

NEW ISSUE – BOOK ENTRY ONLY

Insured Ratings

Moody's: Aaa

Fitch: AAA

S&P: AAA

Underlying Ratings

Moody's: Aa3

Fitch: AA+

S&P: AA-

(See “MISCELLANEOUS – Ratings” herein.)

In the opinion of Hawkins, Delafield & Wood, Bond Counsel, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, interest on the Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”). Interest on the Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In the opinion of Bond Counsel, under existing statutes, interest on the Bonds is exempt from personal income taxes imposed by the State of California. See “LEGAL MATTERS – Tax Exemption” herein.

\$25,070,000

**PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO
LEASE REVENUE BONDS
SERIES 2002B
(FIRE AND LIFE SAFETY FACILITIES PROJECT)**

Dated: June 15, 2002

Due: April 1, as shown below

The proceeds of the \$25,070,000 Public Facilities Financing Authority of the City of San Diego Lease Revenue Bonds, Series 2002B (Fire and Life Safety Facilities Project) (the “Bonds”) will be used to (i) finance certain real property and improvements to certain fire and life safety facilities of the City of San Diego (the “Project”); (ii) fund capitalized interest; (iii) fund a Reserve Account for the Bonds; and (iv) pay costs of issuance with respect to the Bonds. In order to effect such financing, the Public Facilities Financing Authority of the City of San Diego (the “Authority”) and the City of San Diego (the “City”) will enter into a site lease, dated as of June 1, 2002 (the “Site Lease”), between the City, as lessor, and the Authority, as lessee. Concurrently with the execution of the Site Lease, the City and the Authority will enter into a lease, dated as of June 1, 2002 (the “Lease”) with the Authority as lessor and the City as lessee. The Bonds will be issued pursuant to an indenture dated as of June 1, 2002 (the “Indenture”), between the Authority and Wells Fargo Bank, National Association as trustee (the “Trustee”). The Bonds are payable from and secured by a pledge of Revenues (as defined in the Indenture), consisting primarily of Base Rental Payments (as defined herein) to be paid by the City and received by the Authority with respect to the property leased to the City (the “Leased Property”) pursuant to the Lease, and certain other monies as described in the Indenture. The Base Rental Payments are subject to abatement in the event of damage, destruction, condemnation or title defects with respect to the Leased Property as more particularly described in the Lease. See “RISK FACTORS” herein.

Interest due on the Bonds is payable semiannually on October 1 and April 1 of each year, commencing October 1, 2002. See “THE BONDS – General Provisions” herein. The Bonds will be initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository of the Bonds as described in “APPENDIX E – BOOK-ENTRY SYSTEM.” The City shall make Base Rental Payments to the Trustee, as assignee of the Authority under the Assignment Agreement (as defined herein) for the use and possession of the Leased Property during each annual period. The Trustee shall deposit such Base Rental Payments in the Bond Fund established under the Indenture. Such Base Rental Payments, if paid in full, will be sufficient, in both time and amount, to pay when due the principal of and interest on the Bonds. Pursuant to the Indenture, the Trustee will, on each Interest Payment Date, apply funds available in the Bond Fund, in the amounts required to make principal and interest payments due with respect to the Bonds.

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

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

The scheduled payment of principal and interest on the Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds by MBIA Insurance Corporation. See “MUNICIPAL BOND INSURANCE POLICY” herein.



MATURITY SCHEDULE
\$14,375,000 Serial Bonds

Maturity (April 1)	Principal Amount	Interest Rate	Yield	Maturity (April 1)	Principal Amount	Interest Rate	Yield
2004	\$405,000	7.00%	2.00%	2015	\$ 685,000	4.50%	4.50%
2005	430,000	7.00	2.40	2016	715,000	4.60	4.60
2006	455,000	7.00	2.75	2017	750,000	4.70	4.70
2007	475,000	7.00	3.10	2018	785,000	4.75	4.80
2008	500,000	7.00	3.40	2019	825,000	4.75	4.90
2009	525,000	3.55	3.55	2020	865,000	4.75	4.95
2010	550,000	3.75	3.75	2021	910,000	4.80	5.00
2011	580,000	3.90	3.90	2022	960,000	5.00	5.00
2012	605,000	4.00	4.00	2023	1,010,000	5.00	5.00
2013	630,000	4.10	4.15	2024	1,060,000	5.00	5.00
2014	655,000	4.25	4.30				

\$3,515,000 5.00% Term Bonds maturing April 1, 2027 Yield 5.00%.

\$7,180,000 5.00% Term Bonds maturing April 1, 2032 Yield 5.18%.

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to make an informed investment decision.

The Bonds will be offered when, as and if executed, subject to the approval as to legality by Hawkins, Delafield & Wood, Los Angeles, California, Bond Counsel, and to certain other conditions. Certain legal matters for the City will be passed upon by Quateman & Zidell LLP, Los Angeles, California, Disclosure Counsel, and for the Authority and the City by Casey Gwinn, Esq., City Attorney of the City of San Diego and General Counsel to the Authority. It is anticipated that the Bonds will be available for delivery through the facilities of DTC on or about June 28, 2002.

Morgan Stanley DW Inc.

Dated: June 12, 2002

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

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

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

Certain statements included or incorporated by reference in the following information constitute "forward-looking statements." Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or other similar words. 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. No assurance is given that actual results will meet City or Authority forecasts in any way, regardless of the level of optimism communicated in the information. Neither the City nor the Authority plans to issue any updates or revisions to those forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based occur.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITERS MAY OFFER AND SELL THE BONDS TO CERTAIN DEALERS, DEALER BANKS AND BANKS ACTING AS AGENT AT PRICES LOWER THAN THE PUBLIC OFFERING PRICE STATED ON THE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICE MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS.

TABLE OF CONTENTS

	Page		Page
INTRODUCTION	1	Proceeds.....	19
General	1	Limitations on Remedies Available to	
Continuing Disclosure.....	2	Owners of the Bonds	19
THE BONDS	2	Other Financial Matters.....	19
General Provisions.....	2	THE AUTHORITY	20
Debt Service Payment Schedule.....	2	LEGAL MATTERS	20
Redemption Provisions	4	Tax Exemption	20
SECURITY AND SOURCES OF PAYMENT		Certain Ongoing Federal Tax Requirements	
FOR THE BONDS	6	and Covenants.....	20
Pledge of Revenues.....	6	Certain Collateral Federal Tax	
Base Rental Payments	6	Consequences	20
Reserve Account	7	Original Issue Discount.....	21
Substitution and Removal of Leased		Bond Premium.....	21
Property	7	Legal Opinions	21
Insurance	8	Litigation Matters.....	22
Title Insurance.....	9	Insurance Coverage Issues.....	23
Additional Bonds	10	City Voter Initiatives	24
SOURCES AND USES OF BOND		Other Litigation	24
PROCEEDS	11	Legality for Investment in California.....	25
MUNICIPAL BOND INSURANCE POLICY	11	UNDERWRITING	25
The MBIA Insurance Corporation Insurance		MISCELLANEOUS.....	25
Policy.....	11	Ratings	25
The Insurer.....	12	Financial Advisor.....	25
Insurer Financial Information	12	Additional Information.....	26
Financial Strength Ratings of the Insurer.....	13	Execution and Delivery.....	26
THE PROJECT	13		
General	13	APPENDIX A THE CITY OF SAN DIEGO	
<i>Fire Station Projects</i>	14	APPENDIX B EXCERPTS FROM THE CITY'S	
<i>Lifeguard Station Projects</i>	15	COMPREHENSIVE ANNUAL FINANCIAL	
THE LEASED PROPERTY	16	REPORT FOR THE FISCAL YEAR ENDED	
RISK FACTORS	17	JUNE 30, 2001	
Bonds Not General Obligation Debt of City		APPENDIX C DEFINITIONS AND SUMMARY OF CERTAIN	
or State.....	17	PROVISIONS OF THE LEGAL	
Base Rental Payments	17	DOCUMENTS	
Abatement	17	APPENDIX D FORM OF CONTINUING DISCLOSURE	
Seismic Considerations	18	AGREEMENT	
Hazardous Substances	18	APPENDIX E BOOK-ENTRY SYSTEM	
Limited Recourse on Default; No		APPENDIX F PROPOSED OPINION OF BOND COUNSEL	
Acceleration of Base Rental.....	18	APPENDIX G FORM OF MUNICIPAL BOND INSURANCE	
Possible Insufficiency of Insurance		POLICY OF MBIA INSURANCE	
		CORPORATION	

(THIS PAGE INTENTIONALLY LEFT BLANK)

**CITY OF SAN DIEGO
CITY COUNCIL**

Dick Murphy, *Mayor*

Toni Atkins
Donna Frye
Ralph Inzunza
Jim Madaffer

Brian Maienschein
Scott Peters
George Stevens
Byron Wear

CITY OFFICIALS

Michael T. Uberuaga
City Manager

Casey Gwinn, Esq.
City Attorney

Ed Ryan
City Auditor and Comptroller

Patricia T. Frazier
Deputy City Manager

Charles Abdelnour
City Clerk

Mary E. Vattimo
City Treasurer

**PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO
BOARD OF COMMISSIONERS**

Joseph W. Craver
Chairman

Samuel Brown
Vice Chairman

Ed Ryan
Treasurer

L. Renée Comeau
Secretary

Michael T. Uberuaga
Commissioner

BOND COUNSEL

Hawkins, Delafield & Wood
Los Angeles, California

DISLOSURE COUNSEL

Quateman & Zidell LLP
Los Angeles, California

FINANCIAL ADVISOR

Kelling, Northcross & Nobriga
Oakland, California

TRUSTEE

Wells Fargo Bank, National Association
Los Angeles, California

OFFICIAL STATEMENT

\$25,070,000

**PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO
LEASE REVENUE BONDS
SERIES 2002B
(FIRE AND LIFE SAFETY FACILITIES PROJECT)**

INTRODUCTION

General

This Official Statement, which includes the cover page and appendices hereto, is provided to furnish certain information in connection with the issuance and sale of the Public Facilities Financing Authority of the City of San Diego Lease Revenue Bonds, Series 2002B (Fire and Life Safety Facilities Project) in the aggregate principal amount of \$25,070,000 (the "Bonds"). The Bonds, in book-entry form, will be issued pursuant to an indenture, dated as of June 1, 2002 (the "Indenture"), between the Public Facilities Financing Authority of the City of San Diego, a California joint powers authority (the "Authority"), and Wells Fargo Bank, National Association, as trustee (the "Trustee"). The proceeds of the Bonds will be used to (i) finance certain real property and improvements to certain fire and life safety facilities of the City of San Diego (the "Project"); (ii) fund capitalized interest; (iii) fund a Reserve Account for the Bonds; and (iv) pay costs of issuance with respect to the Bonds

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

The Bonds are payable from and secured by a pledge of Revenues (as defined in the Indenture), consisting primarily of lease payments made by the City of San Diego (the "City") under a lease, dated as of June 1, 2002 (the "Lease"), between the City and the Authority. Such lease payments are defined as "Base Rental Payments" or "Base Rental," and are designed to be sufficient, in both time and amount, to pay when due the principal of and interest on the Bonds. The City shall make Base Rental Payments to the Trustee, as assignee of the Authority under the Assignment Agreement, dated as of June 1, 2002 (the "Assignment Agreement"), between the Authority and the Trustee, for the use and possession of the real property encumbered by the Lease (the "Leased Property") during each annual period. The Trustee shall deposit such Base Rental Payments in the Bond Fund established under the Indenture. The Indenture provides that the Trustee will apply Base Rental Payments (as defined herein) and other monies received by it for the benefit of the registered owners of the Bonds (the "Owners") to the payment of principal of, premium, if any, and interest on the Bonds, and will perform certain other functions. See "**APPENDIX C – DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS – The Indenture.**" As used herein, the term "Bonds" means the Bonds, and any Additional Bonds issued under the Indenture.

The Leased Property will consist of certain fire station properties located within the City limits. See "**THE LEASED PROPERTY**" and "**RISK FACTORS – Substitution and Removal of Leased Property.**"

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

Brief descriptions of the Bonds, Security and Sources of Payment for the Bonds, the Project, the Leased Property, Risk Factors and the Authority follow. A brief description of the City is provided in "**APPENDIX A – THE**

CITY OF SAN DIEGO.” Certain audited financial statement information relating to the City’s General Fund is provided in **“APPENDIX B – EXCERPTS FROM THE CITY’S COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2001.”** Summaries of the Indenture, the Lease, the Site Lease and the Assignment Agreement are provided in **“APPENDIX C – DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS.”** A form of the Continuing Disclosure Agreement of the City with respect to the Bonds is provided in **“APPENDIX D – FORM OF CONTINUING DISCLOSURE AGREEMENT.”** Such descriptions and summaries do not purport to be comprehensive or definitive. All references made to various documents herein are qualified in their entirety by reference to the actual forms thereof, copies of which may be obtained from the Trustee. All capitalized terms used in this Official Statement (unless otherwise defined herein) shall have the meanings set forth in the Indenture or the Lease. See **“APPENDIX C – DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS.”**

Continuing Disclosure

The Authority has determined that no financial or operating data concerning the Authority is material to an evaluation of the offering of the Bonds or to any decision to purchase, hold or sell the Bonds and the Authority will not provide any such information. The City has undertaken all responsibilities for any continuing disclosure to Owners of the Bonds as described below, and the Authority shall have no liability to the Owners of the Bonds or any other person with respect to Rule 15c2-12 of the Securities and Exchange Commission under the Securities Exchange Act of 1934 (the “Rule”).

The City has covenanted for the benefit of Owners and Beneficial Owners of the Bonds to provide certain financial information and operating data relating to the City by not later than 285 days following the end of the City’s Fiscal Year (which Fiscal Year currently ends on June 30) (the “Annual Report”), commencing with the City’s Annual Report for the Fiscal Year ended June 30, 2002, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed by the City with each Nationally Recognized Municipal Securities Information Repository and the State Information Depository. Currently, there is no State Information Depository. The notices of material events will be filed by the City with the Municipal Securities Rulemaking Board, each Nationally Recognized Municipal Securities Information Repository and the State Information Depository. The specific nature of the information to be contained in the Annual Report or the notices of material events is summarized in **“APPENDIX D – FORM OF CONTINUING DISCLOSURE AGREEMENT.”** The City has never failed to comply in all material respects with any previous undertakings with regard to said Rule to provide annual reports or notices of material events.

THE BONDS

General Provisions

The Bonds will be executed and delivered in the aggregate principal amount of \$25,070,000, will be dated June 15, 2002, will be payable as to interest from June 15, 2002 at the rates set forth on the cover page hereof, semiannually on each October 1 and April 1 (each an “Interest Payment Date”), commencing October 1, 2002, and will mature on April 1 in each of the designated years and in the principal amounts shown on the cover page hereof.

