of such Bonds to be registered in the name of the Insurer) for payment to the Insurance Trustee, and not the

Trustee, and (iv) that should they be entitled to receive partial payment of principal from the Insurer, they must surrender their Bonds for payment thereon first to the Trustee who shall note on such 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 actual notice that any payment of principal or interest on a Bond which has become due for payment and which is made to an Owner of Bonds by or on behalf of the City or the Authority has been deemed a preferential transfer and theretofore recovered from its 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 shall, at the time the Insurer is notified, notify all Bond Owners that in the event that any Bond Owner's payment is so recovered, such Owner will be entitled to payment from the Insurer to the extent of such recovery if sufficient funds are not otherwise available, and the Trustee shall furnish to the Insurer its records evidencing the payments of principal and interest on the Bonds which have been made by the Trustee, and subsequently recovered from Owners of Bonds and the dates on which such payments were made; and

(f) in addition to those rights granted the Insurer under the Trust Indenture, the Insurer shall, to the extent it makes payment of principal or interest on Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Insurance Policy, and to evidence such subrogation (i) in the case of subrogation as to claims for past due interest, the Trustee shall note the Insurer's rights as subrogee on the registration books maintained by the Trustee upon receipt from the Insurer of proof of the payment of interest on Bonds to the Owners of the Bonds, and (ii) in the case of subrogation as to claims for past due principal, the Trustee shall note the Insurer's rights as subrogee on the Bond Registrar maintained by the Trustee upon surrender of the Bonds by the Owners thereof together with proof of the payment of principal thereof.

#### **Information to be Provided to the Insurer.**

(a) While the Insurance Policy is in effect, the Insurer shall be provided with the following information by the City or the Trustee, as applicable:

(1) As soon as practicable after the approval or acceptance thereof, a copy of the City's annual audited financial statements and annual budget;

(2) A copy of any notice to be given to the Owners, including, without limitation, notice of any redemption of or defeasance of the Bonds, and any certificate rendered pursuant to the Trust Indenture relating to the security for the Bonds;

(3) A copy of any notice sent with respect to the Continuing Disclosure Agreement;

(4) A copy of the certificate regarding insurance coverages as required by the Lease Agreement;

(5) Notification of any failure of the City to provided relevant notices and certificates pursuant to the Trust Indenture or the Lease Agreement; and

(6) Notwithstanding any other provision of the Trust Indenture, the Trustee, the Authority or the City, as applicable, shall immediately notify the Insurer if at any time there are insufficient moneys to make any payments of principal and interest as required under this Trust Indenture and immediately upon the occurrence of an Event of Default hereunder.

(b) The notice address of the Insurer is set forth in the Trust Indenture. In the case of notices, then a copy of such notice shall also be sent to the attention of General Counsel Office.

(c) The City will permit the Insurer to discuss the affairs, finances and accounts of the City or any information the Insurer may reasonably request regarding the security for the Certificates with appropriate officers of the City. The Trustee or the City will permit the Insurer to have access to the Property and have access to and to make copies of all books and records relating to the Bonds at any reasonable time.

## **AMENDED AND RESTATED LEASE AGREEMENT LEASE OF THE PROPERTY**

### **Lease of the Property.**

The Authority has leased the Property to the City and the City has taken and leased from the Authority the Property on the terms and conditions set forth in the Lease Agreement.

The Lease Term of the Lease Agreement shall commence on the date of the delivery of the Bonds and the receipt of proceeds as provided in the Trust Indenture.

The Lease Term of the Lease Agreement shall end on June 1, 2023, unless such Lease Term is extended or sooner terminated as provided in the Lease Agreement. If on June 1, 2023, any Bonds issued by the Authority and secured by the Trust Indenture which are delivered in order to refinance the Prior Project shall not be fully paid and retired then the term of the Lease Agreement shall be extended until ten (10) days after all such Bonds shall be fully paid and retired, except that the term of the Lease Agreement shall in no event be extended beyond August 1, 2033. If prior to June 1, 2023, all such Bonds shall be fully paid and retired or provision for their payment has been made, as provided in the Trust Indenture (relating to defeasance), the terms of the Lease Agreement shall end so long as all payments required to be made under the Lease Agreement which accrued on or prior to the date of defeasance shall have been paid.

The Lease Agreement may also terminate earlier than June 1, 2023, pursuant to the provisions of the Lease Agreement.

### **Possession and Enjoyment; Title Insurance.**

The City shall, during the Lease Term, peaceably and quietly have and hold and enjoy the use of the Property in accordance with the terms of the Lease Agreement without suit, trouble or hindrance from the Authority or any parties claiming through the Authority, except as expressly set forth in the Lease Agreement. The Authority will, at the request of the City and at the City's cost, join in any legal action in which the City asserts its right to such possession and enjoyment to the extent the Authority lawfully may do so. The Authority shall cause MTDB pursuant to the Property Lease, to secure for the City not later than the Closing Date, a policy or policies of title insurance on the Property in the form of an ALTA title insurance policy (with western regional exceptions),

insuring to a value of the cost to MTDB of the Property, the Authority's interest in the Property Lease free and clear of all encumbrances other than Permitted Encumbrances. Such policy of title insurance, including the endorsements thereto, shall be in form and substance acceptable to the Insurer.

**Authority and Trustee Access to the Property.**

The City agrees that the Authority and Trustee shall have the right during the City's normal working hours on the City's normal working days to examine and inspect the Property for the purpose of assuring that the Property is being properly maintained, preserved, and kept in good repair, working order and condition. The City further agrees that the Authority and Trustee shall have such rights of access to the Property as may be reasonably necessary to cause the proper maintenance of the Property in the event of failure by the City to perform its obligations under the Lease Agreement; provided nothing in the Lease Agreement shall impose on the Trustee any duty of supervision of construction or maintenance of the Property.

**Disclaimer of Warranties.**

THE AUTHORITY MAKES NO WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, AS TO THE VALUE, DESIGN, CONDITION, MERCHANTABILITY OR FITNESS FOR PARTICULAR PURPOSE OR FITNESS FOR USE OF THE PROPERTY. In no event shall the Authority or the Trustee be liable for any incidental, indirect, special or consequential damage in connection with or arising out of the Lease Agreement or the existence, furnishing, functioning or the City's or MTDB's use of any item or products or services provided for in the Lease Agreement.

**Manufacturers' Warranties.**

The Authority appoints the City its agent and attorney-in-fact during the Lease Term, so long as the City shall not be in default under the Lease Agreement, to assert from time to time whatever claims and rights, including warranties relating to the Property or improvements thereon, which the Authority may have against the manufacturer or supplier of any materials used in the Property. As between the Authority and the City, the City's sole remedy for the breach of such warranty, indemnification or representation shall be against the manufacturer or supplier of the defective item, and not against the Authority; nor shall such matter have any effect whatsoever on the rights of the Authority with respect to the Lease Agreement, including the right to receive full and timely payments. The City expressly acknowledges that neither the Authority nor the Trustee makes, or has made, any representation or warranty whatsoever as to the existence or availability of such warranties of the manufacturer or supplier of any item to be incorporated in the Property.

**Additions and Improvements.**

The City shall have the right during the Lease Term to make any additions or improvements to the Property, to attach fixtures, structures or signs, and to affix any personal property to the improvements on the Property, provided the use of the Property for the purposes contemplated in the Lease Agreement is not impaired, and provided further the fair rental value of the Property is not reduced thereby. The parties to the Lease Agreement acknowledge and agree that the City or its designee shall have the right in its discretion and without the approval of the Authority to acquire, construct, install and provide for the financing of additional improvements and facilities with respect

to the Property, provided the value of the Property is not reduced thereby. Title to all personal property which is part of the Property shall remain in the name of MTDB. The title to any personal property, improvements or fixtures placed on the Property by any sublessee or licensee of the City shall be controlled by the contracts entered into by the City.