Debt Service Payment Schedule

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

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

Public Facilities Financing Authority of the City of San Diego
Lease Revenue Bonds, Series 2002B
Debt Service Payment Schedule

<u>Bond Payment Dates</u>	<u>Principal</u>	<u>Interest</u>	<u>Fiscal Year Total</u>
October 1, 2002		\$ 366,511.93	
April 1, 2003		622,378.75	\$ 988,890.68
October 1, 2003		622,378.75	
April 1, 2004	\$ 405,000	622,378.75	1,649,757.50
October 1, 2004		608,203.75	
April 1, 2005	430,000	608,203.75	1,646,407.50
October 1, 2005		593,153.75	
April 1, 2006	455,000	593,153.75	1,641,307.50
October 1, 2006		577,228.75	
April 1, 2007	475,000	577,228.75	1,629,457.50
October 1, 2007		560,603.75	
April 1, 2008	500,000	560,603.75	1,621,207.50
October 1, 2008		543,103.75	
April 1, 2009	525,000	543,103.75	1,611,207.50
October 1, 2009		533,785.00	
April 1, 2010	550,000	533,785.00	1,617,570.00
October 1, 2010		523,472.50	
April 1, 2011	580,000	523,472.50	1,626,945.00
October 1, 2011		512,162.50	
April 1, 2012	605,000	512,162.50	1,629,325.00
October 1, 2012		500,062.50	
April 1, 2013	630,000	500,062.50	1,630,125.00
October 1, 2013		487,147.50	
April 1, 2014	655,000	487,147.50	1,629,295.00
October 1, 2014		473,228.75	
April 1, 2015	685,000	473,228.75	1,631,457.50
October 1, 2015		457,816.25	
April 1, 2016	715,000	457,816.25	1,630,632.50
October 1, 2016		441,371.25	
April 1, 2017	750,000	441,371.25	1,632,742.50
October 1, 2017		423,746.25	
April 1, 2018	785,000	423,746.25	1,632,492.50
October 1, 2018		405,102.50	
April 1, 2019	825,000	405,102.50	1,635,205.00
October 1, 2019		385,508.75	
April 1, 2020	865,000	385,508.75	1,636,017.50
October 1, 2020		364,965.00	
April 1, 2021	910,000	364,965.00	1,639,930.00
October 1, 2021		343,125.00	
April 1, 2022	960,000	343,125.00	1,646,250.00
October 1, 2022		319,125.00	
April 1, 2023	1,010,000	319,125.00	1,648,250.00
October 1, 2023		293,875.00	
April 1, 2024	1,060,000	293,875.00	1,647,750.00
October 1, 2024		267,375.00	
April 1, 2025	1,115,000	267,375.00	1,649,750.00
October 1, 2025		239,500.00	
April 1, 2026	1,170,000	239,500.00	1,649,000.00
October 1, 2026		210,250.00	
April 1, 2027	1,230,000	210,250.00	1,650,500.00
October 1, 2027		179,500.00	
April 1, 2028	1,295,000	179,500.00	1,654,000.00
October 1, 2028		147,125.00	
April 1, 2029	1,360,000	147,125.00	1,654,250.00
October 1, 2029		113,125.00	
April 1, 2030	1,435,000	113,125.00	1,661,250.00
October 1, 2030		77,250.00	
April 1, 2031	1,505,000	77,250.00	1,659,500.00
October 1, 2031		39,625.00	
April 1, 2032	<u>1,585,000</u>	<u>39,625.00</u>	<u>1,664,250.00</u>
TOTALS	\$ 25,070,000	\$23,474,723.18	\$48,544,723.18

Redemption Provisions

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

Optional Redemption. The Bonds maturing on or before April 1, 2012 are not subject to optional redemption prior to their respective stated maturities. The Bonds maturing on or after April 1, 2013 shall be subject to redemption prior to their respective stated maturities at the option of the Authority on or after April 1, 2012, as a whole, or in part (in such maturities as are designated to the Trustee by the Authority no later than 45 days prior to the redemption date or, if the Authority fails to designate such maturities, on a proportional basis among maturities) on any date, from funds derived by the Authority from any source at the principal amount thereof, together with interest accrued thereon to the date fixed for redemption:

<u>Redemption Date</u>	<u>Redemption Price</u>
April 1, 2012 and thereafter	100%

Mandatory Sinking Fund Redemption. The term Bonds maturing on April 1, 2027 are also subject to redemption prior to their stated maturity, in part by lot, from sinking account payments deposited in the Sinking Account, on any April 1 on or after April 1, 2025 at the principal amount thereof and interest accrued thereon to the date fixed for redemption, without premium, according to the following schedule:

<u>Year (April 1,)</u>	<u>Principal Amount</u>
2025	\$1,115,000
2026	1,170,000
2027*	1,230,000

* Maturity

The term Bonds maturing on April 1, 2032 are also subject to redemption prior to their stated maturity, in part by lot, from sinking account payments deposited in the Sinking Account, on any April 1 on or after April 1, 2028 at the principal amount thereof and interest accrued thereon to the date fixed for redemption, without premium, according to the following schedule:

Year (April 1,)	Principal Amount
2028	\$1,295,000
2029	1,360,000
2030	1,435,000
2031	1,505,000
2032*	1,585,000

* Maturity

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

Notice of Redemption. Notice of redemption shall be mailed by the Trustee, not less than 30 nor more than 60 days prior to the redemption date to (i) the respective Owners of the Bonds designated for redemption at their addresses appearing on the registration books of the Trustee by first class mail; (ii) the Securities Depositories; and (iii) the Information Services. Notice of redemption to the Securities Depositories and the Information Services shall be given by registered mail or by overnight delivery. Each notice of redemption shall state the date of such notice, the redemption price, the name and appropriate address of the Trustee, the CUSIP number (if any) of the maturity or maturities, and, if less than all of any such maturity is to be redeemed, the distinctive certificate numbers of the Bonds of such maturity to be redeemed and, in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that on said date there will become due and payable on each of said Bonds thereof and in the case of a 2002B Bond to be redeemed in part only, the specified portion of the principal amount thereof to be redeemed, together with interest accrued thereon to the redemption date, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such Bonds be then surrendered at the address of the Trustee specified in the redemption notice. As long as a book-entry method is used for the Bonds, such notice shall be sent by the Trustee to the securities depository for the Bonds, initially DTC or its nominee. Beneficial owners of interests in the Bonds are to receive notification of such redemption as described in “**APPENDIX E – BOOK-ENTRY SYSTEM.**”

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

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

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

Pledge of Revenues

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

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

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

Base Rental Payments

The Bonds are payable from Base Rental Payments made by the City under the Lease for the use and possession of the Leased Property during each annual period. See **"THE LEASED PROPERTY"** and **"RISK FACTORS – Substitution and Removal of Leased Property."** The Indenture requires that Base Rental Payments be deposited in the Bond Fund maintained by the Trustee. Pursuant to the Indenture, on October 1 and April 1 of each year, commencing October 1, 2002, the Trustee will apply amounts in the Bond Fund to make principal and interest payments with respect to the Bonds as the same shall become due and payable and in amounts sufficient to meet the payment schedule above under **"THE BONDS – Debt Service Payment Schedule."**

Pursuant to the Lease and the Assignment Agreement, the City is required to make Base Rental Payments to the Trustee seven Business Days preceding each October 1 and each April 1 in each fiscal year during the term of the Lease, commencing October 1, 2002. Amounts received by the Trustee will be held as security for the payments due on the Bonds. The amount of Base Rental Payments is designed to be sufficient to pay principal of and interest and redemption premiums, if any, on the Bonds when due. The Lease also provides that Base Rental Payments and Additional Rental shall be abated in whole or in part if there is substantial interference with the City's use and possession of any portion of the Leased Property due to damage, destruction, title defect or condemnation. The amount of abatement shall be such that the resulting Base Rental Payments and Additional Rental represent fair consideration for the use and possession of the remaining portions of the Leased Property as to which such damage, destruction, title defect or condemnation do not substantially interfere with the use and right of possession by the City. Such abatement shall continue for the period commencing with the date of the substantial interference due to damage, destruction, title defect or condemnation and ending with the substantial completion of the work of repair or replacement of the portions of the Leased Property so damaged, destroyed, defective or condemned. See **"RISK FACTORS – Abatement."**

The City is obligated to make Base Rental Payments from any and all General Fund monies legally available to the City, although the City's General Fund is not pledged to secure the payment of Base Rental Payments. For certain economic, demographic and financial information relating to the City, see **"APPENDIX A – THE CITY OF SAN DIEGO."** For certain audited financial statement information relating to the City's General Fund, see **"APPENDIX B –**

EXCERPTS FROM THE CITY'S COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2001."

Reserve Account

The Reserve Account is established within the Bond Fund under the Indenture. The Reserve Account will be funded initially from the proceeds of the Bonds in the amount of \$1,664,250 and as contemplated by any Supplemental Indenture authorizing the issuance of Additional Bonds, in order that the aggregate amount therein is equal to the least of (i) 10% of the stated principal amount of the Bonds; (ii) Maximum Annual Debt Service for the current or any future Bond Year; or (iii) 125% of average Annual Debt Service (the "Reserve Requirement").

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

All amounts in the Reserve Account shall be used and withdrawn by the Trustee for the purpose of replenishing the Interest Account or the Principal Account in such order, in the event of any deficiency at any time in either of such accounts, or for the purposes of paying the principal of and interest and redemption premiums, if any, on the Bonds and any Additional Bonds in the event that no other money of the Authority is lawfully available therefor, or for the retirement of all the Bonds and any Additional Bonds then Outstanding. All interest income received by the Trustee from the investment of moneys in the Reserve Account (as well as from the investment of moneys in other Funds and Accounts) shall be transferred to the Interest Account of the Bond Fund, or, at the direction of the City, to the Construction Fund, until such time as the Project is completed, and thereafter to the Principal Account of the Bond Fund; provided, however, that such interest income shall be transferred to the Rebate Fund as and when required by the Indenture and retained in the Reserve Account to the extent that amounts therein have been transferred to make up a deficiency in the Interest Account or the Principal Account. See **"APPENDIX C – DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS."**

Substitution and Removal of Leased Property

The City and the Authority may amend the Lease to substitute additional real property and/or improvements (the "Substituted Property") for the existing Leased Property (a "Substitution") or to remove real property (including undivided interests therein) or improvements from the definition of Leased Property (a "Removal"), upon compliance with all of the conditions set forth in the Lease and described below. After a Substitution or Removal, the portion of the Leased Property for which the Substitution or Removal has been effected shall be released from the leasehold encumbrance of the Lease.

No Substitution or Removal shall take place under the Lease until the City delivers to the Authority and the Trustee, among other documents, the items listed below. Also see **"APPENDIX C – DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS – Lease."**

(i) A Certificate of the City accompanied by an MAI fair market appraisal or a fair market appraisal utilizing appropriate valuation methodology from an appraiser, who may but need not be an employee of the City, evidencing that the annual fair rental value of the Substituted Property which will constitute the Leased Property after such substitution or removal will be at least equal to 100% of the maximum amount of the Base Rental Payments becoming due in the then current fiscal year or in any subsequent fiscal year; and stating that the useful economic life of the Substituted Property is at least equal to the remaining term of this Lease; and

(ii) In the event of a Substitution, a policy of title insurance in an amount equal to the same proportion of the principal amount as the principal portion of Base Rental Payments for the Substituted Property bears to the total principal portion of Base Rental Payments, insuring the Authority's interest in the Substituted Property (except any portion thereof which is not real property) subject to Permitted Encumbrances (as defined in the Lease), together with an endorsement thereto making said policy payable to the Trustee for the benefit of the Owners of the Bonds and any Additional Bonds.

Insurance

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

(i) Insurance against loss or damage to the Leased Property caused by fire, lightning or earthquake, with an extended coverage endorsement covering the risk of vandalism and malicious mischief, sprinkler system leakage and boiler loss; provided that earthquake coverage shall be required only if: (a) available from reputable insurers at commercially reasonable rates; and (b) the Leased Property cannot satisfy any earthquake standards which may be imposed by any Rating Agency then rating the Bonds or any Additional Bonds. In the event the City is unable to obtain earthquake coverage on any Leased Property which it previously has maintained, it will promptly so notify all Rating Agencies then rating the Bonds or any Additional Bonds. It is anticipated that the City will not obtain earthquake insurance on the Leased Property. The insurance described in this paragraph (i) shall be in an amount equal to the lesser of (a) replacement cost (without deduction for depreciation) of improvements located or to be located on the Leased Property or, if lower, \$50,000,000 in the case of earthquake insurance, or (b) the remaining unpaid principal amount of Bonds Outstanding plus the amount of use and occupancy coverage described in paragraph (ii) below, except that such insurance may be subject to deductible clauses of not to exceed the first one hundred thousand dollars (\$100,000) of the amount of any one loss (or ten percent (10%) of the amount insured, in the case of earthquake). Insurance described in this paragraph (i) and in paragraph (ii) below may be in the form of a policy which covers the Leased Property and one or more additional parcels of real property; provided that the amount of coverage available thereunder shall be at least equal to the cumulative replacement values of the Leased Property and any other such property which is the subject of a lease, installment purchase or other financing arrangement (“Financed Property”) for which bonds, certificates of participation or other obligations shall have been issued (“Obligations”) plus the amount of use and occupancy coverage required by paragraph (ii) below. In the event the City elects to obtain insurance for the Leased Property and one or more additional parcels of real property and the amount of the insurance proceeds available to pay all claims thereunder is not sufficient to cover the replacement values of all such properties, then any such proceeds shall be used first to rebuild or repair the Leased Property and all Financed Properties or to repay all Obligations, the Bonds and any Additional Bonds.

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

(iii) Workers’ compensation insurance or an approved self-insurance or self-funding method or plan covering all employees working in or on the Project and the Leased Property; and the City shall require any other person or entity working in or on the Project and the Leased Property to carry the workers’ compensation insurance in connection with statutory requirements; any such policy may provide for a deductible so long as the deductible is covered by a self-insurance or self-funding method or plan permitted by the Lease.

(iv) Standard, commercial general liability insurance to protect the Authority and the City and their directors, officers and employees, indemnifying and defending such parties against direct or contingent loss or liability for damages for personal injury, death or property damage related to the possession, operation or use of the Leased Property, with a minimum combined single limit of ten million dollars (\$10,000,000) for personal injury or death of one or more persons, and for property damage, in each accident or event (subject to a

self-insured retention clause of not to exceed one million dollars (\$1,000,000) or such greater amount as may be covered by any self-insurance or self-funding method or plan permitted by the Lease).

The insurance required by paragraphs (i), (iii) and (iv) above may be maintained as part of or in conjunction with any other liability insurance coverage carried by the City, and may be maintained through a joint exercise of powers authority created for the purpose or in the form of self-insurance by the City. See “**APPENDIX C – DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS – The Lease – Maintenance; Taxes; Insurance and other Charges.**” Any such self-insurance or self-funding maintained by the City pursuant to (i) above, shall, unless waived with the consent of the Insurer (as defined herein), comply with the following terms:

- (a) The self-insurance program shall be approved by an Insurance Consultant;
- (b) The self-insurance program shall be maintained on an actuarially sound basis and MBIA Insurance Corporation (the “Insurer”) will annually receive a certified actuarial statement attesting to the sufficiency of the program’s assets;
- (c) The self-insurance fund shall be held in a separate trust fund by an independent trustee;
and
- (d) In the event the self-insurance program is discontinued, the actuarial soundness of the claim reserve fund shall be maintained.

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

Title Insurance

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

See “**APPENDIX C – DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS – The Lease – Maintenance; Taxes; Insurance and Other Charges**” for additional information regarding the insurance requirements under the Lease.

Additional Bonds

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

(i) The Authority shall be in compliance with all agreements and covenants contained in the Indenture and no Event of Default shall have occurred and be continuing under the Lease.

(ii) The issuance of such Additional Bonds shall have been authorized by the Authority and shall have been provided for by a Supplemental Indenture which shall specify, among other things, the following:

(a) The purpose for which such Additional Bonds are to be issued; provided that proceeds of such Additional Bonds shall be applied solely for the purpose of (1) financing, acquiring, constructing, maintaining, operating, improving and leasing the Project (as defined in the Indenture) and costs incidental thereto; and/or (2) funding any increase in the Reserve Requirement; and/or (3) the purpose of refunding any Bonds or Additional Bonds, then Outstanding; and

(b) The amount to be deposited from the proceeds of sale of such Additional Bonds in the Reserve Account, which amount shall be sufficient to cause the amount on deposit in the Reserve Account to equal the Reserve Requirement upon the issuance of such Additional Bonds.

(iii) The Lease shall have been further amended so as to increase the aggregate Base Rental payable by the City thereunder by an amount at least sufficient to pay the interest on and principal of such Additional Bonds as the same become due, subject to the limitation that the increase in Base Rental together with existing Base Rental Payments shall not in any year be in excess of the annual fair rental of the Leased Property determined as of the time the Additional Bonds are issued.

(iv) The Authority shall have received confirmation in writing from the Rating Agencies then providing a rating on any Outstanding Bonds that the issuance of such Additional Bonds will not, in and of itself, cause a downgrading or withdrawal of such rating. The Authority need not seek such a confirmation in writing if the annual amount of interest and principal, including sinking fund payments, payable on the Additional Bonds does not exceed the corresponding amount of such payments on the Outstanding Bonds being refunded, provided, that the term of the Additional Bonds does not exceed the term on the Outstanding Bonds being refunded.

For additional information with respect to the issuance of Additional Bonds under the Indenture, see **“APPENDIX C – DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS – The Indenture.”**

SOURCES AND USES OF BOND PROCEEDS

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

Sources:

Principal Amount	\$25,070,000.00
Accrued Interest	44,949.58
Net Premium	<u>68,237.25</u>
Total	\$25,183,186.83

Uses:

Deposit to Construction Fund	\$21,580,758.90
Deposit to Interest Account ⁽¹⁾	988,890.68
Deposit to Reserve Account	1,664,250.00
Costs of Issuance ⁽²⁾	505,000.00
Underwriter's Discount ⁽³⁾	<u>444,287.25</u>
Total	\$25,183,186.83

(1) Includes capitalized interest in the amount of \$943,941.10.

(2) Costs of Issuance include fees and expenses of the Financial Advisor, Bond Counsel, Disclosure Counsel and the Trustee, expenses for obtaining ratings for the Bonds, Official Statement printing costs and other costs related to the issuance of the Bonds.

(3) Includes premium of \$252,000.00 for municipal bond insurance policy.

MUNICIPAL BOND INSURANCE POLICY

The MBIA Insurance Corporation Insurance Policy

The following information has been furnished by the Insurer for use in this Official Statement. Reference is made to APPENDIX G for a specimen of the Insurer's policy.

The Insurer's policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the Authority to the Trustee or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the Insurer's policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a "Preference").

The Insurer's policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond. The Insurer's policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of the Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. The Insurer's policy also does not insure against nonpayment of principal of or interest on the Bonds resulting from the insolvency, negligence or any other act or omission of the Trustee or any other paying agent for the Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Trustee or any owner of a Bond the payment of an insured amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its

successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Bonds or presentment of such other proof of ownership of the Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Bonds as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Bonds in any legal proceeding related to payment of insured amounts on the Bonds, such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such owners or the Trustee payment of the insured amounts due on such Bonds, less any amount held by the Trustee for the payment of such insured amounts and legally available therefor.