**Tax Covenant.**

The City and the Authority have covenanted with the Bond Owners that, notwithstanding any other provision of the Lease Agreement, they will make no use of the proceeds of the Bonds or of the Property, or of any income attributable thereto, which would cause the Bonds to be “arbitrage bonds” subject to federal income taxation by reason of Section 148 of the Internal Revenue Code of 1986, as amended, or otherwise cause interest on the Bonds to not be excludable from gross income under Section 103 of such Code. The Authority shall instruct the Trustee in writing as to all matters relating to this arbitrage covenant. To this extent, the Bondholders shall be deemed third party beneficiaries of the Lease Agreement.

**LEASE PAYMENTS**

**Payment of Lease Payments and Additional Lease Payments.**

The parties to the Lease Agreement agree that the fair annual rental value of the Property is not less than the amounts required to be paid pursuant to the Lease Agreement. The City has agreed, subject to the terms of the Lease Agreement and subject to the abatement provisions in the Lease Agreement, to pay the Lease Payments for the Property in each Fiscal Year in an amount equal to the amounts required to pay the Bonds pursuant to the Trust Indenture, in consideration of its right to occupy the Property. In satisfaction of its obligations under the Lease Agreement, the City shall pay the Lease Payments and Additional Lease Payments in the amounts, at the times and in the manner set forth in the Lease Agreement, such amounts constituting in the aggregate the rental payable under the Lease Agreement as follows:

(a) On each Lease Payment Date, the City shall pay to the Trustee, in immediately available funds in lawful money of the United States of America and from legally available funds, the Lease Payment for the Property as set forth in the Lease Agreement, less any credits as contemplated thereby.

(b) If there is a redemption of Bonds pursuant to the Trust Indenture, the Lease Payments schedule shall be adjusted by the Authority to provide for the timely payment of the Outstanding Bonds by adjusting Lease Payments to an amount equal to the revised debt service schedule applicable to the corresponding Interest Payment Dates for the Bonds. The Authority shall provide the Trustee with such revised schedule promptly following such redemption.

(c) In addition to the Lease Payments set forth in the Lease Agreement, the City shall pay an amount or amounts (hereinafter called “Additional Lease Payments”) equivalent to the sum of the following:

(i) All taxes and assessments of any nature whatsoever, including, but not limited to, excise taxes, ad valorem taxes, ad valorem and specific lien special assessment and gross receipts taxes, if any, levied upon the Property, upon the

Authority's interest therein, upon the Authority's operation thereof or the Authority's rental income derived therefrom.

(ii) All expenses (not otherwise paid or provided for out of the proceeds of the sale of Bonds) incidental to the sale and delivery of the Bonds and all administrative costs of the Authority, including without limiting the generality of the foregoing, salaries, wages, expenses, compensation and indemnification of the Trustee and its consultants under the Trust Indenture, the Property Lease and the Lease Agreement (including costs related to the City's default thereunder, if any) fees and charges of auditors, accountants, architects, attorneys and engineers and any and all other amounts due to the Insurer, and all other necessary administrative charges of the Authority or charges required to be paid by it in order to comply with the terms of the Bonds or of the Trust Indenture and to indemnify and defend the Authority and its members.

(iii) Insurance premiums, if any, on all insurance required or permitted under the provisions of the Lease Agreement.

(iv) All costs and expenses which the Authority or its assignee may incur in consequence of or because of any default by the City under the Lease Agreement, including reasonable attorneys' fees and costs of suit in equity or action at law to enforce the terms and conditions of the Lease Agreement.

(v) All other payments required to be paid by the City under the provisions of the Lease Agreement or the Trust Indenture, including amounts due under the Reserve Fund Surety Bond to the extent such amounts are not includable as a part of the Lease Payments due under the Lease Agreement.

Each Additional Lease Payment payable under the Lease Agreement shall be paid by the City within thirty-five (35) days after notice in writing from the Authority to the City stating the amount of Additional Lease Payment then due and payable and the purpose thereof and shall be paid directly to the person or persons to whom such amounts are due or, if not so paid, shall be paid to the Trustee for application in accordance with the Trust Indenture.

**Credits to Lease Payments and Additional Lease Payments required under the Lease Agreement.**

(a) The City shall receive a credit against any Lease Payment for certain amounts on deposit with the Trustee in the Bond Fund and available for debt service on the Bonds in accordance with the terms of the Trust Indenture.

(b) The amount on deposit in the Reserve Fund shall be transferred by the Trustee to the Bond Fund as a credit against the final Lease Payments attributable to the Property to the extent the amount therein is greater than or equal to the remaining principal payments on the Bonds.

**Lease Payments to be Unconditional.**

Subject to the abatement provisions of the Lease Agreement, the obligations of the City to make Lease Payments and to pay all other amounts provided for in the Lease Agreement and to

perform its obligations under the Lease Agreement, shall be absolute and unconditional; and such Lease Payments and other amounts shall be payable without any rights of set-off, recoupment or counterclaim the City might have against the Authority, the Trustee or any other person. The Lease Agreement shall be deemed and construed to be a “net-net-net lease” and the City agrees that the Lease Payments shall be an absolute net return to the Authority free and clear of any expenses, charges or set-offs whatsoever.

**Budget.**

The City covenants that, as long as the Property is available for the City’s use and occupancy, it will take such action as may be necessary to include and maintain the applicable Lease Payments and Additional Lease Payments due under the Lease Agreement in each Fiscal Year in its budget for such Fiscal Year or pursuant to separate resolution and further shall make the necessary appropriations for all such Lease Payments and Additional Lease Payments. The City shall furnish to the Trustee under the Trust Indenture a written certificate that the budget for the Fiscal Year contains an appropriation to pay all Lease Payments under the Lease Agreement or such other evidence of the City taking formal action with respect to the appropriation of money to pay Lease Payments under the Lease Agreement not later than October 1 of each year. The covenants on the part of the City contained in the Lease Agreement shall be deemed to be and shall be construed to be ministerial duties imposed by law, and it shall be the ministerial duty of each and every public official of the City to take such action and do such things as are required by law in the performance of such official duty of such officials to enable the City to carry out and perform the covenants and agreements in the Lease Agreement agreed to be carried out and performed by the City.

**Consideration.**

The Lease Payments and Additional Lease Payments under the Lease Agreement for each Fiscal Year of the Lease Term shall constitute the total rental for said Fiscal Year and shall be paid by the City for and in consideration of the right of use and occupancy, and the continued quiet use and enjoyment of the Property for and during said Fiscal Year. The parties to the Lease Agreement have agreed and determined that the rental with respect to the Property as provided in the Lease Agreement does not exceed the fair rental value of the Property. In making such determination, consideration has been given to the costs of acquisition, construction, installation and financing of the Property, the uses and purposes which will be served by the Property and the benefits therefrom which will accrue to the parties to the Lease Agreement and the general public by reason of the Property.