The Insurer

The Insurer is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against the Insurer. The Insurer is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. The Insurer has three branches, one in the Republic of France, one in the Republic of Singapore and one in the Kingdom of Spain. New York has laws prescribing minimum capital requirements, limiting classes and concentrations of investments and requiring the approval of policy rates and forms. State laws also regulate the amount of both the aggregate and individual risks that may be insured, the payment of dividends by the Insurer, changes in control and transactions among affiliates. Additionally, the Insurer is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

The Insurer does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Insurer's policy and the Insurer set forth under the heading "**MUNICIPAL BOND INSURANCE POLICY.**" Additionally, the Insurer makes no representation regarding the Bonds or the advisability of investing in the Bonds.

The Financial Guaranty Insurance Policies are not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Insurer Financial Information

The following documents filed by the Company with the Securities and Exchange Commission (the "SEC") are incorporated herein by reference:

- (1) The Company's Annual Report on Form 10-K for the year ended December 31, 2001; and
- (2) The Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2002.

Any documents filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, after the date of this Official Statement and prior to the termination of the offering of the securities offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2001 and (2) the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2002) are available (i) over the Internet at the SEC's web site at <http://www.sec.gov>; (ii) at the SEC's public reference room in Washington, D.C.; (iii) over the Internet at the Company's web site at <http://www.mbia.com>; and (iv) at no cost, upon request to MBIA Insurance Corporation, 113 King Street, Armonk, New York 10504. The telephone number of MBIA is (914) 273-4545.

As of December 31, 2001, the Insurer had admitted assets of \$8.5 billion (audited), total liabilities of \$5.6 billion (audited), and total capital and surplus of \$2.9 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of March 31, 2002, the Insurer had admitted assets of \$8.6 billion (unaudited), total liabilities of \$5.7 billion (unaudited), and total capital and surplus of \$2.9 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

Financial Strength Ratings of the Insurer

Moody's Investors Service, Inc. rates the financial strength of the Insurer "Aaa."

Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. rates the financial strength of the Insurer "AAA."

Fitch, Inc. rates the financial strength of the Insurer "AAA."

Each rating of the Insurer should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of the Insurer and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Bonds. The Insurer does not guaranty the market price of the Bonds nor does it guaranty that the ratings on the Bonds will not be revised or withdrawn.

In the event the Insurer were to become insolvent, any claims arising under a policy of financial guaranty insurance are excluded from coverage by the California Insurance Guaranty Association, established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

There can be no assurances that payments made by the Insurer representing interest on the Bonds will be excluded from gross income, for federal tax purposes, in the event of nonappropriation by the political subdivision.

THE PROJECT

General

The Project will consist, generally, of the construction or improvement of fire and lifeguard stations throughout the City, capital improvements to certain fire stations and/or to repair facilities and the acquisition of land for the future construction of fire and/or lifeguard facilities. Each project will have a unique design and construction schedule, however it is currently projected that all projects will be completed by March 2007.

Subject to receipt of City Council and any other necessary approvals, the Project is expected to be financed with cash and two series of bonds. Of the approximately \$45 million required, approximately \$4 million will be cash funded and \$41 million financed with bonds. The Bonds are expected to fund the Project's financing needs (approximately \$22 million) through May 2004. A second series of bonds is expected to fund the Project's financing needs (approximately \$19 million) from June 2004 through March 2007. The construction of some fire and/or lifeguard facilities will be initiated with the Bonds and would be completed with funds from the second series of bonds. If for any reason the issuance of such a second series of bonds were to be delayed or otherwise not take place, the City may be obligated to postpone or modify aspects of the Project construction schedule.

A brief description of the individual projects intended to be funded with the proceeds of the Bonds as of the date hereof is set out below, and is subject to change.

Fire Station Projects

Fire Station 1: This project is a major renovation of the primary downtown fire station. The station is 30 years old and is located at 1222 First Avenue. The station size is approximately 16,100 square feet. It houses one battalion vehicle, two engines, one truck, one ambulance, one light and air support apparatus, one Explosive Ordinance Disposal rig, a Metro Arson Strike Team (MAST) vehicle and several other support vehicles. There are eighteen fire personnel assigned to a 24-hour per day assignment. There are several other personnel representing other agencies involved in MAST assigned here for an eight-hour workday. The remodel project is designed to correct numerous problems including: removal of asbestos, providing individual dormitories, providing a separate HVAC system, providing a separate hot water system, and providing a vehicle exhaust extraction system. The total cost estimate for this project is \$2,756,000.

Fire Station 2: This is a new fire station that will be located in Mission Valley at Friars Rd. and Mission Village Dr. The 16,700 square foot facility will house one battalion vehicle, two engines, one truck and one ambulance. It will also house the Hazardous Materials Response Team. There will be individual dorm space for fifteen fire personnel assigned to a 24-hour per day shift. The new fire station will be a two-story building built on City property on the north side of Friars Road, west of Mission Village Drive. The total cost estimate for this project is \$5,022,000.

Fire Station 5: This project will demolish the current 49-year-old station located at 3902 9th Ave. and University Ave. in Hillcrest and build a new station on the same location. The new 8,300 square foot facility will house one battalion vehicle, one engine and one truck. There will be individual dorm space for nine fire personnel and three apparatus bays. The current station is too small for modern day fire apparatus. The total cost estimate for this project is \$2,406,000.

Fire Station 12: This project will demolish the current 52-year-old station located at 4964 Imperial Ave. and build a new station at the same location. The new 10,890 square foot facility will house one battalion vehicle, one engine, and one truck and one ambulance. There will be individual dorm space for eleven fire personnel and four apparatus bays. The total cost estimate for this project is \$3,018,800.

Fire Station 17: This project will demolish the current 51-year-old station located at 4206 Chamoune Ave. and build a new station at the same location. The new 6,400 square foot facility will house one engine and one ambulance. There will be individual dorm space for six fire personnel and two apparatus bays. The total cost estimate for this project is \$2,087,000.

Fire Station 22: This project is a major renovation of a 57-year-old station. Located at 1055 Catalina Blvd. in Point Loma, the station will be enlarged from 2,270 to 4,220 square feet. A new apparatus bay will be constructed and the existing station remodeled and refurbished to meet current housing standards. There will be individual dorm space for four fire personnel. The total cost estimate for this project is \$1,180,000.

Fire Station 29: This new station will be built across the street from the current 37-year-old station at 179 West San Ysidro Blvd. The new 10,020 square foot facility will house one engine, one truck, one ambulance, and one brush rig. There will be individual dorm space for eleven fire personnel and three apparatus bays. The total cost estimate for this project is \$3,993,000.

Fire Station 31: This project will demolish the current 41-year-old station at 6002 Camino Rico in Del Cerro and replace it with a new station at the same location. The new 8,089 square foot facility will house one engine and one ambulance. There will be individual dorm space for six fire personnel and three apparatus bays. The total cost estimate for this project is \$2,293,800.

Fire Station 32: This 40 year old station, located at 484 Briarwood Road, will be relocated to the vicinity of Skyline Dr. and Sychar Rd. The new 6,400 square foot facility will house one engine and one ambulance. The current crew and apparatus will be relocated to the new location. There will be individual dorm space for six fire personnel and two apparatus bays. The total cost estimate for this project is \$3,333,000.

Fire Station 54: This project will construct a new fire station in the vicinity of Saipan Dr. and Potomac St. in Paradise Hills. The 6,400 square foot facility will house one engine and one ambulance. There will be individual dorm space for six fire personnel and two apparatus bays. The total cost estimate for this project is \$3,112,000.

Major Components: This project will consist of capital improvements at numerous fire stations throughout the City. They include: electrical upgrades (9 stations), new apparatus doors (17 stations), new emergency generators (21 stations), new roofs (14 stations), exterior renovations (19 stations), interior remodels (38 stations), and driveway repair (20 stations). Phase I of this project is scheduled to be completed by the end of April 2002 and Phase II is scheduled to be completed by mid-2005. The total cost estimate for this project is \$4,200,000.

Kearny Villa Repair Facility: This project provides for improvements to a 35-year-old vehicle repair shop. The total cost estimate for this project is \$428,000.

Lifeguard Station Projects

South Pacific Beach Lifeguard Station & Restroom: The proposed project will remove the existing station and will design and construct a new 4,341 square foot lifeguard station with an observation tower, ready room/kitchen, first aid room, reception area, flexible locker rooms, staff restrooms, office space for two, sleeping quarters, stairwell, corridor with washer/dryer area, equipment room, garage for four vehicles and two boats. The project will also design and build a separate 1,025 square foot comfort station and will create a plaza by improving 21,888 square feet of hard scape and landscape around the two buildings. The total cost estimate for this project is \$1,989,000.

North Pacific Beach Lifeguard Station: The proposed project will remove the existing seasonal lifeguard station and the sand mound and will design and construct a new 3,213 square foot lifeguard station with an observation tower, ready room/kitchen, first aid room, reception area, flexible locker rooms, staff restrooms, office space for one, stairwell, corridor with washer/dryer area, workout room, equipment room, garage for two vehicles and one boat. The total cost estimate for this project is \$1,232,000.

La Jolla Shores Lifeguard Station: The proposed project will remove the interior improvements of the existing station and will design and construct a new 3,317 square foot addition to the lifeguard station. The total building size will be approximately 3,872 square feet with an observation tower, ready room/kitchen, first aid room, reception area, flexible locker rooms, staff restrooms, office space for two, sleeping quarters, stairwell, corridor with washer/dryer area, workout room, equipment room, garage for three vehicles and one boat. The total cost estimate for this project is \$1,252,000.

South Mission Beach Lifeguard Station: The proposed project will remove the existing station and will design and construct a new 3,258 square foot lifeguard station. The new station will have an observation tower, ready room/kitchen, first aid room, reception area, flexible locker rooms, staff restrooms, office space for one, stairwell, corridor with washer/dryer area, workout room, equipment room, and a garage for two vehicles and one boat. The total cost estimate for this project is \$1,141,000.

La Jolla Cove Lifeguard Station: The proposed project will remove the existing station and will design and construct a new 826 square foot lifeguard station. The new station will have an observation tower, ready room/kitchen (2 staff max), first aid room (1 person), reception area, flexible locker rooms, staff restrooms (unisex), stairwell, and an equipment room. The total cost estimate for this project is \$481,000.

Children's Pool Lifeguard Station: The proposed project will remove the existing station and will design and construct a new 1,526 square foot lifeguard station. The new station will have an observation tower, ready room/kitchen, first aid room (1 person), small reception area, flexible locker rooms, office space for two, sleeping quarters, stairwell, and an equipment room. The total cost estimate for this project is \$643,000.

Ocean Beach Lifeguard Station: The proposed project will modify and upgrade the existing facility to better accommodate the needs of the lifeguards. The total cost estimate for this project is \$470,000.

Mission Beach Lifeguard Station: The proposed project will modify and upgrade the existing facility to better accommodate the needs of the lifeguards. The total cost estimate for this project is \$429,000.

Lifeguard Headquarters and Boating Safety Unit Dock: The proposed new building would accommodate 36 lifeguards, including 24 hour staff, and storage for boating safety equipment, cliff rescue equipment and river rescue equipment. In addition, replacement of the existing dock which was also built in 1956 is needed to accommodate the Lifeguard Service's fleet of vessels. This project is part of the Mission Bay Headquarters Project which includes

construction of the lifeguard, police, and park and recreation headquarters for a total cost of \$8.3 million. The estimated cost for the lifeguard portion of this project, expected to be funded with the proceeds of the Bonds, is \$2,300,000.

Old Mission Beach Station: This project involves the acquisition of land for a permanent facility to replace the existing seasonal station which is inadequate to serve the area. This project does not involve the design or construction of a new facility, only the land acquisition for development at a later date. The future permanent facility would include an observation tower, first aid room, reception area, kitchen, locker room/restroom area for males and females and a garage for rescue vehicles and equipment. The land acquisition process is currently projected to begin in FY 2003. The land acquisition is not expected to require environmental assessment or Coastal Commission permits. The total estimated cost for the land acquisition is \$1,000,000.

The Lease provides that the City shall have the right to substitute the Project or any component thereof for another Project or, in the event the actual cost of construction or acquisition of the Project is less than that estimated by the City, to add a new component of the Project (or any part thereof) in an amount equal to the difference between such estimated and actual cost of construction or acquisition, but only: (i) by providing the Trustee with an amendment or supplement to the Lease providing for the substitution; and (ii) by delivering or causing to be delivered to the Authority a bill of sale or other evidence of cost therefor.

THE LEASED PROPERTY

The City will be obligated to make Base Rental Payments pursuant to the Lease for the use and occupancy of the Leased Property. On the delivery date of the Bonds, the Leased Property is expected to consist of the following distinct parcels of real property, all of which are currently used as fire stations:

Station No.	Location	Building Size Sq. Ft.	Year Built	Site Size (Acres)	Construction Material
9	7870 Ardath Lane	6,482	1979	1.15	Wood/Stucco
11	945 25 th Street	11,050	1995	0.29	Wood Frame
14	4011 32 nd Street	7,129	1992	0.32	Wood Frame
16	2110 V. Casa Alta, La Jolla	3,036	1983	0.82	Wood Frame
20	3305 Kemper (Sports Arena)	7,280	1993	0.71	Concrete Block
24	13077 Hartfield	6,809	1993	1.91	Concrete Block
28	3750 Kearny Villa/Aero	11,563	1990	1.47	Wood Frame
37	11640 Spring Canyon	8,400	2001	1.09	Concrete Block
41	4914 Carroll Canyon Road	7,227	1990	1.03	Concrete Block
42	12110 World Trade Drive	5,100	1988	1.00	Wood/Stucco
44	10011 Black Mountain Road	9,430	2000	1.64	Wood Frame & PEB (steel)

The City has determined that the aggregate fair market rental value of the Leased Property is equal to or greater than the Base Rental payable under the Lease in each fiscal year of the City.

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

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

RISK FACTORS

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

Bonds Not General Obligation Debt of City or State

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

Base Rental Payments

Base Rental Payments are to be paid by the City from any and all General Fund monies legally available to the City. In the event the City's revenue sources are less than its total Base Rental obligations, the City could choose to fund other municipal services before making Base Rental Payments. (Should such a failure occur, it would be an Event of Default under the Lease and the Trustee could pursue available remedies.) The same result could occur if, because of State Constitutional limits on expenditures, the City is not permitted to appropriate and spend all of its available revenues. The City's appropriations currently do not exceed the limitation on appropriations under Article XIII B of the California Constitution. See **"APPENDIX A – THE CITY OF SAN DIEGO – Limitations on Taxes and Appropriations."**

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

Abatement

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

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

The Lease requires the City to apply insurance proceeds to repair, reconstruct or replace the Leased Property if to do so would fully restore the Leased Property. In the event that the insurance proceeds are not sufficient to fully restore the Leased Property, the City may elect to budget and appropriate additional funds and fully restore the Leased

Property. If the City does not make such an election and the available insurance proceeds are at least sufficient to redeem all of the Outstanding Bonds, at par plus accrued interest, then the insurance proceeds shall be used for that purpose; in the event the insurance proceeds are not so sufficient, the City may elect to (i) budget and appropriate additional funds so that the available insurance proceeds and such additional funds are sufficient to redeem all of the Outstanding Bonds at par plus accrued interest, in which case the same shall be used for this purpose, or (ii) to redeem a portion of the Outstanding Bonds, provided that the fair rental value of the portions of the Leased Property not damaged, destroyed, incomplete or otherwise available for use and occupancy by the City, as determined by the City, is equal to or greater than the debt service on the Bonds that will remain outstanding following the redemption of the Bonds in part from such insurance proceeds. Further, the Lease provides that if there are not sufficient Net Proceeds received from casualty insurance so as to redeem all of the Outstanding Bonds and the City elects not to budget and appropriate additional funds necessary to redeem all of the Outstanding Bonds, then such proceeds will be used to repair, reconstruct or replace the Leased Property. See **“SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Insurance”** and **“APPENDIX C – DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS – The Lease.”**

The application of proceeds received from an award in condemnation or payment under a title insurance policy will depend upon the extent of the condemnation of, or title defects relating to, the Leased Property. If any portion of the Leased Property has been affected by condemnation or a title defect which will result in an abatement of Base Rental Payments payable by the City under the Lease, then the Trustee shall use the proceeds available from condemnation or any policy of title insurance to redeem Outstanding Bonds.

Seismic Considerations

The areas in and surrounding the Leased Property, like those in much of California, may be subject to unpredictable seismic activity. The Leased Property is located near active fault lines. An occurrence of severe seismic activity in the area of the Leased Property could result in substantial damage to and interference with the City’s right to use and occupy all or a portion of the Leased Premises, which could further result in Base Rental payments being subject to abatement. See “Abatement” above. See **“THE LEASED PROPERTY”** herein.