**Lease Payments to Constitute a Current Expense of the City; No Pledge.**

The Authority and the City understand, agree and intend that the obligation of the City to pay Lease Payments and Additional Lease Payments under the Lease Agreement shall constitute a current expense of the City and shall not in any way be construed to be a debt of the City, or the State, or any political subdivision thereof, in contravention of any applicable constitutional or statutory limitation or requirements concerning the creation of indebtedness by the City, the State, or any political subdivision thereof, nor shall anything contained in the Lease Agreement constitute a pledge of general revenues, funds or moneys of the City beyond the Fiscal Year for which the City Council of the City has appropriated funds to pay Lease Payments and Additional Lease Payments under the Lease Agreement or 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.



## **TERMINATION**

### **Termination of Lease Agreement.**

Subject to an earlier termination, the Lease Agreement will terminate upon the earliest to occur of the following events:

- (a) a default by the City as contemplated by the Lease Agreement and the termination of the Lease Agreement;
- (b) the payment by the City of the Purchase Option Price for the Property as provided in the Lease Agreement and the payment of all unpaid Additional Lease Payments;  
or
- (c) the payment by the City of all Lease Payments and Additional Lease Payments which the City is legally obligated to pay during the entire Lease Term.

## **COVENANTS OF LESSEE**

### **Maintenance of Property by the City.**

The City agrees that at all times during the Lease Term, the City will, at the City's own cost and expense (or at the expense of MTDB pursuant to the Sublease), maintain, preserve and keep the Property in good repair, working order and condition, and that the City will from time to time make or cause to be made all necessary and proper repairs, replacements and renewals thereto. The City shall at its own expense (or at the expense of MTDB pursuant to the Sublease), provide or cause to be provided all security service, custodial service, power, gas, telephone, light, heating and water, and all other public utility services for the Property. The Authority shall have no responsibility in any of these matters, or for the making of improvements or additions to the Property and the City shall be responsible therefor, without regard to MTDB's non-performance, if any, under the Sublease. The City has expressly waived the right to make repairs or to perform maintenance of the Property at the expense of the Authority and (to the extent permitted by law) waived the benefit of Sections 1932, 1941 and 1942 of the Civil Code of the State of California relating thereto.

### **Taxes, Other Governmental Charges and Utility Charges.**

The City will pay during the Lease Term, as the same respectively come 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 Property, as well as all utility and other charges incurred in the operation, maintenance, use, occupancy and upkeep of the Property; provided that, with respect to any governmental charges that may lawfully be paid in installments over a period of years, the City shall be obligated to pay only such installments as have accrued during the time the Lease Term is in effect.

### **Provisions Regarding Insurance.**

The City shall at its expense maintain (or cause to be maintained by MTDB pursuant to the Sublease, or otherwise) the following policies of insurance:

(1) insurance against loss or damage to the Property resulting from fire, lightning, vandalism, malicious mischief and such perils ordinarily defined as “extended coverage” including flood, but not earthquake, and such other perils as the Authority and the City may agree should be insured against if such insurance is available from reputable insurers. Such insurance shall be maintained in an amount not less than the lesser of the then applicable Purchase Option Price or the full replacement value of the Property (in each case subject to a deductible clause of not to exceed \$250,000 or such higher amount as is consented to by the Insurer); provided, however, that, in the event the insurance required under this clause (1) is not available from reputable insurers at a reasonable cost, the City shall be required to self-insure (or pursuant to the Sublease, to cause MTDB to self-insure) to the extent necessary to enable it to repair or replace the Property in accordance with the provisions of the Lease Agreement. The term “full replacement value” as used in this Section shall mean the actual replacement cost of a “new” Property (including the cost of restoring the surface of grounds owned or leased by the City but excluding the cost of restoring trees, plants and shrubs);

(2) use and occupancy or business interruption or rental income insurance against the perils of fire, lightning, vandalism, malicious mischief and such other perils ordinarily defined as “extended coverage”, other than earthquake, in an amount equal to not less than the largest aggregate Lease Payments to be paid in any 24 month period by the City under the Lease Agreement (in each case subject to a deductible clause of not to exceed \$250,000 or such higher amount as is consented to by the Insurer);

(3) public liability insurance against claims for bodily injury or death, or damage to property occurring upon, in or about the Property, such insurance to afford protection to a limit of not less than \$5,000,000 combined single limit bodily injury and property damage with such deductible provisions as the City provides on like coverage (in each case subject to a deductible clause of not to exceed \$250,000 or such higher amount as is consented to by the Insurer); provided, however, that the City’s obligations under this clause (3) may be satisfied by self-insurance by the City or MTDB;

(4) workers’ compensation insurance issued by a responsible carrier authorized under the laws of the State of California to insure employers against liability for compensation under the Workers’ Compensation Insurance and Safety Act now in force in the State, or any act hereafter enacted as an amendment or supplement thereto or in lieu thereof, such worker’s compensation insurance to cover all persons employed in connection with the Property and to cover full liability for compensation under any such act aforesaid, based upon death or bodily injury claims made by, for or on behalf of any person incurring or suffering injury or death during or in connection with the Property or the business of the City; provided, however, that the City’s obligations under this clause (4) may be satisfied by self-insurance by the City or MTDB.

All insurance provided for in the Lease Agreement, other than permitted self-insurance by the City or MTDB, shall be effected under policies issued by insurers of recognized responsibility, licensed or admitted to do business in the State of California. All policies or certificates shall name the City and the Authority as named insureds and the policies issued pursuant to paragraphs (1) and (2) above and such title insurance issued pursuant to the Lease Agreement shall name the Trustee as the loss payee.

All policies or certificates issued by the respective insurers for insurance shall provide that such policies or certificates shall not be cancelled or changed without at least 30 days' prior written notice to the Trustee. A certificate showing the policies (and, with respect to any self insurance, describing the self insurance program and providing a current review of the adequacy of reserves for self insurance by the self-insurer's risk manager) in effect and showing the Trustee as a named insured and stating that such coverage constitutes compliance by the City with the Lease Agreement, executed by an Authorized Representative of the City, shall be deposited with the Trustee and the Insurer by the City, annually on December 1 of each year, together with appropriate evidence of payment of the premiums therefor, and, at least 10 days prior to the expiration dates of expiring policies or certificates, certified copies of renewal or new policies or certificates (or other evidence of coverage satisfactory to the Trustee) shall be deposited with the Trustee.

All premiums and charges due and payable for all of the aforesaid insurance shall be paid by the City.

Notwithstanding the generality of the foregoing and except for insurance required under paragraph (1) and (2) above, the City shall not be required to maintain or cause to be maintained more insurance than is specifically referred to and with respect to the insurance required by paragraph (3) and (4) above, the City shall not be required to maintain such insurance unless the same is insurance which is available from reputable insurers on the open market at a reasonable cost; provided, the City must maintain self-insurance with respect to such coverages if no open market insurance is available at a reasonable cost. The phrase "insurance which is available from reputable insurers on the open market at a reasonable cost" means standard policies of insurance with standard deductibles offered by reputable insurers at a reasonable cost.

In lieu of obtaining any of the insurance coverage required pursuant to paragraphs (1), (3) or (4) of this Section, such coverage may be maintained by the City or caused to be maintained by the City in the form of a self-insurance program of the City or MTDB which affords protection against loss or damage at least comparable to the protection that would be afforded by the insurance described in this Section. All self-insurance coverage shall, unless otherwise consented to by the Insurer, be reviewed annually by the City's Risk Manager or an independent actuary and reserves meeting their requirements shall be maintained.