Hazardous Substances

Among the most serious factors in terms of the potential reduction in the sale and/or rental value of real property are costs or liabilities in connection with the presence of hazardous substances. In general, the owners and operators of real property may be required by law to remedy conditions 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 “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. It is possible that the discovery of a hazardous substance could affect the ability of the Trustee to re-let the Leased Property or the amount of rent that could be obtained for the Leased Property if the City were to default on its obligations under the Lease, in which event, the holders of the Bonds would not receive their respective payments when due. Also, the effect, should the Leased Property be affected by a hazardous substance, is to reduce its marketability and value by the costs of remedying the condition and the amount of related damages and expenses.

The City is not aware of any hazardous substance problems at the Leased Property which would have a material effect on the value of the collateral for the Bonds. It is possible that liabilities may arise in the future with respect to the Leased Property resulting from the existence of a substance not presently classified as hazardous, but which may in the future be so classified. 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 affect both the sale and the fair rental value of the Leased Property.

Limited Recourse on Default; No Acceleration of Base Rental

Failure by the City to make Base Rental Payments or other payments required to be made under the Lease, or failure to observe and perform any other terms, covenants or conditions contained in the Lease or in the Indenture for a period of 30 days after written notice of such failure and request that it be remedied has been given to the City by the

Authority or the Trustee, constitute events of default under the Lease and permit the Trustee or the Authority to pursue any and all remedies available. In the event of a default, notwithstanding anything in the Lease or in the Indenture to the contrary, THERE SHALL BE NO RIGHT UNDER ANY CIRCUMSTANCES TO ACCELERATE THE BASE RENTAL PAYMENTS OR OTHERWISE DECLARE ANY BASE RENTAL PAYMENTS NOT THEN IN DEFAULT TO BE IMMEDIATELY DUE AND PAYABLE, NOR SHALL THE AUTHORITY OR THE TRUSTEE HAVE ANY RIGHT TO REENTER OR RELET THE LEASED PROPERTY EXCEPT AS DESCRIBED IN THE LEASE.

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

Alternatively, the Authority or the Trustee may terminate the Lease, retake possession of the Leased Property and proceed against the City to recover damages pursuant to the Lease. Due to the specialized nature of the Leased Property or any property substituted therefor pursuant to the Lease, no assurance can be given that the Trustee will be able to re-let the Leased Property so as to provide rental income sufficient to make all payments of principal of and interest on the Bonds when due, and the Trustee is not empowered to sell the Leased Property for the benefit of the Owners of the Bonds. Any suit for money damages would be subject to limitations on legal remedies against cities in California, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest. See **“SECURITY AND SOURCES OF PAYMENT FOR THE BONDS”** and **“APPENDIX C – DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS.”**

Possible Insufficiency of Insurance Proceeds

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

Limitations on Remedies Available to Owners of the Bonds

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

Other Financial Matters

See **“APPENDIX A – THE CITY OF SAN DIEGO – Municipal Government and Financial Information – Fiscal Year 2001”** and **“Fiscal Year 2002 (Adopted Budget),”** and **“Proposed Vehicle License Fee Reduction”**; see also **“APPENDIX A – Bonded And Other Indebtedness – Possible Additional General Fund Lease Obligations”** for information on the possible incurrence by the City of additional financial obligations payable from the General Fund on a parity with Base Rental Payments.

See also **“LEGAL MATTERS – Litigation Matters.”**

THE AUTHORITY

The Authority is a joint powers authority formed by a Joint Exercise of Powers Agreement dated as of May 14, 1991, as amended and restated as of January 11, 1999, between the City and the Redevelopment Agency of the City of San Diego by authority of Sections 6500 *et seq.* of the California Government Code. The Authority was established to assist the City with respect to the financing of public capital improvements.

LEGAL MATTERS

Tax Exemption

In the opinion of Hawkins, Delafield & Wood, Bond Counsel, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, interest on the Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). Interest on the Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering its opinion, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Authority and the City in connection with the Bonds, and Bond Counsel has assumed compliance by the Authority and the City with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Bonds from gross income under Section 103 of the Code.

In addition, in the opinion of Bond Counsel, under existing statutes, interest on the Bonds is exempt from personal income taxes imposed by the State of California.

Bond Counsel expresses no opinion regarding any other Federal or state tax consequences with respect to the Bonds. Bond Counsel renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update its opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. Bond Counsel expresses no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the Bonds, or under state and local tax law.

Certain Ongoing Federal Tax Requirements and Covenants

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Bonds in order that interest on the Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the Federal government. Noncompliance with such requirements may cause interest on the Bonds to become included in gross income for Federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The Authority and the City have covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the Bonds from gross income under Section 103 of the Code.

Certain Collateral Federal Tax Consequences

The following is a brief discussion of certain collateral Federal income tax matters with respect to the Bonds. It does not purport to address all aspects of Federal taxation that may be relevant to a particular owner of a Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the Bonds.

Prospective owners of the Bonds should be aware that the ownership of such obligations may result in collateral Federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and

taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is not included in gross income for Federal income tax purposes. Interest on the Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

Legislation affecting municipal bonds is regularly under consideration by the United States Congress. There can be no assurance that legislation enacted or proposed after the date of issuance of the Bonds will not have an adverse effect on the tax-exempt status or market price of the Bonds.

Original Issue Discount

Original issue discount (“OID”) is the excess of the sum of all amounts payable at the stated maturity of a Bond (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates) over the issue price of that maturity. In general, the “issue price” of a maturity means the first price at which a substantial amount of the Bonds of that maturity was sold (excluding sales to bond houses, brokers, or similar persons acting in the capacity as underwriters, placement agents, or wholesalers). In general, the issue price for each maturity of Bonds is expected to be the initial public offering price set forth on the cover page of this Official Statement. Bond Counsel further is of the opinion that, for any Bonds having OID (a “Discount Bond”), OID that has accrued and is properly allocable to the owners of the Discount Bonds under Section 1288 of the Code is excludable from gross income for Federal income tax purposes to the same extent as other interest on the Bonds.

In general, under Section 1288 of the Code, OID on a Discount Bond accrues under a constant yield method, based on periodic compounding of interest over prescribed accrual periods using a compounding rate determined by reference to the yield on that Discount Bond. An Owner’s adjusted basis in a Discount Bond is increased by accrued OID for purposes of determining gain or loss on sale, exchange, or other disposition of such Bond. Accrued OID may be taken into account as an increase in the amount of tax-exempt income received or deemed to have been received for purposes of determining various other tax consequences of owning a Discount Bond even though there will not be a corresponding cash payment.

Owners of Discount Bonds should consult their own tax advisors with respect to the treatment of original issue discount for Federal income tax purposes, including various special rules relating thereto, and the state and local tax consequences of acquiring, holding, and disposing of Discount Bonds.

Bond Premium

In general, if an Owner acquires a Bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the Bond after the acquisition date (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates), that premium constitutes “bond premium” on that Bond (a “Premium Bond”). In general, under Section 171 of the Code, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond, based on the owner’s yield over the remaining term of the Premium Bond, determined based on constant yield principles. An Owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner’s regular method of accounting against the bond premium allocable to that period. In the case of a tax-exempt Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the Owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner’s original acquisition cost. Owners of any Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for Federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of Premium Bonds.

Legal Opinions

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

Litigation Matters

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

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 he 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. Please 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 has not included in its budget for the 2002-2003 Fiscal Year any moneys for the payment of any judgment in this case.

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.

While the City believes that it will prevail in any appeal of the denial of the motion for deposit, there can be no assurance that either the trial court or an appellate court will not impose a duty to deposit. Should that occur, the City would expect to deposit the funds from general funds of the City, if it is unsuccessful in obtaining a favorable outcome in an appellate court. If the City must fund the full amount of the deposit from its general funds, this could have an adverse effect on its ability to fund its budgeted expenditure items.

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 provided coverage to the City for the years 1991 to 2001, and they collectively insured 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 a suing insurer is 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 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. 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 City believes that it will either prevail in the litigation or that if Proposition F fails, Proposition E will fail on the same grounds. 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. The City's proposed budget for Fiscal Year 2003 includes no projected revenues from any such tax enhancing measures.

Other Litigation

In February 2002, the Public Facilities Financing Authority of the City issued lease revenue bonds in the aggregate principal amount of \$169,685,000 for the construction of a state-of-the art baseball park (the "Ballpark Bonds"). The Ballpark has been the subject of a variety of litigation. There are two actions pending in which alleged conflicts of interest of a former City Council member are addressed. The first of these actions is *Skane v. City of San Diego* (San Diego County Superior Court, Case No. GIC 752505), a taxpayers lawsuit, and the second is *City of San Diego, et al. v. All Persons Interested* (San Diego County Superior Court, Case No. GIC 763487), a validation action brought by the City. A third action, *Simmons v. City of San Diego, et al.* (San Diego County Superior Court, Case No. GIC 779299), is a purported "reverse" validation and a "citizen resident action" brought against the City, the Public Facilities Financing Authority of the City and others. On February 8, 2002, the City obtained a validation action judgment from the trial court in the *Simmons* matter. *Simmons* filed an appeal from the judgment against him, and that appeal is in process in the appellate court. The legal opinions delivered in connection with the Ballpark Bonds were qualified in certain respects. The validity of the Ballpark Bonds in light of the above mentioned actions remains undecided. Ballpark Bonds are payable from lease payments charged against the General Fund. The City cannot predict the outcome of the litigation or the impact of the

litigation on the General Fund. If the validity of the Ballpark Bonds is overturned, it is possible that claims by other parties related to the Ballpark Bonds could be made which may potentially involve expense to the General Fund.

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 regarding BFAP’s exclusive right to negotiate its proposal to lease Brown Field and redevelop it. BFAP contends that when the City did not allow them to present their project to City Council the City failed to perform its contractual obligations and denied BFAP its contractual rights and a proper hearing. The City believes that BFAP’s claim is without merit. On May 13, 2002, the City filed a denial of the claim. BFAP will have six months from the date of denial to file a complaint. The City cannot predict whether litigation may be filed, the outcome of the litigation or the impact of the litigation, if any, on the General Fund. If litigation is filed, and is successful, such litigation may potentially involve expense to the General Fund.

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

Legality for Investment in California

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

UNDERWRITING

The securities offered hereby are to be purchased by Morgan Stanley DW Inc. (the “Underwriter”). The Underwriter has agreed to purchase the Bonds offered hereby at a purchase price of \$24,738,899.58 consisting of \$25,070,000 principal amount of Bonds plus accrued interest of \$44,949.58 and net premium of \$68,237.25 less an underwriter’s discount, including bond insurance premium, of \$444,287.25. The Underwriter will purchase all the Bonds offered hereby if any are purchased. The Bonds may be offered and sold to certain dealers (including dealers depositing these securities into investment trusts) and others at prices lower than the initial public offering price, and the public offering price may be changed from time to time by the Underwriter.

MISCELLANEOUS

Ratings

Fitch Ratings (“Fitch”), Moody’s Investors Service, Inc. (“Moody’s”) and Standard & Poor’s Ratings Services, a division of the McGraw-Hill Companies (“S&P”) have assigned their municipal bond ratings of “AAA”, “Aaa” and “AAA”, respectively to the Bonds, based upon the issuance by MBIA Insurance Corporation of a financial guaranty insurance policy. Fitch, Moody’s and S&P have assigned underlying ratings of “AA+,” “Aa3,” and “AA-,” respectively, to the Bonds. The ratings issued reflect only the views of such rating agencies, and any explanation of the significance of such ratings should be obtained from such rating agencies. There is no assurance that such ratings will be retained for any given period of time or that the same will not be revised downward or withdrawn entirely by such respective rating agencies if, in the judgment of such rating agencies, circumstances so warrant. Under its Continuing Disclosure Agreement (see **APPENDIX D**), the City has agreed to give notice of rating changes as an enumerated event, if material, in the manner described under **“CONTINUING DISCLOSURE.”** Any downward revision or withdrawal of any rating obtained may have an adverse effect on the market price of the Bonds.

Financial Advisor

The City has entered into an agreement with Kelling, Northcross & Nobriga (the “Financial Advisor”), a division of Zions First National Bank, whereunder the Financial Advisor provides financial recommendations and guidance

to the City with respect to preparation for sale of the Bonds, timing of sale, tax-exempt bond market conditions, costs of issuance and other factors related to the sale of the Bonds. The Financial Advisor has read and participated in the drafting of certain portions of this Official Statement. The Financial Advisor has not audited, authenticated or otherwise verified the information set forth in the Official Statement.

Additional Information

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

The City of San Diego
Office of the City Clerk
City Administration Building
202 "C" Street, MS 2A
San Diego, California 92101

Execution and Delivery

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

PUBLIC FACILITIES FINANCING AUTHORITY
OF THE CITY OF SAN DIEGO

By: /s/ Joseph W. Craver
Chairman

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, for 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 historical 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 in the ten year period).

Table 1
POPULATION GROWTH⁽¹⁾
Calendar Years 1993 through 2002

<u>Calendar Year⁽²⁾</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 March 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 grew moderately over the last five academic 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⁽¹⁾
School Year 1997-1998 through 2001-2002

<u>School Year</u>	<u>Enrollment</u>
1997-1998	137,235
1998-1999	138,974
1999-2000	142,021
2000-2001	143,244
2001-2002	142,430

(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 2001 averaged 3.3%, up from a rate of 3.1% during calendar year 2000. The City's 2001 unemployment rate was below both the national rate of 4.8% and the State's rate of 5.3%. During 2001, average employment in the City was up by approximately 8,800 from 2000 levels. Through the first five months of 2002, the City's unemployment rate averaged approximately 4.0%, compared with 2.8% for the same period in 2001. Data for 2001 and 2002 reflect preliminary 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 1997 through 2001

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001⁽¹⁾</u>
Civilian Labor Force					
City of San Diego					
Employed	564,039	584,157	604,733	623,201	632,046
Unemployed	25,357	21,668	19,613	19,613	21,341
Unemployment Rates					
City	4.3%	3.6%	3.1%	3.1%	3.3%
County	4.2	3.5	3.1	3.0	3.2
California	6.3	5.9	5.2	4.9	5.3
United States	4.9	4.5	4.2	4.0	4.8

(1) Preliminary, subject to future revision.

Source: State of California Employment Development Department, Labor Market Information Division; and 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 during the period

1997 to 2001. 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 175,700 new jobs during this period. During calendar year 2001 alone, employment in San Diego County increased by 33,400 new jobs.

However, as shown in Table 4, while San Diego County wage and salary employment grew at a rate of 2.8% during 2001, this rate of growth was slower than in prior years. For instance, wage and salary employment grew at a rate of 3.8% and 4.3% in the prior two years.

Table 4
SAN DIEGO COUNTY
WAGE AND SALARY EMPLOYMENT
Calendar Years 1997 through 2001

INDUSTRY CATEGORY	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Mining	400	300	300	400	400
Construction	53,000	61,800	67,000	70,400	73,300
Manufacturing	123,100	127,600	128,100	129,700	129,900
Nondurable Goods	34,000	35,800	36,500	37,800	37,900
Durable Goods	89,100	91,800	91,600	91,900	92,000
Transportation, Communications, Utilities ⁽¹⁾	41,600	47,000	51,300	50,900	51,100
Trade	244,000	249,400	256,500	267,800	272,800
Wholesale	45,600	48,300	50,300	52,300	53,100
Retail	198,400	201,100	206,100	215,500	219,600
Finance, Insurance, Real Estate	60,900	65,300	68,700	69,800	71,200
Services	339,300	359,600	381,700	400,600	416,800
Government	192,000	194,500	199,300	206,800	214,500
Federal	44,600	43,300	42,500	42,600	41,100
State and Local	147,400	151,200	156,800	164,200	173,400
TOTAL NONAGRICULTURAL ⁽²⁾	1,054,200	1,105,500	1,152,900	1,196,500	1,229,900

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

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

Source: State of California Employment Development Department

Since the industry employment data referenced above is organized by standard industrial classification codes, employment in the various high tech categories, such as Telecommunications, 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 2001. The Services sector (+16,200) alone represented approximately half of total employment growth for the County. Within the Services sector, Business Services and Engineering & Management continued to lead other components, with increases of 3,500 and 4,000 respectively. It should be noted that the Business Services and Engineering & Management components include many of the City's high tech

employers. Other key employment growth sectors during 2001 included Construction (+2,900), Wholesale and Retail Trade (+5,000), and Government (+7,700).

The increase in the Government sector, which accounted for 17% of the total nonagricultural wage and salary employment in the County, 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 during calendar year 2000, the most recent year for which data are available from the California State Board of Equalization, totaled approximately \$16.1 billion, up 11.1% from 1999, and up 42.6% from 1996. Table 5 provides annual sales information by type of outlet for the period 1996 through 2000.