#### **Damage, Destruction or Condemnation.**

If prior to the termination of the Lease Term the Property is destroyed or damaged in whole or part by fire or other casualty, or title to, or the temporary use of, the Property, in whole or in part, shall be taken under the exercise of the power of eminent domain, the City shall within 60 days (or such later date as is consented to by the Insurer) after such damage, destruction or condemnation elect one of the following two options by written notice of such election to the Authority and the Trustee:

- (a) *Option A - Repair, Restoration or Replacement.* Upon receipt of the prior written consent of the Insurer, the City and the Authority will cause the Net Proceeds of any insurance claim or condemnation award (and the value of any "deductible") to be applied to the prompt repair, restoration, or replacement (in which case such replacement of the Property shall become subject to the provisions of the Lease Agreement as fully as if it were the originally leased Property) of the Property. Any Net Proceeds (and the value of any "deductible") received by the Authority or the City shall be deposited in an insurance

proceeds account established by the Trustee and be applied by the Authority or the City to complete the payment of the cost of such repair, restoration or replacement of the Property. Any balance of the Net Proceeds remaining after the repair, restoration or replacement shall be deposited in the Prepayment Account and applied to the prepayment of Bonds.

(b) *Option B - Prepayment of Bonds.* The City, in the case of damage or destruction, will deposit with the Trustee the full amount of any insurance deductible and cause such deductible amount and the Net Proceeds of any insurance claim, or any condemnation award to be deposited in the Prepayment Account and applied to the prepayment of all or a portion of the outstanding Bonds. No partial prepayment of Bonds shall be permitted pursuant to this Option B unless the resulting scheduled Lease Payments are sufficient to pay all remaining principal and interest due on the Bonds.

If no election is given to the Authority and the Trustee within said 60 days, and the selection of Option B would be permitted, the City shall be deemed to have elected Option B and, if the selection of Option B would not be permitted, the City shall be deemed to have elected Option A.

Lease Payments and Additional Lease Payments due under the Lease Agreement with respect to the Property shall be abated during any period in which, by reason of damage, destruction, condemnation or title defect, there is substantial interference with the use or right of possession by the City of the Property. The amount of abatement shall be such that the resulting total rental represents fair consideration for the use and possession of the remaining portion of the Property which is not damaged, destroyed, condemned or subject to a title defect. Such abatement shall continue for the period commencing with the date of such damage, destruction, condemnation or title defect and ending with the restoration of the Property to tenable condition.

#### **Insufficiency of Net Proceeds.**

If the City elects to repair, restore or replace the Property under the terms of the Lease Agreement and the Net Proceeds therefor are insufficient to pay in full the cost of such repair, restoration or replacement, the City may complete the work and pay any cost in excess of the amount of the Net Proceeds. The City agrees that, if by reason of any such insufficiency of the Net Proceeds the City makes any payments pursuant to the provisions of this Section, the City shall not be entitled to any reimbursement therefor from the Authority nor shall the City be entitled to any diminution of the amounts payable under the Lease Agreement.

#### **Advances.**

In the event the City shall fail to maintain the full insurance coverage required by the Lease Agreement or shall fail to keep the Property in good repair and operating condition, the Authority, or its successor, may (but shall be under no obligation to) purchase the required policies of insurance and pay the premiums on the same, or make such repairs or replacements as are necessary and provide for payment thereof; and all amounts so advanced therefor by the Authority shall become immediately due and payable, which the City agrees to pay, subject to the City making an appropriation therefor, as an Additional Lease Payment of the Property, together with interest at the rate interest accrues on the Outstanding Bonds.

## **Financial Reports.**

The City covenants to provide to the Trustee (i) current financial statements within 180 days of the close of each Fiscal Year; (ii) proposed budgets and proof of appropriations for each Fiscal Year by each October 1 and a final budget when available; and (iii) such other financial information relating to the ability of the City to continue to meet its obligations under the Lease Agreement as may be reasonably requested by the Trustee.

## **Release and Indemnification.**

In addition to any indemnity provided by the Trust Indenture, to the extent permitted by law the City shall protect, hold harmless and indemnify the Authority and the Trustee and the employees, directors and officers of each from and against any and all liability, obligations, claims and damages whatsoever, regardless of cause thereof, and expenses in connection therewith, including, without limitation, counsel fees and expenses, penalties and interest arising out of or as the result of the entering into of the Lease Agreement, the ownership of the Property, the ordering, acquisition, use, operation, condition, purchase, delivery, rejection, storage or return of any item of equipment, or any accident in connection with any of the foregoing resulting in damage to property or injury to or death of any person. However, the City shall not hold harmless or indemnify the Authority, the Trustee, or any employee, director or officer of each for any losses which are caused by the negligence, bad faith or willful misconduct of such party.

The City further agrees, to the extent permitted by law, to indemnify and save the Trustee harmless against any liabilities which it may incur in the exercise and performance of its powers and duties under the Lease Agreement and under the Trust Indenture which are not due to its negligence or willful misconduct. Such indemnity shall survive the termination of the Lease Agreement.

## **Fees of Trustee.**

The City shall pay to the Trustee as part of Additional Lease Payments from time to time reasonable compensation for all services rendered under the Lease Agreement and the Trust Indenture, and also all reasonable expenses, charges, counsel fees and other disbursements, including those of their attorneys, agents and employees, incurred in and about the performance of their powers and duties under the Lease Agreement and the Trust Indenture.

## **TITLE**

### **Title to Property.**

Upon payment or provision for payment as provided in the Trust Indenture (relating to defeasance) of all Outstanding Bonds or the City's payment of the Purchase Option Price in accordance with the Lease Agreement, and the expiration or termination of the Lease Term of the Lease Agreement with respect to the Property, title to the Property and any improvements thereon or additions thereto shall be transferred directly to MTDB or its designee, as assignee of City in accordance with the provisions of the Trust Indenture.

### **Liens.**

During the Lease Term the City shall not, directly or indirectly, create, incur, assume or suffer to exist any mortgage, pledge, lien, charge, encumbrance or claim on or with respect to the

Property, other than the Permitted Encumbrances. MTDB may construct alterations, refurbishment and improvements to the Maintenance Yard portion so long as such work does not reduce the fair rental value thereof below the amount of Lease Payments attributable to the Maintenance Yard portion which are in excess of the Lease Payments comprising the fair rental value of the Right-of-Way portion. The City has delegated and appointed the General Manager of MTDB as its agent to grant such easements and encumbrances with respect to the Right of Way Portion as may be requested in the ordinary course of business with respect thereto, and which constitute Permitted Encumbrances. The City shall promptly pay or cause to be paid all sums of money that may become due for any labor, services, materials, supplies or equipment alleged to have been furnished to or for, in, upon or about the Property and which may be secured by any mechanic's, materialman's or other lien against the Property, or the interest of the Authority therein, and shall cause each such lien to be fully discharged and released; provided, however, that the City or the Authority may (i) contest any such claim or lien without payment thereof so long as such nonpayment and contest stays execution or enforcement of the lien, but if such lien is reduced to final judgment and such judgment or such process as may be issued for the enforcement thereof is not stayed, or if stayed and the stay thereafter expires, then and in any such event the City shall forthwith pay and discharge such judgment or lien; or (ii) delay payment without contest so long as and to the extent that such delay will not result in the imposition of any penalty; unless, in the opinion of Bond Counsel, by nonpayment of any such items, the interest of the City in the Property will be materially endangered or the Property or any part thereof will be subject to loss or forfeiture, in which event the City will be required promptly to pay such taxes, assessments or charges or provide the Authority with full security against any loss which may result from nonpayment satisfactory to the Authority and the Trustee.

#### **Use of the Property.**

The City will not install, use, operate or maintain the Property improperly, carelessly, in violation of any applicable law or in a manner contrary to that contemplated by the Lease Agreement. In addition, the City agrees to comply in all respects (including, without limitation, with respect to the use, maintenance and operation of the Property) with all laws of the jurisdictions in which its operations involving the Property may extend and with all regulations, orders and decrees of any legislative, executive, administrative or judicial body exercising any power or jurisdiction over the Property; provided, however, that the City may contest in good faith the validity or application of any such law or rule in any reasonable manner which does not adversely affect the estate of the Authority or the City in and to the Property or either of their interests or rights under the Lease Agreement.

### **ASSIGNMENT, SUBLEASE, PREPAYMENTS AND OPTION TO PURCHASE**

#### **Assignment by Authority.**

The Lease Agreement may be transferred and assigned by the Authority in accordance with the provisions of the Trust Indenture for the benefit of the Owners of the Bonds. The parties to the Lease Agreement acknowledge and agree that the Authority's rights and remedies under the Lease Agreement will be assigned to the Trustee on behalf of the Owners of the Bonds pursuant to the Trust Indenture.

#### **City's Prepayment and Purchase Option.**

(a) The City shall have the option to purchase the Property at any time, whether or not it is then in default under the Lease Agreement, but only in the manner provided in the Trust Indenture.

The City may exercise its option to purchase the Property on any Redemption Date by paying the Purchase Option Price as shown in Exhibit C attached to the Lease Agreement and incorporated in the Lease Agreement plus payment of all other sums, including Additional Lease Payments, due and owing through the Redemption Date of the Outstanding Bonds. In the event the City elects to purchase the Property prior to a first Redemption Date, the Purchase Option Price will be adjusted to reflect amounts required to cause the Bonds to be defeased through the applicable Redemption Date in accordance with the Trust Indenture. In all events, the Purchase Option Price shall be sufficient to pay all principal, premium, if any, and interest on Outstanding Bonds through the Redemption Date. Such Purchase Option Price shall be deposited by the Trustee in the Prepayment Account to be applied to the redemption (pursuant to the Trust Indenture) of the Outstanding Bonds; provided that no amounts are owed to the Insurer under the Insurance Policy. The City shall give the Trustee written notice of its intention to exercise its option not less than thirty (30) days in advance of the date of exercise, and shall deposit with the Trustee the Purchase Option Price not later than the Business Day immediately prior to the date selected by the Trustee to redeem Bonds with such prepayment.

(b) The Authority shall pay the principal on the Outstanding Bonds, without premium, at any time if the Property is damaged, destroyed or condemned and the City elects to prepay the Lease Payments pursuant to "Option B" provided in the Lease Agreement.

(c) Any amount then on hand in the Reserve Fund or the Bond Fund established pursuant to the Trust Indenture shall be applied toward the payment of the Purchase Option Price by the City. Upon the City's exercise of its purchase option and the redemption of all of the Bonds at the applicable redemption price plus accrued interest, all right, title and interest of the Authority, the Trustee and the Owners of the Bonds in and to the Property shall be transferred to the City or its designee in accordance with the provisions of the Trust Indenture, and the Authority shall, upon request by the City, execute a quitclaim deed in favor of the City or its designee. Nothing in the Lease Agreement is intended to prevent the refunding of all or a part of the City's obligations under the Lease Agreement and the Authority may elect to defease the Bonds in accordance with the Trust Indenture without the City being deemed to have opted to purchase the Property pursuant to the Lease Agreement.

#### **Assignment and Sublease by City.**

Neither the Lease Agreement nor any interest of the City in the Lease Agreement shall, at any time after the date of the Lease Agreement, be mortgaged, pledged, assigned or transferred by the City by voluntary act or by operation of law, or otherwise, except as specifically provided in the Lease and with the consent of the Insurer. The City shall at all times remain liable for the performance of the covenants and conditions on its part to be performed notwithstanding any assigning, transferring or subletting which may be made. The City shall have the right to sublease or permit the use of all or any part of the Property, with the consent of the Insurer; provided no such sublease or other permitted use of the Property shall cause interest on the Bonds to be includable in gross income under Section 103 of the Code for federal tax purposes. The City has concurrently with the execution of the Lease Agreement subleased the Property to MTDB pursuant to the Sublease Agreement, however, nothing contained in the Lease Agreement or in the Sublease Agreement shall be construed to relieve the City from any obligations contained in the Lease Agreement.

## **EVENTS OF DEFAULT AND REMEDIES**

### **Events of Default Defined.**

The following shall be “events of default” under the Lease Agreement and the terms “event of default” and “default” shall mean, whenever they are used in the Lease Agreement, any one or more of the following events, namely:

(a) Failure by the City to pay when due any Lease Payment or Additional Lease Payment; or

(b) Failure by the City to observe or perform any covenant, condition or agreement on its part to be observed or performed, other than as referred to in clause (a) of this Section, for a period of thirty (30) days after written notice specifying such failure and requesting that it be remedied has been given to the City by the Authority or its assignee or the Insurer; provided, however, that the Authority or its assignee or the Insurer may, upon written request of the City prior to the expiration of such thirty (30) day period, consent to an extension of such time in order to cure such failure if corrective action has been instituted by the City and is being diligently pursued and will, in the judgment of the Authority or its assignee, be diligently pursued until the default is corrected.

### **Remedies on Default.**

Upon the happening of any of the events of default specified in the Lease Agreement, the Authority or its assignee may exercise any and all remedies available pursuant to law or granted pursuant to the Lease Agreement; provided the Authority or its assignee shall have the right to enter and re-enter only the Maintenance Yard portion of the Property for the purpose of retrieving any portion of the Property if the City does not deliver the Property to the Authority on demand or to re-let only the Maintenance Yard’s portion of the Property and, in addition, at its option, with or without such entry, to terminate the Lease Agreement. There shall be no right to re-enter and re-lease the Right of Way portion of the Property. Notwithstanding anything in the Lease Agreement or in the Trust Indenture to the contrary, THERE SHALL BE NO RIGHT UNDER ANY CIRCUMSTANCES TO ACCELERATE THE LEASE PAYMENTS OR OTHERWISE DECLARE ANY LEASE PAYMENTS NOT THEN IN DEFAULT TO BE IMMEDIATELY DUE AND PAYABLE. In the event of default and notwithstanding any limited entry or re-entry by the Authority or its assignee, the City shall, as expressly provided in the Lease Agreement, continue to remain liable for the payment of Lease Payments and Additional Lease Payments and/or damages for breach of the Lease Agreement and the performance of all conditions contained in the Lease Agreement and, in any event, such Lease Payments and Additional Lease Payments and/or damages shall be payable to the Authority or its assignee at the time and in the manner set forth in the Lease Agreement. So long as the Insurer is not in default under the Insurance Policy, the Insurer shall control all remedies upon an event of default under the Lease Agreement. The Owners’ direction of remedies upon default are subject to the prior written consent of the Insurer. The Insurer, acting alone, shall have the right to direct all remedies upon an event of default.