Table 5
CITY OF SAN DIEGO
TAXABLE TRANSACTIONS
Calendar Years 1996 through 2000
(in thousands)

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000⁽¹⁾</u>
RETAIL STORES					
Apparel	\$ 451,984	\$ 485,551	\$ 530,734	\$ 542,041	\$ 588,012
General Merchandise	1,304,649	1,354,698	1,436,535	1,597,102	1,794,468
Food	521,014	554,625	582,183	622,909	662,346
Eating and Drinking	1,307,079	1,380,894	1,496,032	1,603,968	1,772,507
Home Furnishings and Appliances	492,104	444,930	469,158	546,746	619,383
Building Materials and Farm Implements	469,293	603,365	716,231	809,022	944,386
Auto Dealers & Supplies	1,089,331	1,189,462	1,331,411	1,519,137	1,745,186
Service Stations	672,559	673,078	614,156	742,143	977,675
Other	1,555,020	1,686,807	1,790,441	1,948,871	2,173,098
Total Retail Stores	7,863,033	8,373,410	8,966,881	9,931,939	11,277,061
All Other Outlets	3,426,610	4,024,433	4,343,598	4,563,715	4,822,132
TOTAL ALL OUTLETS	\$11,289,643	\$12,397,843	\$13,310,479	\$14,495,654	\$16,099,193

(1) Data for calendar year 2000 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

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 \$5.12 billion in 2001, up 17.2% from 1997 and down 2.1% from 2000. This decline in 2001 reflects the impact of the events of September 11, 2001; according to the San Diego Convention and Visitors Bureau, through the eight months ended August 31, 2001, visitor spending was up 4.1% over the same period in 2000.

Table 6
SAN DIEGO COUNTY
TOTAL VISITOR SPENDING⁽¹⁾
Calendar Years 1997 through 2001
(in billions)

<u>Calendar Year</u>	<u>Amount</u>
1997	\$4.37
1998	4.70
1999	4.88
2000	5.23
2001	5.12

(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 46% between Fiscal Year 1997 and Fiscal Year 2001, an average annual increase of 9.1%. In the Fiscal Year 2002 Adopted Budget, TOT revenues were projected to increase by 6% over TOT receipts for Fiscal Year 2001. The City Manager currently estimates that actual TOT receipts for Fiscal Year 2002 will be 4.9% less than Fiscal Year 2001 receipts due in part to the lingering effects of a weak economy and the events of September 11, 2001.

Table 7
CITY OF SAN DIEGO
TRANSIENT OCCUPANCY TAX⁽¹⁾
Fiscal Years 1997 through 2001
(in thousands)

<u>Fiscal Year</u>	<u>Amount</u>
1997	\$ 75,476
1998	85,088
1999	92,128
2000	96,821
2001	109,879

(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 Auditor & Comptroller

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. Torrey Pines, which is owned and operated by the City of San Diego, is a world renowned golf course. 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, and the Super Bowl and World Series in 1998. In addition, the City was the site for the Republican National Convention held in August 1996. The Super Bowl is scheduled to return to San Diego in 2003. According to the San Diego Unified Port District, in 2001 there were 7.6 million passenger arrivals, down by approximately 4.2% from 2000.

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, since opening in 1989, the Convention Center has generated \$4.5 billion in economic benefit for the San Diego regional economy through increased visitor spending, additional hotel room nights, and new jobs.

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 to San Diego from Virginia of the Space and Naval Warfare Systems Command (SPAWAR) 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, retirement benefits and civilian contract awards) in the County during the federal fiscal year ended September 30, 2000, totaled \$9.8 billion, up from \$9.5 billion in 1999. With a total military and civilian payroll of \$3.72 billion in the federal fiscal year 2000, San Diego continued to lead all counties in the nation in terms of combined military and civilian payrolls. Total civilian defense contracts awarded to County-based businesses totaled \$2.9 billion during the federal fiscal year 2000, up 17.4% from the previous year. The Department of Defense also spent \$1.3 billion on base operation expenses, \$1.04 billion on retirement benefits, and another \$0.85 billion on various

classified contracts, subcontracts, and other contracts of less than \$1,000 each. The San Diego Chamber of Commerce estimates that as of June 1, 2000, total active duty military personnel in the County totaled 103,127 and the total civilian employment was 21,200.

International Trade

The table below is from the International Trade Administration's *Exporter Location Series*. This information is compiled on a f.a.s (free alongside ship) basis and includes domestic exports and re-exports. The total value of exports from the County during 1999, the most recent year for which data are available, totaled approximately \$9.0 billion, up 4.7% from 1998.

Table 8
VALUATION OF EXPORTS
ORIGINATING IN SAN DIEGO COUNTY
Calendar Years 1995 through 1999
(in billions)

<u>Calendar Year</u>	<u>Total Exports</u>
1995	\$5.9
1996	6.7
1997	7.8
1998	8.6
1999	9.0

Source: International Trade Administration

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⁽¹⁾
As of January 1, 2002

Employer	Product/Service
10,000 or More Employees:	
San Diego Unified School District	Education
Sharp Health Care	Health Care
University of California, San Diego	Higher Education
5,000 - 9,999 Employees:	
Kaiser Permanente	Health Care
Qualcomm	Wireless Communications
San Diego Community College District	Higher Education
Scripps Health	Health Care
San Diego Gas & Electric/Sempra Energy	Utility
Sharp Health Care	Health Care
3,000 - 4,999 Employees:	
ADDECO Employment Services	Employment Services
Children's Hospital and Health Care	Health Care
Cubic Corporation	Electronic Systems
Pacific Bell	Utility
Palomar Pomerado Health System	Health Care
Samsung	Electronics
San Diego State University	Higher Education
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
2,000 - 2,999 Employees:	
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 January 1, 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 1996 through 2000.

Table 10
PER CAPITA EFFECTIVE BUYING INCOME⁽¹⁾
Calendar Years 1996 through 2000

<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>
1996	\$15,139	\$14,975	\$15,068	\$15,555
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

(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 1997 through 2001. 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, 1997 through 2001

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Valuation (in thousands)					
Residential	\$ 541,443	\$ 890,476	\$ 857,747	\$1,185,999	\$1,181,385
Nonresidential	<u>478,887</u>	<u>576,170</u>	<u>783,106</u>	<u>960,479</u>	<u>693,687</u>
Total	<u>\$ 1,020,330</u>	<u>\$1,466,646</u>	<u>\$1,640,853</u>	<u>\$2,146,478</u>	<u>\$1,875,072</u>
Number of New Dwelling Units:					
Single Family	2,197	3,032	2,612	2,084	2,075
Multiple Family	<u>1,014</u>	<u>3,018</u>	<u>2,856</u>	<u>5,662</u>	<u>3,829</u>
Total	<u>3,211</u>	<u>6,050</u>	<u>5,468</u>	<u>7,746</u>	<u>5,904</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 Economic Development Corporation and Sempra Energy. BEAR Program components include Business Incentives, Targeted Assistance, sales and use tax rebates through the Business Cooperation Program, Business Outreach, and Business Finance.

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 the creation of a "one-stop" permitting center which has in most cases reduced development permit processing time by one-half. The center eliminates the need for permit applicants to seek approval from several City departments by consolidating the review and permit process.

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 has begun 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 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 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.

Proposition A, voter approved in November 1987, authorized a one-half cent increase to the local sales tax to fund transportation improvements for the San Diego region. The City's proposed budget for Fiscal Year 2003 includes \$28.1 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.

State Propositions 108/111/116, voter approved in June 1990, increased the State gas tax and authorized the sale of rail bonds. The revenues generated from these measures are to be used to implement a comprehensive Statewide transportation funding program. The proposed budget for Fiscal Year 2003 projects that the City will receive \$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 and Expendable Trust and Agency Funds use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when both available and measurable. Certain fines and forfeitures, however, are recorded when received, as they are not susceptible to accrual. Expenditures are recognized when the related liability is incurred except for (1) principal of and interest on general long-term debt, which are recognized when due, and (2) employee annual leave and claims and judgments for litigation and self-insurance which are recorded in the period due and payable. Proprietary Fund, Pension Trust, and Nonexpendable Trust Funds use the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when incurred.

The City prepares financial statements annually in conformity with generally accepted accounting principles for governmental entities, which are audited by an independent certified public accountant. The annual audit report is generally available about 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, 2001, 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.

Restructuring

In order to focus additional resources on long-range planning, the prevention of storm water pollution, the maintenance of City facilities, and the human resource needs of the City, the City Manager implemented several structural changes effective January 2001. These organizational changes place additional emphasis on these priorities, while continuing to meet the City's other high priorities. This restructuring involved only minor accounting changes.

Five Year Summary of Financial Results

Tables 12 and 13 present the Balance Sheet and the Revenue and Expenditure statements of the City's General Fund for Fiscal Years 1997 through 2001 in the format presented in the Comprehensive Annual Financial Report.

Table 12

**CITY OF SAN DIEGO
BALANCE SHEET FOR THE GENERAL FUND
Fiscal Years Ended June 30, 1997 through 2001
(in thousands)**

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
ASSETS					
Cash or Equity in Pooled Cash & Investments	\$ 13,342	\$ 23,516	\$ 16,005	\$ 24,708	\$ 48,777
Receivables:					
Taxes – Net	26,142	27,739	27,491	30,182	32,431
Accounts – Net	23,992	26,392	29,856	32,805	38,016
Claims – Net	30	41	9	36	16
Notes	182	—	—	—	—
Accrued Interest	1,915	2,451	1,745	2,744	3,011
From Other Funds	76,808	82,923	94,547	109,686	87,135
From Other Agencies	67	613	1,068	1,068	1,635
Advances to Other Funds	8,346	4,570	6,771	9,920	10,628
Advances to Other Agencies	350	350	350	350	350
Prepaid and Reimbursable Items & Deposits	<u>315</u>	<u>357</u>	<u>302</u>	<u>1,161</u>	<u>152</u>
Total Assets	\$ 151,489	\$ 168,952	\$ 178,144	\$ 212,660	\$ 222,151
LIABILITIES					
Accounts Payable	\$ 2,923	\$ 2,135	\$ 2,461	\$ 2,927	\$ 2,057
Accrued Wages and Benefits	11,807	14,793	16,598	21,923	27,445
Due to other Funds	768	—	—	—	—
Deferred Revenue	30,669	29,590	30,934	33,904	37,942
Contracts and Notes Payable	<u>76,808</u>	<u>82,000</u>	<u>88,500</u>	<u>99,500</u>	<u>77,000</u>
Total Liabilities	\$ 122,975	\$ 128,518	\$ 138,493	\$ 158,254	\$ 144,444
FUND EQUITY					
Reserves:					
Reserved for Encumbrances	\$ 6,376	\$ 9,181	\$ 9,542	\$ 11,628	\$ 11,150
Reserved for Advances & Deposits	8,696	4,920	7,121	10,270	10,978
Unreserved:					
Designated for Unrealized Gains	—	396	—	—	2,287
Designated for Subsequent Years' Expenditures	1,430	1,936	1,818	2,972	2,132
Undesignated	<u>12,012</u>	<u>24,001</u>	<u>21,170</u>	<u>29,536</u>	<u>51,160</u>
Total Fund Equity	\$ 28,514	\$ 40,434	\$ 39,651	\$ 54,406	\$ 77,707
Total Liabilities & Fund Equity	<u>\$ 151,489</u>	<u>\$ 168,952</u>	<u>\$ 178,144</u>	<u>\$ 212,660</u>	<u>\$ 222,151</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, 1997 through 2001 (in thousands)

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
REVENUES:					
Property Taxes	\$ 114,841	\$ 123,012	\$ 130,624	\$ 144,288	\$ 158,585
Sales Taxes ⁽¹⁾	104,327	117,985	128,339	130,240	142,069
Other Local Taxes	69,165	83,796	86,968	94,809	109,151
Licenses and Permits	21,750	19,272	20,630	20,693	22,154
Fines, Forfeitures and Penalties	17,125	16,170	23,613	28,410	29,776
Revenues from Use of Money and Property	27,673	30,789	29,940	34,429	40,841
Revenues from Federal Agencies	912	2,081	2,026	1,644	787
Revenues from Other Agencies	47,758	51,522	55,697	83,821	87,262
Charges for Current Services	71,884	67,825	70,244	77,469	84,156
Other Revenue	<u>2,299</u>	<u>2,871</u>	<u>2,526</u>	<u>2,777</u>	<u>2,606</u>
Total Revenues	<u>\$ 477,734</u>	<u>\$ 515,323</u>	<u>\$ 550,607</u>	<u>\$ 618,580</u>	<u>\$ 677,387</u>
EXPENDITURES:					
Current:					
General Government	\$ 62,134	\$ 64,725	\$ 67,405	\$ 69,400	\$ 79,800
Community and Economic Development	13,037	13,967	14,740	14,661	19,778
Public Safety	283,683	295,762	315,231	348,869	369,607
Libraries	18,911	20,677	21,824	22,820	26,494
Park, Recreation and Culture	40,469	41,561	44,910	49,850	56,748
Public Works	80,141	66,931	70,413	76,300	80,999
Employee Relations and Special Projects	802	633	723	637	548
Development Services	4,415	—	—	—	—
Miscellaneous and Unallocated	1,835	2,260	2,505	1,881	1,367
Debt Service:					
Interest	<u>3,307</u>	<u>3,683</u>	<u>4,894</u>	<u>5,213</u>	<u>4,616</u>
Total Expenditures	<u>\$ 508,734</u>	<u>\$ 510,199</u>	<u>\$ 542,645</u>	<u>\$ 589,631</u>	<u>\$ 639,957</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ (31,000)</u>	<u>\$ 5,124</u>	<u>\$ 7,962</u>	<u>\$ 28,949</u>	<u>\$ 37,430</u>
OTHER FINANCING SOURCES (USES)					
Transfers from Proprietary/Fiduciary Funds	\$ 5,072	\$ 1,918	\$ 1,574	\$ 2,117	\$ 4,074
Transfers from Other Funds	32,333	37,729	28,369	30,511	29,236
Transfers from Component Unit	—	554	588	324	86
Transfers to Proprietary Funds	(2,092)	(8,352)	(15,816)	(18,976)	(14,274)
Transfers to Other Funds ⁽²⁾	<u>(5,667)</u>	<u>(25,592)</u>	<u>(24,365)</u>	<u>(27,520)</u>	<u>(32,601)</u>
Transfers to Component Unit	<u>—</u>	<u>(900)</u>	<u>(900)</u>	<u>(650)</u>	<u>(650)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ 29,646</u>	<u>\$ 5,357</u>	<u>\$ (10,550)</u>	<u>\$ (14,194)</u>	<u>\$ (14,129)</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ (1,354)</u>	<u>\$ 10,481</u>	<u>\$ (2,588)</u>	<u>\$ 14,755</u>	<u>\$ 23,301</u>
FUND BALANCE AT JULY 1	<u>\$ 28,818</u>	<u>\$ 28,514</u>	<u>\$ 40,434</u>	<u>\$ 39,651</u>	<u>\$ 54,406</u>
Cumulative Effect of a Change in Accounting Principle	—	314	—	—	—
Residual Equity Transfers from Other Funds	<u>1,050</u>	<u>1,125</u>	<u>1,805</u>	<u>—</u>	<u>—</u>
FUND BALANCE AT FOLLOWING JUNE 30	<u>\$ 28,514</u>	<u>\$ 40,434</u>	<u>\$ 39,651</u>	<u>\$ 54,406</u>	<u>\$ 77,707</u>

(1) Includes Proposition 172 Safety Sales Tax.

(2) Beginning in Fiscal Year 1998, expenditures for street operation and maintenance functions, previously budgeted within the Public Works Department of the General Fund, were shifted to the Enterprise Fund component of the Transportation Department. The bulk of the operating revenues for street operation and maintenance functions are funded through annual transfers from the General Fund.

Source: City of San Diego Comprehensive Annual Financial Report

The following table presents the operating budget summary for Fiscal Years 2001 through 2003.

Table 14
CITY OF SAN DIEGO
OPERATING BUDGET SUMMARY
Fiscal Years 2001 - 2003⁽¹⁾

	Actual Results in A Budget Format <u>Fiscal Year 2001</u>	Adopted Budget <u>Fiscal Year 2002</u>	Proposed Budget <u>Fiscal Year 2003</u>
REVENUE SOURCES:			
Property Tax	\$158,367,521	\$169,443,711	\$188,600,000
Sales Tax ^{(2) (3)}	142,069,527	141,571,382	133,433,542
Transient Occupancy Tax	58,733,401	61,920,984	59,557,143
Property Transfer Tax	5,709,842	5,613,652	6,300,000
Licenses and Permits	22,110,499	21,207,271	21,627,271
Fines, Forfeitures and Penalties	29,611,951	29,728,069	26,887,569
Interest Earnings	13,270,685	5,900,000	5,900,000
Franchises	42,708,007	45,518,854	54,234,644
Other Rents and Concessions	26,702,597	26,592,805	27,814,150
State Motor Vehicle License Fees	67,188,011	70,310,886	72,200,000
Other Revenue from Agencies ⁽⁴⁾	22,406,303	9,063,054	7,507,459
Charges for Current Services	84,785,317	67,291,812	68,646,721
Transfers from Other Funds	35,025,604	40,624,985	39,840,856
Other Revenue	1,285,035	872,968	872,968
Prior Year Fund Balance	<u>15,750,000</u>	<u>31,700,000</u>	<u>19,400,000</u>
Total General Fund Revenues	<u>\$725,724,300</u>	<u>\$727,360,433</u>	<u>\$732,822,323</u>
EXPENDITURES:			
Public Safety	\$362,687,096	\$379,210,941	\$383,860,674
Parks and Recreation	58,687,361	63,667,045	68,772,571
Sanitation and Health	37,202,991	41,929,081	40,325,478
Transportation ⁽⁵⁾	28,775,023	28,301,397	12,629,204
Library	27,313,908	32,758,024	36,976,571
Neighborhood Services	30,186,177	30,877,221	31,649,894
Operations Support	101,020,862	107,582,988	111,992,695
Internal Support/Management	<u>40,361,228</u>	<u>43,033,736</u>	<u>46,615,236</u>
Total General Fund Expenditures	<u>\$686,234,646</u>	<u>\$727,360,433</u>	<u>\$732,822,323</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 Year 2003, General Fund support for the Street Division Operating Fund will be funded directly through a sales tax allocation rather than through a General Fund transfer. As a result, sales taxes deposited in the General Fund are reduced by \$15.4 million.

(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 expect to receive such revenues in Fiscal Years 2002 and 2003.

(5) In Fiscal Year 2003, General Fund support for the Street Division Operating Fund will be funded directly through a sales tax allocation rather than through a General Fund transfer. As such, General Fund expenditures on Transportation are reduced by \$15.4 million.

Source: City of San Diego, Financial Management Department

Fiscal Year 2001

The actual Total General Fund Revenues, presented in a budget format equivalent to Table 14, for Fiscal Year 2001 equaled \$725.8 million, which represents an increase of \$58.3 million or 8.7% more than the actual results for Fiscal Year 2000, and \$49.4 million or 7.3% more than the adopted budget for Fiscal Year 2001. The following table shows the change in actual major revenue sources for Fiscal Year 2001 over Fiscal Year 2000.

Change in Major Revenue Sources *Actual Results Fiscal Year 2001 over Fiscal Year 2000⁽¹⁾*

• Property Tax	+	9.8%
• Sales Tax	+	8.5%
• Transient Occupancy Tax	+	13.5%
• Motor Vehicle License Fees	+	9.7%

(1) The above percentages reflect overall growth in these revenue sources, and include allocations to the General Fund Property Tax, and Total City Sales Tax, excluding Proposition 172 Safety Sales Tax, and Total City Transient Occupancy Tax.

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 2001 equaled \$686,234,635, an increase of \$46.3 million or 7.2% more than the actual results for Fiscal Year 2000, and \$9.9 million or 1.5% more than the adopted budget for Fiscal Year 2001.

Fiscal Year 2002 (Adopted Budget)

Under the City's Fiscal Year 2002 adopted budget, Total General Fund Revenues equal \$727.4 million, up \$1.6 million or 0.2%, from Fiscal Year 2001 actual results. The adopted budget assumes that San Diego will experience slower economic growth in Fiscal Year 2002 than in prior years. Slower economic growth is projected due to declining consumer confidence and the uncertain impact of higher energy prices to businesses and households. Further, the budget was prepared before the events of September 11, 2001. The City did not include any revenues from the State for local fiscal relief in its budget for Fiscal Year 2002. Below are budgeted rates of change for the major revenues as presented in the Fiscal Year 2002 adopted budget approved by the City Council in July 2001.

Fiscal Year 2002 Budget Growth Rates⁽¹⁾

• Property Tax	+	7.4%
• Sales Tax	+	5.0%
• Transient Occupancy Tax	+	6.0%
• Motor Vehicle License Fees	+	5.0%

(1) The above percentages reflect overall growth in these revenue sources (based on Fiscal Year 2001 year-end projections), and include allocations to the General Fund Property Tax, and Total City Sales Tax, excluding Proposition 172 Safety Sales Tax, and Total City Transient Occupancy Tax.

Source: City of San Diego, Financial Management Department

The Fiscal Year 2002 adopted budget includes \$727.4 million in Total General Fund Expenditures. This represents an increase of \$51.0 million or 7.5% from the prior year's adopted budget. Under the adopted budget, spending on public safety totals \$379.2 million, an increase of

\$21.2 million or 5.9% from the previous budget. This increased public safety spending provides for 20 more police officers, 3.5 new lifeguards, and an additional fire recruit academy.

The budget also includes funding for 27.5 new positions in the Library Department to extend hours at several branch libraries throughout the City.

Although the Fiscal Year 2002 adopted budget anticipated slower economic growth than in prior years, aggregate revenue collections to date have come in below budgeted levels due primarily to the events of September 11, 2001, and the recent economic downturn. The following table shows year-end projections for Fiscal Year 2002 major revenues.

Projected Change in Major Revenue Sources
Fiscal Year 2002 Year-End Projections⁽¹⁾

• Property Tax	+	8.5%
• Sales Tax	+	3.6%
• Transient Occupancy Tax	-	4.9%
• Motor Vehicle License Fees	+	3.1%

(1) The above percentages reflect overall growth in these revenue sources (based on Fiscal Year 2001 year-end projections), and include allocations to the General Fund Property Tax, and Total City Sales Tax, excluding Proposition 172 Safety Sales Tax, and Total City Transient Occupancy Tax.

Source: City of San Diego, Financial Management Department

Revenue shortfalls in the current year will be offset by revenues that are exceeding expectations and expenditure savings in order to achieve a balanced budget by year-end.

Fiscal Year 2003 (Proposed Budget)

Under the City’s Fiscal Year 2003 proposed budget, General Fund revenues total \$732.8 million, up \$5.5 million or 0.8%, from the Fiscal Year 2002 adopted budget. The proposed budget assumes that San Diego will experience modest economic growth in Fiscal Year 2003. The Fiscal Year 2003 proposed budget also expects 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 proposed budget for Fiscal Year 2003. Presented below are estimated growth rates for the major revenues.

Projected Change in Major Revenue Sources
Proposed Budget Fiscal Year 2003 over Projected Actuals Fiscal Year 2002⁽¹⁾

• Property Tax	+	9.0%
• Sales Tax	+	4.0%
• Transient Occupancy Tax	+	6.0%
• 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

Under the Fiscal Year 2003 proposed budget, General Fund expenditures total \$732.8 million, an increase of \$5.5 million or 0.8% from the prior year's adopted budget. Although the Fiscal Year 2003 proposed budget includes only minimal expenditure increases, funding for the Library Department will increase by \$4.2 million, or 13%, and expenditures for the Park and Recreation Department will increase by \$5.1 million or 8.0%.

State Budget Deficit

The Governor's May Budget Revision released on May 14, 2002, has officially projected a revenue shortfall of \$23.6 billion in the State's Fiscal Year 2003 budget (July 1, 2002 through June 30, 2003). In the past, in order to close prior budget deficits, the State of California shifted property taxes from local governments to fund its obligations. While at present the City cannot predict whether the State will appropriate funds from local governments to resolve its current budget imbalance, the Governor's May Budget Revision has the following fiscal implications for the City.

The City has not included any revenues from the State for local fiscal relief in its Fiscal Year 2003 proposed budget; however, the City assumes that the State General Fund will continue to offset a fee reduction on motor vehicle license registration originally enacted in 1999. (Please see "Vehicle License Fee Reduction" below.) In addition, the City's proposed 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. The Governor's May Budget Revision continues to fully offset the motor vehicle license fee reduction, but proposes to eliminate State transfers that compensate local governments for booking fees.

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%. However, the Governor's May Budget Revision proposes to increase the license fee to 1.5% for calendar year 2003.

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. Thus, in future years, there could be a loss by local governments of State revenues to offset lost VLF fees.

VLF fees are the third largest General Fund revenue source for the City (after property taxes and sales taxes). In Fiscal Year 2001, the City received approximately \$67.2 million in VLF revenues, a 9.7% increase over the prior year's actual receipts. For Fiscal Year 2001, VLF revenues represented approximately 9.9% of Total General Fund Revenues. For Fiscal Year 2002, VLF revenues are projected to total \$69.3 million. The Fiscal Year 2003 proposed budget projects \$72.2 million in VLF receipts.

Energy Conservation and Management

Since calendar year 2000, California has witnessed an unprecedented energy crisis that has caused significant economic impacts for the City of San Diego, its residents, and businesses. The energy problem was initiated by a 1996 state deregulation plan developed by the California State Legislature. The plan deregulated the wholesale price of electricity, but not the retail price. Additionally, the California Public Utilities Commission adopted rules preventing investor-owned utilities, such as San Diego Gas and Electric (SDG&E) from entering into long-term agreements to purchase electricity at fixed rates. California's plan for energy deregulation had a number of unintended consequences, such as causing energy supplies to be held off the market, and forcing utilities to purchase energy on what was a highly volatile spot market.

As a result, since calendar year 2000, Californians have paid significantly more for electricity than in prior years, and the State's major utility companies were brought to the verge of, and/or filed for bankruptcy protection. Currently, energy supplies appear to be sufficient to meet the demands of California, and energy prices have stabilized, albeit at significantly higher prices.

The dramatic increase in energy costs has had an impact on the City's expenditures for energy. In Fiscal Year 2000, the City's General Fund paid approximately \$5.1 million for energy (electricity and natural gas). In Fiscal Year 2001, actual energy expenditures were \$9.3 million, or \$2.9 million more than the budgeted amount.

The budget impact of higher energy costs has been offset to a certain extent by an increase in franchise fees received by the City. SDG&E operates under a 50 year City franchise that was granted in 1970. The City and SDG&E recently reached an agreement for the remaining 20 years of the franchise, under which SDG&E pays a franchise fee to the City equal to 3% of its gross in-city sales of natural gas and electricity. This agreement is subject to final approval by the California Public Utilities Commission.

The City's General Fund receives 75% of the revenues derived from this franchise fee. For Fiscal Year 2000, the General Fund received \$22.2 million in franchise fees from SDG&E, or \$1.5 million above the budgeted amount. For Fiscal Year 2001, the City's General Fund adopted budget included \$22.5 million in franchise fees from SDG&E. However, due to the increase in energy prices, for Fiscal Year 2001, the General Fund received approximately \$5.2 million more than was budgeted. In Fiscal Year 2002, it is estimated that the General Fund budget will receive \$31.4 million in franchise fees from SDG&E.

The California Department of Water Resources (the "DWR") purchased power on behalf of a number of utilities, including SDG&E, and under recently enacted legislation is deemed to be selling the same to the customers of the utilities. The City believes that SDG&E will continue to

pay franchise fees based upon the revenue from the sale of DWR power to SDG&E customers and expects some clarification on this issue from the California Public Utilities Commission.

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 assessed valuation within the City for each of the last ten fiscal years ending June 30, 2002.

Table 15
ASSESSED VALUATION
Fiscal Years Ended June 30, 1993 through 2002
(in thousands except for percentages)⁽¹⁾

Fiscal Year						Annual Assessed
<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> ⁽²⁾	<u>Net Assessed</u> <u>Valuations</u> ⁽³⁾	<u>Valuation</u> <u>% Change</u>
1993	\$59,787,900	\$4,059,854	\$63,847,754	\$2,099,768	\$61,747,986	3.40
1994	60,586,129	4,218,892	64,805,021	2,360,741	62,444,280	1.13
1995	60,939,995	4,371,923	65,311,918	2,420,027	62,891,891	0.72
1996	61,793,760	4,303,198	66,096,958	2,489,507	63,607,451	1.14
1997	61,893,902	4,353,543	66,247,445	2,355,174	63,892,271	0.45
1998	63,562,588	4,988,950	68,551,538	2,910,753	65,640,785	2.74
1999	68,648,609	5,337,916	73,986,525	2,994,814	70,991,711	8.15
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

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

(2) Excludes homeowners' and business inventory exemptions.

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

Source: City of San Diego Comprehensive Annual Financial Report, Fiscal Year 2001

(REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK)

Table 16 shows the City's secured tax collections for each of the ten fiscal years ended June 30, 2001.

Table 16
SECURED TAX LEVIES AND COLLECTIONS
Fiscal Years Ended June 30, 1992 through 2001
(in thousands except for percentages)

<u>Fiscal Year Ending June 30</u>	<u>Tax Levy</u> ⁽¹⁾	<u>Current Year Collections</u>	<u>Current Year Collections as Percentage of Current Tax Levy</u>	<u>Total Tax Collections</u>	<u>Total Collections as Percentage of Current Tax Levy</u> ⁽²⁾
1992	\$127,143	\$121,308	95.41%	\$125,153	98.43%
1993	120,574	114,821	95.23	119,867	99.41
1994	109,881	105,911	96.39	110,738	100.78
1995	109,754	104,295	95.03	108,192	98.58
1996	111,281	108,137	97.18	110,513	99.31
1997	111,719	108,676	97.28	110,563	98.96
1998	116,912	114,311	97.78	117,429	100.44
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

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

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

Source: City of San Diego Comprehensive Annual Financial Report for Fiscal Year 2001

(REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK)

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

Table 17
PRINCIPAL PROPERTY TAXPAYERS IN CITY OF SAN DIEGO⁽¹⁾
Tax Roll for Fiscal Year 2001-2002
(in thousands, except for percentages)

<u>Taxpayers</u>	<u>Type of Business</u>	<u>Assessed Valuation</u> ⁽²⁾⁽³⁾	<u>Percentage of Net Assessed Valuation</u> ⁽³⁾	<u>Amount of Tax</u> ⁽⁴⁾
Qualcomm	Electronics	\$435,799	0.48%	\$4,851
Equitable Life Assurance	Investment	351,261	0.39	3,876
Kilroy Realty LP	Real Estate	330,059	0.36	3,462
Sea World	Entertainment	265,000	0.29	2,947
Pacific Gateway	Developer	245,411	0.27	2,728
Sony Corp. of America	Electronics	227,386	0.25	2,313
University Towne Centre LLC	Shopping Center	220,291	0.24	2,448
Solar Turbines	Electronics	211,069	0.23	2,336
Horton Plaza LLC	Shopping Center	188,312	0.21	2,131
Pardee Construction Co.	Developer	<u>133,376</u>	<u>0.15</u>	<u>2,151</u>
		\$2,607,964	2.86%	\$29,243

(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 \$91,142,819,000, 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 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 2002 was established at \$603,258,862. It is estimated that the City will be under the Gann Limit by approximately \$43.8 million. The impact of the appropriations limit on the City's financial needs in the future is unknown.

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

Articles XIII C and XIII D of the California Constitution

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

Proposition 218 (Article XIII C) requires that all new local taxes be submitted to the electorate before they become effective. Taxes for general governmental purposes of the City require a majority vote and taxes for specific purposes, even if deposited in the City's General Fund, require a two-thirds vote. Further, any general purpose tax which the City imposed, extended or increased,

without voter approval, after December 31, 1994, may continue to be imposed only if approved by a majority vote in an election which must be held within two years of November 5, 1996. The City has not so imposed, extended or increased any such taxes which are currently in effect.

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 "City Voter Initiatives" below.

The voter approval requirements of Proposition 218 reduce the flexibility of the City to raise revenues for the General Fund, and no assurance can be given that the City will be able to impose, extend or increase such taxes in the future to meet increased expenditure needs.

Proposition 218 (Article XIII D) also added several new provisions relating to how local agencies may levy and maintain "assessments" for municipal services and programs. These provisions include, among other things, (i) a prohibition against assessments which exceed the reasonable cost of the proportional special benefit conferred on a parcel, (ii) a requirement that the assessment must confer a "special benefit," as defined in Article XIII D, over and above any general benefits conferred, and (iii) a majority protest procedure which involves the mailing of notice and a ballot to the record owner of each affected parcel, a public hearing and the tabulation of ballots weighted according to the proportional financial obligation of the affected party. "Assessment" in Article XIII D is defined to mean any levy or charge upon real property for a special benefit conferred upon the real property. This definition applies to landscape and maintenance assessments for open space areas, street medians, streetlights and parks. If the City is unable to continue to collect assessment revenues for a particular program, the program might have to be curtailed and/or funded by the City's General Fund. Given the approval requirements imposed by Proposition 218, the City is unable to predict whether it will be able to continue to collect assessment revenues for these programs in light of Proposition 218. Since these programs represent additional services, to the extent such assessment revenues cannot be collected, the City Manager would recommend to the City Council that such programs be curtailed rather than supported with amounts in the General Fund. Based upon advice from the City Attorney, the City does not believe that it would be obligated to maintain such programs from the General Fund. Through October 1, 2001, the City has conducted 34 mail ballot assessment elections, of which all but one were approved by the property owners.