In the event that the Authority or its assignee does not elect to terminate the Lease Agreement, the City agrees to and shall remain liable for the payment of Lease Payments or Additional Lease Payments and the performance of all conditions contained in the Lease Agreement and shall reimburse the Authority or its assignee for any deficiency arising out of the re-letting of the



Property, or, in the event that the Authority or its assignee does not re-let the Property, then for the full amount of the Lease Payments or Additional Lease Payments to the end of the term of the Lease Agreement, but said Lease Payments or Additional Lease Payments and/or deficiency shall be payable only at the same time and in the same manner as provided in the Lease Agreement notwithstanding such entry or re-entry by the Authority or its assignee or any suit in unlawful detainer, or otherwise, brought by the Authority or its assignee for the purpose of effecting such entry or re-entry or obtaining possession of the Property or the exercise of any other remedy by the Authority or its assignee. The City has irrevocably appointed the Authority or its assignee as the agent and attorney-in-fact of the City to enter upon and re-let the Maintenance Yard portion of the Property in the event of default by the City. The City has exempted and agreed to save harmless the Authority and its assignee from any costs, loss or damage whatsoever arising or occasioned by any such entry upon and letting of the Property. The City has waived any and all claims for damages caused, or which may be caused, by the Authority or its assignee in entering and taking possession of the Property, for all claims for damages that may result from the destruction of or injury to the Property, and all claims for damages to or loss of any property belonging to the City that may be in or upon the Property. The City agrees that the terms of the Lease Agreement constitute full and sufficient notice of the right of Authority or its assignee to re-rent the Property in the event of such re-entry without effecting a surrender of the Lease Agreement, and further agrees that no acts of the Authority or its assignee in effecting such re-renting or re-leasing shall constitute a surrender or termination of the Lease Agreement irrespective of the term for which such re-leasing or re-renting is made, or of the terms and conditions of such re-leasing or re-renting, or otherwise, but that, on the contrary, in the event of such default by the City, the right to terminate the Lease Agreement shall vest in the Authority or its assignee. The City further waives the right to any rental obtained by the Authority or its assignee in excess of the Lease Payments and Additional Lease Payments specified in the Lease Agreement and has conveyed and released such excess to the Authority or its assignee as compensation to the Authority or its assignee for its services in re-leasing the Property.

Each and all of the remedies given to the Authority and its assignee under the Lease Agreement or by any law now or hereafter enacted are cumulative and the exercise of one right or remedy shall not impair the right to the Authority or its assignee to exercise any or all other remedies.

#### **Suits at Law or in Equity and Mandamus.**

In addition to the remedies set forth in the Lease Agreement, in case one or more of the events of default shall happen, then and in every such case, the Authority or its assignee shall be entitled to proceed to protect and enforce the rights vested in the Authority by the Lease Agreement by such appropriate judicial proceeding as the Authority or its assignee shall deem most effectual to protect and enforce any such right, either by suit in equity or by action at law, whether for the specific performance of any covenant or agreement contained in the Lease Agreement, or in aid of the exercise of any power granted in the Lease Agreement, or to enforce any other legal or equitable right vested in the Authority or its assignee by the Lease Agreement or by law provided, in no event may Lease Payments be accelerated. The provisions of the Lease Agreement and the duties of the City and of the officers, agents and employees thereof shall be enforceable by the Authority or its assignee by mandamus or other appropriate suit, action or proceeding in any court of competent jurisdiction.

Without limiting the generality of the foregoing, the Authority or its assignee shall have the right:

(a) *Accounting.* By action or suit in equity to require the City and its officers, agents and employees to account as the trustee of an express trust.

(b) *Injunction.* By action or suit in equity to enjoin any acts or things which may be unlawful or in violation of the rights of Authority or its assignee.

(c) *Mandamus.* By mandamus or other suit, action of proceeding at law or in equity to enforce its or their rights against the City and its and any of its officers, agents, and employees, and to compel it or them to perform and carry out its and their duties and obligations under the law and its and their covenants and agreements with the City as provided in the Lease Agreement .

#### **Non-Waiver.**

Nothing in the Lease Agreement shall affect or impair the obligation of the City to pay Lease Payments and Additional Lease Payments. No delay or omission of the Authority or its assignee to exercise any right or power arising upon the happening of any event of default shall impair any such right or power or shall be construed to be a waiver of any such event of default or any acquiescence therein, and every power and remedy given by the Lease Agreement to the Authority and its assignee may be exercised from time to time and as often as shall be deemed expedient by the Authority or its assignee.

#### **Status Quo.**

In case any suit, action or proceeding to enforce any right or exercise any remedy shall be brought or taken and then discontinued or abandoned, or shall be determined adversely to the Authority and its assignee, then, and in every such case, the Authority and its assignee shall be restored to its former position and rights and remedies as if no such suit, action or proceedings had been brought or taken.

#### **Right of Owners of the Bonds.**

“Assignee,” as used in the Lease Agreement, shall mean the Trustee. The Owners shall be entitled to exercise any and all such remedies as are provided to Owners in the manner and to the extent set forth in the Trust Indenture.

### **MISCELLANEOUS**

#### **Validity.**

If any one or more of the terms, provisions, promises, covenants or conditions of the Lease Agreement shall to any extent be adjudged invalid, unenforceable, void or voidable for any reason whatsoever by a court of competent jurisdiction, then each and all of the remaining terms, provisions, promises, covenants and conditions of the Lease Agreement shall not be affected thereby and shall be valid and enforceable to the fullest extent permitted by law.

If for any reason the Lease Agreement shall be held by a court of competent jurisdiction void, voidable or unenforceable by the Authority or by the City, or if for any reason it is held by such a court that any of the covenants and agreements of the City under the Lease Agreement, including the covenant to pay Lease Payments and Additional Lease Payments under the Lease Agreement, is unenforceable for the full Lease Term, then and in such event for and in consideration of the right of the City to possess, occupy and use the Property, which right in such event is granted by the Lease Agreement, the Lease Agreement shall thereupon become and shall be deemed to be a lease from year to year under which the annual Lease Payments and Additional Lease Payments specified in the Lease Agreement will be paid by the City, subject to appropriations by the City Council of the City, at its option.

**(THIS PAGE LEFT BLANK INTENTIONALLY)**

**APPENDIX D**

**PROPOSED FORM OF BOND COUNSEL OPINION**

[Date of Delivery]

City of San Diego/MTDB Authority  
San Diego, California

City of San Diego  
San Diego, California

Re: *\$15,255,000 City of San Diego/MTDB Authority 2003 Lease Revenue Refunding Bonds (San Diego Old Town Light Rail Transit Extension Refunding)*

Dear Honorable Members of the Authority Board and City Council:

We have acted as bond counsel to the City of San Diego/MTDB Authority (the "Authority") in connection with the issuance by the Authority of \$15,255,000 City of San Diego/MTDB Authority 2003 Lease Revenue Refunding Bonds (San Diego Old Town Light Rail Transit Extension Refunding) (the "Bonds"), pursuant to the provisions of Article 4 (commencing with Section 6584) of Chapter 5 of Division 7 of Title 1 of the California Government Code (the "Bond Law"), and pursuant to a Trust Indenture dated as of May 1, 2003 (the "Indenture"), by and between the Authority and Wells Fargo Bank, National Association, as Trustee. The Bonds have been issued by the Authority to provide funds to refund certain City of San Diego/MTDB Authority 1993 Lease Revenue Bonds (San Diego Old Town Light Rail Transit Extension Refunding), and will be secured by Revenues, consisting in part of lease payments to be made by the City of San Diego (the "City") pursuant to an Amended and Restated Lease Agreement dated as of May 1, 2003 (the "Lease"), by and between the Authority and the City. We have examined the law and such certified proceedings and other documents as we deem necessary to render this opinion. This opinion is based on current statutory and constitutional law and published court decisions as of the date hereof. Capitalized terms used herein and not otherwise defined shall have the meaning ascribed thereto in the Indenture.

As to questions of fact material to our opinion, we have relied upon representations of the Authority contained in the Indenture and in the certified proceedings and certifications of public officials and others furnished to us, without undertaking to verify the same by independent investigation.