In addition, Proposition 218 (Article XIII D) added several provisions affecting "fees" and "charges," defined for purposes of Article XIII D to mean "any levy other than an ad valorem tax, a special tax, or an assessment, imposed by a [local government] upon a parcel or upon a person as an incident of property ownership, including a user fee or charge for a property related service." All new and existing property related fees and charges must conform to requirements prohibiting, among other things, fees and charges which (i) generate revenues exceeding the funds required to provide the property related service, (ii) are used for any purpose other than those for which the fees and charges are imposed, (iii) are for a service not actually used by, or immediately available to, the owner of the

property in question, or (iv) are used for general governmental services, including police, fire or library services, where the service is available to the public at large in substantially the same manner as it is to property owners. Depending on the interpretation of what constitutes a “property related fee” under Article XIII D, there could be future restrictions on the ability of the City’s General Fund to charge its enterprise funds for various services provided. Further, before any property related fee or charge may be imposed or increased, written notice must be given to the record owner of each parcel of land affected by such fee or charge. The City must then hold a hearing upon the proposed imposition or increase, and if written protests against the proposal are presented by a majority of the owners of the identified parcels, the City may not impose or increase the fee or charge. Moreover, except for fees or charges for sewer, water and refuse collection services, or fees for electrical and gas service, which are not treated as “property related” for purposes of Article XIII D, no property related fee or charge may be imposed or increased without majority approval by the property owners subject to the fee or charge or, at the option of the local agency, two-thirds voter approval by the electorate residing in the affected area. The City has a number of enterprise funds which are self supporting from fees and charges that may ultimately be determined to be property related for purposes of Article XIII D, e.g. the Sewer Enterprise Fund and the Water Enterprise Fund. The fees and charges of all City enterprise funds may be determined to be fees and charges subject to the initiative power referred to in Article XIII C, as described below. In the event that fees and charges cannot be appropriately increased or are reduced pursuant to exercise of the initiative power, the City may have to decide whether to support any deficiencies in these enterprise funds with moneys from the General Fund or to curtail service, or both.

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.

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

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.) On November 2, 2001, an Orange County Superior Court ruled in *County of Orange v. Orange County Assessment Appeals Board No. 3* (the “Orange County Litigation”) that the Orange County Assessor raised a homeowner’s assessment in violation of Article XIII A by increasing the assessment on the homeowner’s property by more than 2% per year, when the appreciation in prior years was less than 2% per year. Orange County raised assessments by more than 2% in a single year if the value of a property remained flat after a taxpayer purchased the property, and then increased by more than 2% in a subsequent year. A comparable claim to the one involved in the Orange County Litigation by a landowner in the County of San Diego has been filed for the fiscal year 2000-2001 property tax levy, and the landowner has at least three more years in which to prosecute this claim further.

The City cannot predict the outcome of the Orange County Litigation, nor whether the landowner whose claim was rejected by the County of San Diego Assessment Appeals Board will further prosecute the claim against the County of San Diego. At this point in time, the Court’s ruling in the Orange County Litigation applies only to the particular assessment involved in the case. However, if the Court’s ruling is applied generally, the loss of tax revenues to communities could be significant. Further, the City cannot predict the effect, if any, that the outcome of either the Orange County Litigation or the further prosecution of the claim against the County of San Diego would have on property tax revenues to be received by the City, although the effect would be adverse.

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. #4 220; 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 (3)

year statutory 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 \$274.7 million through June 30, 2001. The City did not increase existing taxes or impose new taxes during Fiscal Year 2001, or year-to-date of Fiscal Year 2002.

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 will receive a 2% increase effective July 2002. The POA will also receive 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, 2000 stated the funding ratio (Valuation of Assets available for Benefits to Total Actuarial Accrued Liability), of the CERS fund to be 97.3%. The CERS fund has an Unfunded Actuarial Accrued Liability (UAAL) of \$68.959 million as of June 30, 2000. The UAAL is the difference between total actuarial accrued liabilities of \$2.528 billion and assets allocated to funding of \$2.459 billion. The UAAL is amortized over a 30-year period, which started July 1, 1991, with each year's amortization payment reflected as a portion of the percentage of payroll representing the employer's contribution rate. As of June 30, 2000, there were 21 years remaining in the amortization period.

The CERS Retirement Board has received the Actuary's report on the results of the actuarial valuation for the year ended June 30, 2001. In that report, the new UAAL as of June 30, 2001, is \$283.89 million. That reflects actuarial accrued liabilities of \$2.809 billion and assets allocated to funding of \$2.526 billion. The assumptions and calculations made in the June 30, 2001, actuarial valuation are subject to review, approval, or revisions by the Retirement Board. Therefore, the UAAL as of June 30, 2001, may change.

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, 2001, there is a fund equity deficit in the Self Insurance Fund of approximately \$29,281,000. 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⁽¹⁾ AND PREMIUMS
Fiscal Years ended June 30, 1997 through 2001

<u>Fiscal Year</u>	<u>Liability Claims Expenses and Settlement Costs</u>	<u>Liability Premium Payments</u>
1997	\$ 7,228,465	\$1,575,162
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

(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, 2002, through March 31, 2003, will cost approximately \$4.5 million. This represents an increase of 250% from the prior year, due to several factors including the events of September 11, 2001.

Earthquake Insurance

Earthquake coverage is provided for the City Hall building and certain City lease financed locations in the amount of \$75 million, including coverage for rental interruption caused by Earthquake. Earthquake coverage is subject to the greater of a 5% or \$50,000 per unit deductible, effective through March 31, 2002. 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.

INVESTMENT OF FUNDS

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

The Pool does not engage in securities lending transactions. As per a review of archived documents from April 1999 to present, the City's pooled investment fund has not had any investments in any securities issued by PG&E, SDG&E, Southern California Edison or Enron.

Pool Liquidity and Other Characteristics

The City Pool (including both the "Liquidity" and the "Core" portfolios) is highly liquid. As of March 31, 2002, approximately 10% of the pool investments mature within 61 days, 14% within 91 days and 25% within 183 days (on a cumulative basis). As of March 31, 2002, the Pool had a weighted average maturity of 1.55 years (565 days) and its weighted yield was 3.76%. 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 0.37 years and the Core portfolio had a duration of 1.73 years as of March 31, 2002. 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 0.37% for every 1% increase in market interest rates while the Core portfolio should decrease in market value by 1.73% 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's Investment Pool will vary from time to time depending on cash flow needs of the City, maturity or sale of investments, purchase of new securities, and fluctuations in interest rates.

Table 19
CITY OF SAN DIEGO POOLED OPERATING INVESTMENT FUND⁽¹⁾
at March 31, 2002
(Unaudited)

<u>Investment Instrument</u>	<u>Book Value</u>	<u>Market Value</u>	<u>Percent of Total⁽¹⁾</u>
U.S. Treasury Bills and Notes	\$ 666,814,570	\$ 657,035,163	50.07%
Federal Agency Securities	450,263,769	454,855,391	33.81
Medium Term Notes (Corporate) ⁽²⁾	155,406,781	154,462,556	11.67
Money Market Instruments ⁽³⁾	46,397,957	46,400,000	3.48
Local Agency Investment Fund	<u>13,004,527</u>	<u>13,004,527</u>	<u>0.97</u>
NET ASSETS	\$1,331,887,604	\$1,325,757,637	100.00%

(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 March 31, 2002, and at least since October 14, 1997, the City's Investment Pool has had no assets invested in structured notes or derivatives prohibited in California Government Code 53601. As of March 31, 2002, the City has \$7.1 million invested in a simple step-up security purchased on November 9, 2001. 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 March 31, 2002, 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, 2001, the City had \$63,595,000 aggregate principal amount of long-term general obligation bonded indebtedness outstanding and \$388,475,000 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, 2001.

Table 20
CITY OF SAN DIEGO
GENERAL OBLIGATION AND GENERAL FUND LEASE OBLIGATIONS
As of June 30, 2001
(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>
2002	9,268	37,238	46,506
2003	9,395	35,244	44,639
2004	9,525	35,288	44,813
2005	9,645	35,359	45,004
2006	9,777	32,815	42,592
Thereafter	<u>36,260</u>	<u>508,156</u>	<u>544,416</u>
Subtotal	83,870	684,100	767,970
Less Interest Portion	<u>(20,275)</u>	<u>(295,625)</u>	<u>(315,900)</u>
Total Principal Portion	<u>\$63,595</u>	<u>\$388,475</u>	<u>\$452,070</u>

The following provides a summary list of outstanding general obligation bonds and General Fund lease commitments as of June 30, 2001.

	Principal Outstanding (in 000's)
<u>General Obligation Bonds</u>	
1994 – Open Space Park Facility District Refunding	\$45,520
1991 – Public Safety Communications	<u>18,075</u>
Total Principal of General Obligation Bonds	<u>\$63,595</u>
<u>General Fund Lease Commitments</u>	
<u>Certificates of Participation</u>	
1993 – Balboa Park/Mission Bay Park Capital Improvements	\$21,040
1996A – Balboa Park/Mission Bay Park Capital Improvements	26,975
1996B – Balboa Park/Mission Bay Park Capital Improvements Refunding	10,720
1991 – Misdemeanor Pre-arraignment Detention Facility/Wackenhut	1,900
<u>Lease Revenue Bonds</u>	
1993 – City/MTDB Authority for Old Town Trolley Extension	16,430
1994 – City/MTDB Authority Refunding - Police CIP and Bayside Extension	40,505
1996 – Stadium Improvements	65,905
1998 – Convention Center Expansion Authority	<u>205,000</u>
Total Principal of General Fund Lease Commitments	<u>\$388,475</u>

Source: City of San Diego, Auditor and Comptroller

Recent Financings

Since June 30, 2001, the Public Facilities Financing Authority of the City has issued \$169.7 million in Lease Revenue Bonds to fund the City's contribution to the Ballpark and Redevelopment Project. The central element of the Ballpark and Redevelopment Project is a new state-of-the-art baseball park to be used for San Diego Padres baseball games, and other events such as concerts, public gatherings, and convention related activities. The project also includes a public park, a sports oriented retail and entertainment center, associated parking, and infrastructure improvements.

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, 1993 through May 1, 2002

Fiscal Year Ended	
<u>June 30</u>	<u>Principal Amount</u>
1993	\$102,000,000
1994	100,500,000
1995	68,000,000
1996	53,000,000
1997	73,500,000
1998	82,000,000
1999	88,500,000
2000	99,500,000
2001	77,000,000
2002	73,000,000

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, and the Facilities and Equipment Leasing Corporation defeased certain General Fund obligations by placing the proceeds of refunding bonds in an irrevocable trust to provide for all future debt service payments on the old bonds, through 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, 2001, \$68,090,000 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 buildings necessary for City operations. The table below is a schedule by years of future minimum rental payments required under such leases entered into by the City that have initial or remaining noncancellable lease terms in excess of one year, as of June 30, 2001.

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>
2002	\$ 5,913,218
2003	4,924,290
2004	2,057,269
2005	1,858,148
2006	1,843,564
Thereafter	<u>14,177,597</u>
Total Minimum Payments	\$30,774,086

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 June 1, 2002. 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, 2001, there were six 1915 Act District bond issues with aggregate outstanding principal of \$47,167,000 and two Community Facilities District (Mello-Roos) bond issues with outstanding principal of \$116,830,000. In order to take advantage of a favorable interest rate environment, in February 1999, seven 1915 Act assessment districts were consolidated into one reassessment district through the issuance of lien refunding revenue bonds under the Marks-Roos Bond Local Pooling Act of 1985. Before this refunding, all seven 1915 Act assessment districts had outstanding bonds issued between 1987 and 1992. As of June 30, 2001, there was \$33,785,000 in outstanding Marks-Roos revenue bonds associated with this refunding.

The reserve funds for each of the City's outstanding 1915 Act District and Community Facilities District bond issues were fully funded as of June 30, 2001. Although the City is not in any way obligated to make debt service payments for either 1915 Act 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 June 1, 2002

2001-02 Assessed Valuation: \$96,293,256,580
 Redevelopment Incremental Valuation: 3,745,715,442
 Adjusted Assessed Valuation: \$92,547,541,138

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 6/1/02</u>
San Diego County Water Authority	49.320%	\$ 1,588,104
Metropolitan Water District	8.751	44,024,093
Southwestern Community College District	17.425	6,970,000
San Diego Unified School District	99.910	489,548,890
San Diego Unified School District Lease Tax Obligations	99.910	129,008,788
Sweetwater Union High School District	21.122	8,026,360
San Ysidro School District	91.277	17,739,685
Other High School and School Districts	Various	9,047,938
City of San Diego	100.	16,920,000
San Diego Open Space Park Facilities District No. 1	100.	41,175,000
City of San Diego Community Facilities District No. 1	100.	54,640,000
City of San Diego Community Facilities District No. 2, Improvement Area Nos. 1 and 3	100.	60,370,000
City of San Diego 1915 Act Bonds	100.	44,647,389
North City West School District Community Facilities District	100.	72,460,000
Poway Unified School District Community Facilities District No. 1 and 10	100.	87,195,000
San Dieguito Union High School District Community Facilities District No. 95-1	81.063	15,288,415
Sweetwater Union High School District Community Facilities Districts	5.014-100.	2,887,275
Other Special District 1915 Act Bonds	Various	<u>1,151,734</u>
TOTAL GROSS DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$1,102,688,671
Less: San Diego Open Space Park Facilities District No. 1 (100% self-supporting)		<u>41,175,000</u>
TOTAL NET DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$1,061,513,671
 <u>DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT:</u>		
San Diego County General Fund Obligations	47.542%	\$ 237,023,523
San Diego County Pension Obligations	47.542	134,496,318
San Diego Superintendent of Schools Certificates of Participation	47.542	1,009,079
San Diego Community College District General Fund Obligations	99.906	43,998,602
San Diego Unified School District Certificates of Participation	99.910	46,028,537
Sweetwater Union High School District Certificates of Participation	21.122	5,162,217
Del Mar Union School District Certificates of Participation	78.727	9,966,838
San Ysidro School District Certificates of Participation	91.277	9,033,826
South Bay Union School District Certificates of Participation	61.003	2,769,536
Other School, High School and Community College District Certificates of Participation	Various	9,409,309
City of San Diego General Fund Obligations and MTDB Authority	100.	541,435,000 (1)
Otay Municipal Water District Certificates of Participation	7.410	<u>1,975,877</u>
TOTAL GROSS OVERLAPPING GENERAL FUND OBLIGATION DEBT		\$1,042,308,662
Less: Otay Municipal Water District Certificates of Participation		1,975,877
Grossmont Union High School District Certificates of Participation (100% self-supporting from tax increment revenues)		<u>67,757</u>
TOTAL NET OVERLAPPING GENERAL FUND OBLIGATION DEBT		\$1,040,265,028
 GROSS COMBINED TOTAL DEBT		\$2,144,997,333 (2)
NET COMBINED TOTAL DEBT		\$2,101,778,699

(1) Excludes tax and revenue anticipation notes.

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

Ratios to 2001-02 Assessed Valuation:

Direct Debt (\$16,920,000) 0.02%
 Total Gross Direct and Overlapping Tax and Assessment Debt 1.15%
 Total Net Direct and Overlapping Tax and Assessment Debt..... 1.10%

Ratios to Adjusted Assessed Valuation:

Gross Combined Direct Debt (\$599,530,000) (1)..... 0.65%
Net Combined Direct Debt (\$558,355,000) 0.60%
 Gross Combined Total Debt..... 2.32%
 Net Combined Total Debt 2.27%

(1) City \$ 16,920,000
 City Authorities and Certificates of Participation 541,435,000
 San Diego Open Space Park Facilities District No. 1 41,175,000
 \$599,530,000

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/01: \$3,341,589

Source: California Municipal Statistics, Inc.

APPENDIX B

**EXCERPTS FROM THE CITY'S COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

(THIS PAGE INTENTIONALLY LEFT BLANK)

APPENDIX C
DEFINITIONS AND SUMMARY OF
CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS

APPENDIX D

FORM OF CONTINUING DISCLOSURE AGREEMENT

This CONTINUING DISCLOSURE AGREEMENT (the “Disclosure Agreement”) is executed and delivered by the City of San Diego (the “City”) and Wells Fargo Bank, National Association (the “Trustee”) in connection with the issuance of \$25,070,000 Public Facilities Financing Authority of the City of San Diego Lease Revenue Bonds, Series 2002B (Fire and Life Safety Facilities Project) (the “Bonds”). The Bonds are being issued pursuant to an Indenture, dated as of June 1, 2002 (the “Indenture”), between the Public Facilities Financing Authority of the City of San Diego (the “Authority”), a public entity and agency duly organized and existing pursuant to a joint exercise of powers agreement between the City and the Redevelopment Agency of the City of San Diego, and the Trustee. The Bonds will be payable from Base Rental Payments to be made by the City pursuant to a Lease dated as of June 1, 2002 (the “Lease”) between the City and the Authority. Pursuant to Section 6.14 of the Indenture and Section 5.04 of the Lease, the City and the Trustee covenant as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the City and the Trustee for the benefit of the Owners and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter (as defined below) in complying with the Rule (as defined below). The City and the Trustee acknowledge that the Authority has undertaken no responsibility with respect to any reports, notices or disclosures provided or required under this Disclosure Agreement and has no liability to any person, including any Owner or Beneficial Owner of the Bonds with respect to the Rule.

SECTION 2. Definitions. The definitions set forth in the Indenture apply to any capitalized term used in this Disclosure Agreement, unless such terms are otherwise defined in this Section 2 below:

“Annual Report” shall mean any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“Beneficial Owner” shall mean any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

“Disclosure Representative” shall mean the Deputy City Manager of the City, or his or her designee, or such other officer or employee as the City shall designate in writing to the Trustee from time to time.

“Dissemination Agent” shall mean the Deputy City Manager, acting in his or her capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the City and which has filed with the Trustee a written acceptance of such designation.

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

“National Repository” shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently approved by the Securities and Exchange Commission are set forth at <http://www.sec.gov/info/municipal/nrmsir.htm>.

“Participating Underwriter” shall mean any of the original underwriters 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, if any.

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

“State” shall mean the State of California.

“State Repository” shall mean any public or private repository or entity designated by the State as a state information depository 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 cause the Dissemination Agent to, not later than 285 days after the end of the City’s fiscal year (which fiscal year presently ends June 30), commencing with the report for the Fiscal Year ended June 30, 2002, prepare an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement and shall, or shall cause the Dissemination Agent, if applicable, to provide such Annual Report to each Repository and to the Trustee not later than 285 days after the end of the City’s fiscal year. If by such date the Trustee has not received a copy of the Annual Report, the Trustee shall contact the City and the Dissemination Agent to inquire if the City is in compliance with the first sentence of this subsection (a). The Trustee shall have no duty or obligation to review such Annual Report. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure 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 not available by that date. If the City’s fiscal year changes, the City shall give notice of such change in the same manner as for a Listed Event under Section 5(f).

(b) Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to Repositories, the City shall provide the Annual Report to the Dissemination Agent (if other than the City).

(c) If the Trustee is unable to verify that an Annual Report has been provided to the Repositories as required in subsection (a), the Trustee shall send a notice to each Repository and the Municipal Securities Rulemaking Board in substantially the form attached as Exhibit A hereto.

(d) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and the State Repository, if any; and

(ii) file a report with the City, the Authority and (if the Dissemination Agent is not the Trustee), the Trustee certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided.

SECTION 4. Content of Annual Reports. The City’s Annual Report shall be in a format suitable for filing with each Repository and shall contain or incorporate by reference:

(a) The City’s audited financial statements for the prior fiscal year, prepared in accordance with generally accepted accounting principles in effect from time to time by the Financial Accounting Standards Board or as otherwise required by applicable State law. If the City’s audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Updates of information contained in the following tables and captions in APPENDIX A of the Official Statement, dated June 12, 2002, relating to the Bonds:

- (i) Table 7 – CITY OF SAN DIEGO TRANSIENT OCCUPANCY TAX.
- (ii) Table 11 – CITY OF SAN DIEGO BUILDING PERMIT VALUATIONS AND NUMBER OF DWELLING UNITS.
- (iii) Table 12 – CITY OF SAN DIEGO BALANCE SHEET FOR THE GENERAL FUND.
- (iv) Table 13 – CITY OF SAN DIEGO STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE FOR THE GENERAL FUND.
- (v) Table 14 – CITY OF SAN DIEGO OPERATING BUDGET SUMMARY.
- (vi) Table 15 – ASSESSED VALUATION.
- (vii) Table 16 – SECURED TAX LEVIES AND COLLECTIONS.
- (viii) Table 17 – PRINCIPAL PROPERTY TAXPAYERS IN THE CITY OF SAN DIEGO.
- (ix) Information under the caption “LABOR RELATIONS.”
- (x) Information under the caption “PENSION PLAN.”
- (xi) Table 18 – CITY OF SAN DIEGO LIABILITY CLAIMS AND PREMIUMS.
- (xii) Table 19 – CITY OF SAN DIEGO POOLED OPERATING INVESTMENT FUND.
- (xiii) Information under the caption “INVESTMENT OF FUNDS – Pool Liquidity and Other Characteristics.”
- (xiv) Table 20 – CITY OF SAN DIEGO GENERAL OBLIGATION AND GENERAL FUND LEASE OBLIGATIONS.
- (xv) Table 21 – CITY OF SAN DIEGO SHORT-TERM BORROWINGS.
- (xvi) Table 22 – CITY OF SAN DIEGO FUTURE MINIMUM RENTAL PAYMENTS – GENERAL FUND OPERATING LEASE COMMITMENTS.
- (xvii) Table 23 – CITY OF SAN DIEGO STATEMENT OF DIRECT AND OVERLAPPING BONDED DEBT.

(c) 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) The City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults;
- (iii) modifications to rights of Bondholders;
- (iv) optional, contingent or unscheduled Bond calls;
- (v) defeasances;
- (vi) rating changes;

- Bonds;
- (vii) adverse tax opinions or events adversely affecting the tax-exempt status of the
 - (viii) unscheduled draws on credit enhancements reflecting financial difficulties;
 - (ix) unscheduled draws on debt service reserves reflecting financial difficulties;
 - (x) substitution of credit or liquidity providers or their failure to perform; and
 - (xi) release, substitution or sale of property securing repayment of the Bonds.

(b) The Dissemination Agent shall, as soon as reasonably practicable after obtaining actual knowledge of the occurrence of any of the Listed Events, contact the Disclosure Representative, inform such person of the event, and request that the City promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to subsection (f) and promptly direct the Dissemination Agent whether or not to report such event to the Bondholders. In the absence of such direction, the Dissemination Agent shall not report such event unless otherwise required to be reported by the Dissemination Agent to the Bondholders under the Indenture. The Dissemination Agent may conclusively rely upon such direction (or lack thereof). For purposes of this Disclosure Agreement, “actual knowledge” of the occurrence of such Listed Events shall mean actual knowledge by the Dissemination Agent if other than the Trustee, and if the Dissemination Agent is the Trustee, then by the officer at the corporate trust office of the Trustee with regular responsibility for the administration of matters related to the Indenture. The Dissemination Agent shall have no responsibility to determine the materiality of any of the Listed Events.

(c) Whenever the City obtains knowledge of the occurrence of a Listed Event, whether because of a notice from the Trustee pursuant to subsection (b) or otherwise, the City shall as soon as possible determine if such event would be material under applicable federal securities laws.

(d) If the City has determined that knowledge of the occurrence of a Listed Event would be material under federal securities laws, the City shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent in writing and instruct the Dissemination Agent to report the occurrence pursuant to subsection (f).

(e) If in response to a request under subsection (b), the City determines that the Listed Event would not be material under applicable federal securities laws, the City shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence pursuant to subsection (f).

(f) If the Dissemination Agent has been instructed by the City to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the Municipal Securities Rulemaking Board and the Repositories with a copy to the City. 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 Owners of affected Bonds pursuant to the Indenture.

SECTION 6. Termination of Reporting Obligation. The obligations of the City under this Disclosure Agreement shall terminate upon the defeasance, prior redemption or payment in full of all of the Bonds. If the City’s obligations under the Lease are assumed in full by some other entity, such person shall be responsible for compliance with this Disclosure Agreement in the same manner as if it were the City, and the original City shall have no further responsibility hereunder. 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(f).

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 in any manner for the content of any notice or report prepared by the City pursuant to this Disclosure Agreement.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the City and the Trustee may amend this Disclosure Agreement (and the Trustee shall agree to any amendment so requested by the City provided the Trustee shall not be obligated to enter into any such amendment that modifies or increases its duties or obligations hereunder) and any provision of this Disclosure Agreement may be waived, provided the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law or change in the identity, nature or status of an Obligated Person (as defined in the Rule) with respect to the Bonds or type of business conducted;

(b) This Disclosure Agreement, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original execution and delivery of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Owners of the Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of the Owners or (ii) does not materially impair the interests of the Owners, as determined by nationally recognized bond counsel.

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(f), and (ii) the Annual Report for the year in which the change is made should 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 not have any obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the City or the Trustee to comply with any provision of this Disclosure Agreement, the Trustee, at the request of any Participating Underwriter or the Owners of at least 25% aggregate principal amount of Outstanding Bonds, shall, but only to the extent funds in an amount satisfactory to the Trustee have been provided to it or it has been otherwise indemnified to its satisfaction from any fees and expenses, including counsel fees, or any Owner or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City or the Trustee, as the case may be, to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Indenture or the Lease, 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 substantial performance.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent (if other than the Trustee or the Trustee in its capacity as Dissemination Agent) and the Trustee shall have only such duties as are specifically set forth in this Disclosure Agreement, and the City agrees to indemnify and save the Dissemination Agent and the Trustee, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of the disclosure of information pursuant to this Disclosure Agreement or out of or in the exercise or performance of their powers and duties hereunder, including the costs and

expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the gross negligence or willful misconduct of the Dissemination Agent. The Trustee shall have no duty or obligation to review any information provided to it hereunder and shall not be deemed to be acting in any fiduciary capacity for the City, the Authority, the Owners or Beneficial Owners or any other party. The Trustee shall not have any liability of any kind whatsoever related to or arising from this Disclosure Agreement. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent, termination of Disclosure Agreement and payment of the Bonds. The Dissemination Agent (if not the City) and the Trustee shall not have any responsibility or liability for the failure to report any Listed Event or any financial information or as to which the City did not prepare a report in a format suitable for filing with the Repositories.

SECTION 12. Notices. Any notices or communications to or among any of the parties to this Disclosure Agreement may be given as follows:

To the City: City of San Diego
202 "C" Street
Mail Station 9B
San Diego, California 92101
Attention: Ms. Patricia Frazier, Deputy City Manager
Fax: (619) 236-7344
Telephone: (619) 236-6070

To the Trustee: Wells Fargo Bank, National Association
707 Wilshire Boulevard, 17th Floor
MAC; EZ818-176
Los Angeles, California 90017
Attention: Corporate Trust Services
Fax: (213) 614-3355
Telephone: (213) 614-3353

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

SECTION 13. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the City, the Trustee, the Authority, the Dissemination Agent, the Participating Underwriters and Owners and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 14. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Dated: June 28, 2002

CITY OF SAN DIEGO

By: _____
City Manager or designee

WELLS FARGO BANK, NATIONAL ASSOCIATION

By: _____
Authorized Officer

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Obligated Party: City of San Diego (the "City")

Name of Issue: Public Facilities Financing Authority of the City of San Diego Lease Revenue Bonds, Series 2002B (Fire and Life Safety Facilities Project)

Date of Issuance: June 28, 2002

NOTICE IS HEREBY GIVEN that the City has not provided an Annual Report with respect to the above named Bonds as required by Section 6.14 of the Indenture, dated as of June 1, 2002, between the Public Facilities Financing Authority of the City of San Diego and Wells Fargo Bank, National Association, Section 5.04 of the Lease, dated as of June 1, 2002 between the City and the Public Facilities Financing Authority of the City of San Diego and Section 3 of the Continuing Disclosure Agreement, dated as of June 28, 2002. [The City anticipates that the Annual Report will be filed by _____.]

Dated: _____

WELLS FARGO BANK, NATIONAL ASSOCIATION, on behalf of the City of San Diego

By: _____
Authorized Officer

cc: City of San Diego

APPENDIX E

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 certificates, without coupons, registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond will be issued for each maturity of the Bonds in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing corporation (“DTCC”). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC and EMCC, also subsidiaries of DTCC) as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Direct and Indirect Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at: www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book -entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. 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 Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

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

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

Payments of principal and interest with respect to the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, the City or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, and 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, or the Authority may decide to discontinue use of the system of book-entry transfers through DTC. Under such circumstances, in the event that a successor securities depository is not obtained, certificates are required to be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Authority and the City believe to be reliable, but neither the Authority nor the City takes any responsibility for the accuracy thereof. The Authority and the City cannot and do not give any assurances that DTC, Direct Participants or Indirect Participants will distribute to the Beneficial Owners (i) payments of interest, principal or premium, if any, with respect to the Bonds, (ii) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (iii) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will do so on a timely basis or that DTC, Direct Participants or Indirect Participants will act in the manner described in this Official Statement. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

Discontinuation of Book-Entry System; Payment to Beneficial Owners. In the event that the book-entry system described above is no longer used with respect to the Bonds, the following provisions will govern the payment, registration, transfer, exchange and replacement of the Bonds.

The principal with respect to the Bonds will be payable in lawful money of the United States of America upon presentation and surrender of the Bonds at the principal corporate trust office of the Trustee. Interest on the Bonds will be paid by the Trustee by check mailed to the person whose name appears on the registration books of the Trustee as the registered owner, and to that person's address appearing on the registration books as of the close of business on the last day of the month immediately preceding the Interest Payment Date.

Any Bond may be exchanged at the principal corporate trust office of the Trustee for a like aggregate principal amount of Bonds. A Bond may be transferred on the registration books by the person in whose name it is registered, in person or by his or her duly authorized attorney, upon surrender of the Bond at the principal corporate trust office of the Trustee together with an assignment executed by the registered owner or by a person legally empowered to do so in a form satisfactory to the Trustee. Upon such transfer, the Authority shall execute and the Trustee shall authenticate and deliver a new Bond of a like aggregate principal amount.

The Trustee shall not be required to register the transfer or exchange of any Bond (i) during any period commencing on the day which is five Business Days before the date on which Bonds are to be selected for redemption and ending on such date of selection, or (ii) which has been selected for redemption in whole or in part. For every transfer and exchange of the Bonds, the Trustee may charge the Beneficial Owner a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto.

APPENDIX F

PROPOSED OPINION OF BOND COUNSEL

Upon the delivery of the Bonds, Hawkins, Delafield & Wood, Los Angeles, California, Bond Counsel, proposes to issue its approving opinion in substantially the following form:

Public Facilities Financing Authority of the City of San Diego
202 C Street
San Diego, California 92101

City of San Diego
202 C Street
San Diego, California 92101

Ladies and Gentlemen:

We have examined a record of proceedings relating to the issuance of \$25,070,000 Public Facilities Financing Authority of the City of San Diego Lease Revenue Bonds, Series 2002B (Fire and Life Safety Facilities Project) (the "Bonds").

The Bonds are issued pursuant to the provisions of Article 4 of Chapter 5 of Division 7 of the Government Code (commencing with Section 6584) and pursuant to the Indenture, dated as of June 1, 2002 (the "Indenture"), by and between the Authority and Wells Fargo Bank, National Association, as trustee (the "Trustee"). Capitalized terms used herein and not otherwise defined shall have the meanings given to such terms in the Indenture and the Lease, dated as of June 1, 2002 (the "Lease"), by and between the Public Facilities Financing Authority of the City of San Diego (the "Authority") and the City of San Diego (the "City").

The Bonds are dated, mature on the dates and bear interest at the rates per annum, all as set forth in the Indenture. The Bonds are issued as fully registered bonds in Authorized Denominations (as defined in the Indenture). The Bonds are subject to redemption prior to their maturity as provided in the Indenture.

We are of the opinion that:

1. The Bonds constitute the valid and binding limited obligations of the Authority, enforceable in accordance with their terms and the terms of the Indenture.

2. The Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Authority, enforceable in accordance with its terms. The Indenture creates a valid pledge, to secure the payment of the principal of and interest on the Bonds, of the Revenues and any other amounts (including proceeds of the sale of the Bonds) held by the Trustee in any fund or account established pursuant to the Indenture, except the Rebate Fund, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein.

3. The Lease, the Site Lease, dated as of June 1, 2002 (the "Site Lease"), by and between the City and Authority, and the Assignment Agreement, dated as of June 1, 2002 (the "Assignment Agreement"), by and between the Authority and the Trustee, have been duly executed and delivered by, and constitute the valid and binding obligations of, the Authority, enforceable in accordance with their respective terms.

4. The Lease and the Site Lease have been duly executed and delivered by, and constitute valid and binding obligations of, the City, enforceable in accordance with their respective terms.

5. The obligation of the City to make Base Rental Payments during the term of the Lease constitutes a valid and binding obligation of the City, payable from funds of the City lawfully available therefor, and does not constitute a debt of the City or of the State of California within the meaning of any constitutional or statutory debt limit or restriction, and does not constitute an obligation for which the City or the State of California is obligated to levy or pledge any form of taxation or for which the City or the State of California has levied or pledged any form of taxation.

6. Under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, interest on the Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). Interest on the Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering its opinion, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Authority and the City in connection with the Bonds, and Bond Counsel has assumed compliance by the Authority and the City with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Bonds from gross income under Section 103 of the Code.

In rendering the opinion in paragraph 6 hereof, we have relied upon and assumed the material accuracy of the representations, statements of intention and reasonable expectation, and certifications of fact contained in the Tax Certificate with respect to matters affecting the status of the interest on the Bonds, and continuing compliance with and enforcement by the City of the procedures and covenants set forth in the Tax Certificate as to such tax matters.

7. Interest on the Bonds is exempt from State of California personal income taxes.

The foregoing opinions are qualified to the extent that the enforceability of the Bonds, the Indenture, the Lease, the Site Lease, the Assignment Agreement and the Tax Certificate may be limited by bankruptcy, moratorium, insolvency or other laws affecting creditors' rights or remedies and are subject to general principals of equity (regardless of whether such enforceability is considered in equity or at law).

Very truly yours,

APPENDIX G

**FORM OF MUNICIPAL BOND INSURANCE POLICY
OF MBIA INSURANCE CORPORATION**

00039300.Doc/v6/3266.0020