Based upon the foregoing we are of the opinion, under existing law, as follows:

1. The Authority is a joint exercise of powers authority duly organized and validly existing under the laws of the State of California with the full power to enter into the Indenture and the Lease, to perform the agreements on its part contained therein and to issue the Bonds.

2. The Indenture and the Lease have each been duly approved by the Authority and constitute the valid and binding obligations of the Authority enforceable against the Authority in accordance with their respective terms. The Indenture creates a valid pledge of what the Indenture purports to pledge to secure the payment of the Bonds, subject to the provisions of the Indenture permitting the application thereof for the purposes and subject to the terms and conditions set forth in the Indenture.

3. The Bonds have been duly authorized and issued by the Authority and are valid and binding special obligations of the Authority, payable solely from Revenues and other funds pledged pursuant to the Indenture. Neither the faith and credit nor the taxing power of the City, the Authority, the State of California or any political subdivision thereof is pledged to the payment of the Bonds.

4. Under existing statutes, regulations, rulings and judicial decisions, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations; however, it should be noted that, with respect to corporations, such interest may be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of corporations.

5. Interest on the Bonds is exempt from State of California personal income tax.

6. The difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity with respect to such Bonds constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to an Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by an Owner will increase the Owner's basis in the applicable Bond. Original issue discount that accrues to an Owner is excluded from the gross income of such Owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State of California personal income tax.

7. The amount by which an Owner's original basis for determining loss on sale or exchange in the applicable Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable Bond premium, which must be amortized under Section 171 of the Code; such amortizable Bond premium reduces the Owner's basis in the applicable Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of Bond premium may result in an Owner realizing a taxable gain when a Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the Owner. Purchasers of the Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable Bond premium.

The opinions expressed herein may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. In rendering this opinion, we have relied upon certain representations of fact and certifications made by the City, the Authority, the initial purchasers of the Bonds and others. We have not undertaken to verify through independent

investigation the accuracy of the representations and certifications relied upon by us. The Indenture, the Lease and the Tax Certificate relating to the Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. No opinion is expressed herein as to the exclusion from gross income of interest (and original issue discount) for federal income tax purposes with respect to any Bond if any such action is taken or omitted based upon the advice of counsel other than ourselves. Other than as expressly stated herein, we express no opinion regarding tax consequences with respect to the Bonds.

The opinions expressed herein as to the exclusion from gross income of interest (and original issue discount) on the Bonds are based upon certain representations of fact and certifications made by the Authority, the City and others and are subject to the condition that the Authority complies with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Bonds to assure that such interest (and original issue discount) will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The Authority and the City have covenanted to comply with all such requirements.

With respect to the opinions expressed herein, the rights and obligations under the Indenture, the Lease and the Bonds are subject to bankruptcy, insolvency, moratorium and other laws affecting the enforcement of creditors' rights, to the application of equitable principles if equitable remedies are sought, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public agencies in the State of California.

We have not made or undertaken to make an investigation of the state of title to any of the real property described in the Lease or of the accuracy or sufficiency of the description of such property contained therein, and we express no opinion with respect to such matters. We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds, and expressly disclaim any duty to advise the Owners of the Bonds with respect to matters contained in the Official Statement.

Respectfully submitted,

**(THIS PAGE LEFT BLANK INTENTIONALLY)**



## APPENDIX E

### FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement, dated as of May 1, 2003 (the "Disclosure Agreement") is executed and delivered by the City of San Diego (the "City") as dissemination agent, acting on behalf of the City of San Diego/MTDB Authority (the "Authority"), and Wells Fargo Bank, National Association (the "Trustee") in connection with the issuance of \$15,255,000 City of San Diego/MTDB Authority 2003 Lease Revenue Refunding Bonds (San Diego Old Town Light Rail Transit Extension Refunding) (the "Bonds"). The Bonds are being issued pursuant to a Trust Indenture, dated as of May 1, 2003, by and between the Authority and the Trustee. The City covenants as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the City on behalf of the Authority for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with the Rule.

SECTION 2. Definitions. In addition to the definitions set forth in the Trust 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 the information 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 (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

"Disclosure Representative" shall mean the City Manager of the City, the Deputy City Manager of the City or their designee, or such other officer or employee as the City shall designate in writing from time to time.

"Dissemination Agent" shall mean the City, or any successor Dissemination Agent designated in writing by the City and which has filed with the City 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.

"Official Statement" shall mean the Official Statement relating to the Bonds, dated April 30, 2003.

"Participating Underwriter" shall mean the original underwriter of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

“Repository” shall mean each National Repository and each State Repository.

“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 a 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, upon delivery of the Annual Report to the Dissemination Agent, shall cause the Dissemination Agent to, not later than April 11 following the end of each fiscal year (currently ending June 30) commencing April 11, 2004, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. 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(c).

(b) Not later than fifteen (15) business days prior to said date, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). If the City is unable to provide to the Repositories an Annual Report by the date required in subsection (a), the City shall send a notice to each Repository in substantially the form attached as Exhibit A.

(c) 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) (if the Dissemination Agent is other than the City), file a report with the City 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:

(a) The City’s audited financial statements, prepared in accordance with generally accepted auditing standards for municipalities in the State of California. 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.

(b) To the extent not contained in the audited financial statements filed pursuant to the preceding subsection (a) by the date required by Section 3 hereof, updates of Tables 7 and 11-23 and

the information set forth in the captions “LABOR RELATIONS” and “PENSION PLAN” set forth in APPENDIX A to the Official Statement.

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 related public entities, 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) Pursuant to the provisions of this Section 5, 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 Bond holders.
- (iv) Optional, contingent or unscheduled Bond calls.
- (v) Defeasances.
- (vi) Rating changes.
- (vii) Adverse tax opinions or events affecting the tax-exempt status of the Bonds.
- (viii) Unscheduled draws on the debt service reserves reflecting financial difficulties.
- (ix) Unscheduled draws on the credit enhancements reflecting financial difficulties.
- (x) Substitution of the credit or liquidity providers or their failure to perform.
- (xi) Release, substitution or sale of property securing repayment of the Bonds.

(b) Whenever the City obtains knowledge of the occurrence of a Listed Event, the City shall as soon as possible determine if such event would be material under applicable federal securities laws.

(c) If the City determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the City shall promptly file a notice of such occurrence with the Repositories. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(iv) and (v) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Trust Indenture.

SECTION 6. Termination of Reporting Obligation. The City's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

SECTION 7. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the City pursuant to this Disclosure Agreement. The Dissemination Agent may resign by providing thirty days written notice to the City and the Trustee. The Dissemination Agent shall not be responsible for the content of any report or notice prepared by the City and shall have no duty to review any information provided to it by the City. The Dissemination Agent shall have no duty to prepare any information report nor shall the Dissemination Agent be responsible for filing any report not provided to it by the City in a timely manner and in a form suitable for filing.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the City may amend this Disclosure Agreement, and any provision of this Disclosure Agreement may be waived, provided that, in the opinion of nationally recognized bond counsel, such amendment or waiver is permitted by the Rule; provided, the Dissemination Agent shall have first consented to any amendment that modifies or increases its duties or obligations hereunder. In the event of any amendment or waiver of a provision of this Disclosure Agreement, the City shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(c), and (ii) the Annual Report for the year in which the change is made shall present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

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

SECTION 10. Default. In the event of a failure of the City to comply with any provision of this Disclosure Agreement, any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Trust Indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of the City to comply with this Disclosure Agreement shall be an action to compel performance.

No Bond holder or Beneficial Owner may institute such action, suit or proceeding to compel performance unless they shall have first delivered to the City satisfactory written evidence of their status as such, and a written notice of and request to cure such failure, and the City shall have refused to comply therewith within a reasonable time.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent (if one is appointed by the City) shall have only such duties as are specifically set forth in this Disclosure Agreement, and the City agrees, to the extent permitted by law, to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorney's fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the City for its services provided hereunder in accordance with its schedule of fees as amended from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. In performing its duties hereunder, the Dissemination Agent shall not be deemed to be acting in any fiduciary capacity for the City, the Bond holders, or any other party. 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:

City:	City of San Diego 202 C Street, Mail Station 9B San Diego, California 92101 Attention: Deputy City Manager
Trustee:	Wells Fargo Bank, National Association 707 Wilshire Boulevard, 17 <sup>th</sup> Floor Los Angeles, California 90017 Attention: Corporate Trust Department

SECTION 13. Beneficiaries. This Disclosure Agreement solely to the benefit of the City, the Dissemination Agent, the Participating Underwriter and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 14. Signature. This Disclosure Agreement has been executed by the undersigned on the date hereof, and such signature binds the City to the undertaking herein provided.

CITY OF SAN DIEGO

By: \_\_\_\_\_  
Its: Deputy City Manager

WELLS FARGO BANK, NATIONAL  
ASSOCIATION, as Trustee

By: \_\_\_\_\_  
Its: Authorized Officer

**EXHIBIT A**

**NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: City of San Diego/MTDB Authority

Name of Bond Issue: \$15,255,000 City of San Diego/MTDB Authority 2003 Lease Revenue Refunding Bonds (San Diego Old Town Light Rail Transit Extension Refunding)

Date of Issuance: May 20, 2003

NOTICE IS HEREBY GIVEN that the City has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Agreement executed by the City on the date of issuance of the Bonds. The City anticipates that the Annual Report will be filed by

\_\_\_\_\_.

Dated: \_\_\_\_\_

CITY OF SAN DIEGO

By: \_\_\_\_\_

**(THIS PAGE LEFT BLANK INTENTIONALLY)**



**APPENDIX F**  
**BOOK-ENTRY SYSTEM**

**General**

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee). One fully-registered bond certificate will be issued for each maturity of the Bonds, in the total aggregate principal amount due of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants (the “Participants”) deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants’ accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (the “Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co. The deposit of Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The 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 Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to the Bonds. Under its usual procedures, DTC will mail an Omnibus Proxy to an issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal, premium and interest on the Bonds will be made to DTC or its nominee. DTC's practice is to credit Direct Participants' accounts on each payment 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 the date payable. 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 Authority, the City or the Trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium 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 Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, security certificates are required to be printed and delivered as described in the Indenture.

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bonds will be printed and delivered as described in the Indenture.

**The Authority, the City and the Trustee cannot and do not give any assurances that DTC will distribute to DTC Participants, or that DTC Participants or others will distribute to the Beneficial Owners, payments of principal, interest and premium, if any, on the Bonds paid or any redemption or other notices or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. Neither the Authority, the City nor the Trustee is responsible or liable for the failure of DTC or any DTC Participants or Indirect Participants to make any payments or give any notice to a Beneficial Owner with respect to the Bonds or any error or delay relating thereto.**

The foregoing description of the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, interest and other payments on the Bonds to DTC Participants, Indirect Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interests in such Bonds and other related transactions by and between DTC, the DTC

Participants, the Indirect Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants, the Indirect Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters but should instead confirm the same with DTC or the DTC Participants, as the case may be.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE OWNERS OF THE BONDS SHALL MEAN CEDE & CO., AS AFORESAID, AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE BONDS.

### **Discontinuance of DTC Services**

In the event that (a) DTC determines not to continue to act as securities depository for the Bonds or (b) the Authority determines to remove DTC from its functions as a depository, DTC's role as securities depository for the Bonds and use of the book-entry system will be discontinued. If the Authority fails to select a qualified securities depository to replace DTC, the Authority will cause the Trustee to execute and deliver new Bonds in fully registered form in such denominations numbered in the manner determined by the Trustee and registered in the names of such persons as are required in a written request of the Authority. The Trustee shall not be required to deliver such new Bonds within a period of less than 60 days from the date of receipt of such written request of the Authority. Upon such registration, such persons in whose names the Bonds are registered will become the registered owners of the Bonds for all purposes.

In the event that the book-entry system is discontinued, the following provisions would also apply: (a) Bonds may be exchanged for a like aggregate principal amount of such Bonds of the same maturity of other authorized denominations; (b) the transfer of any Bond may be registered on the books maintained by the Trustee under the Indenture for such purpose only upon the surrender thereof to the Trustee accompanied by delivery of a duly executed written instrument of transfer in a form acceptable to the Trustee; (c) for every exchange or transfer of Bonds, the Trustee shall require the payment by any Owner requesting such transfer or exchange of any tax or other governmental charge that may be imposed with respect to such exchange or registration of transfer; (d) the Trustee will not be required to transfer or exchange any Bond which has been selected for redemption in whole or in part from and after the day of mailing of a notice of redemption of such Bond selected for redemption or during the period established by the Trustee for selection of Bonds for redemption; (e) all interest payments on the Bonds will be made by check mailed by the Trustee to the Owners thereof to such Owner's address as it appears on the registration books maintained by the Trustee on the applicable Record Date next preceding such interest payment date; provided, that upon request of a Owner of \$1,000,000 or more in aggregate principal amount of the Bonds received by the Trustee prior to the first day of the month next preceding an interest payment date, interest shall be paid by wire transfer in immediately available funds to an account in the United States; and (f) all payments of principal, and any premium on the Bonds, will be made upon surrender thereof at the corporate trust office of the Trustee in Los Angeles, California.

**(THIS PAGE LEFT BLANK INTENTIONALLY)**

**APPENDIX G**

**SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY**

**(THIS PAGE LEFT BLANK INTENTIONALLY)**

## Financial Guaranty Insurance Policy

Obligor:

Policy Number:

Obligations:

Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the 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 Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

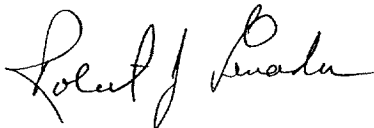
In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

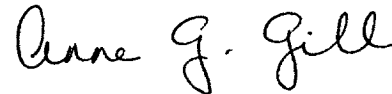
As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or 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 Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations 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 Obligation, 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



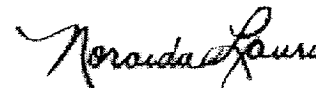
Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Form No.: 2B-0012 (1/01)



Authorized Officer of Insurance Trustee

## Endorsement

Policy for:

Attached to and forming part of Policy No.:

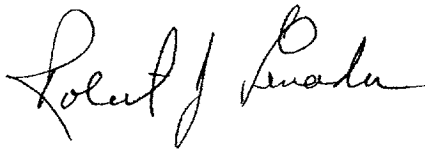
Effective Date of Endorsement:

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.

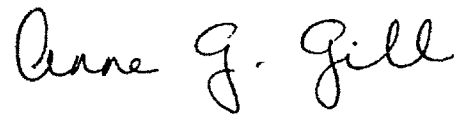
Nothing herein contained shall be held to vary, alter, waive or extend any of the terms, conditions, provisions, agreements or limitations of the above mentioned Policy other than as above stated.

**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