

In the opinion of Nixon Peabody LLP, Bond Counsel, under existing law and assuming compliance with the tax covenants described herein, and the accuracy of certain representations and certifications made by the City and the Authority described herein, interest on the Series 2009A Bonds is excluded from gross income for Federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). Bond Counsel is also of the opinion that such interest is not treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations. Bond Counsel is further of the opinion that interest on the Series 2009A Bonds is exempt from State of California personal income taxes. See "TAX MATTERS" herein regarding certain other tax considerations.

\$453,775,000

PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO
SENIOR SEWER REVENUE BONDS, SERIES 2009A
(Payable Solely From Installment Payments
Secured by Wastewater System Net Revenues)

Dated: Date of Delivery

Due: May 15, as shown on the inside cover page

The \$453,775,000 Public Facilities Financing Authority of the City of San Diego Senior Sewer Revenue Bonds, Series 2009A (Payable Solely From Installment Payments Secured by Wastewater System Net Revenues) (the "Series 2009A Bonds") are being issued by the Public Facilities Financing Authority of the City of San Diego (the "Authority") pursuant to the provisions of the Joint Exercise of Powers Act (commencing with Section 6500) of the Government Code of the State of California (the "State") and an Indenture, dated as of May 1, 2009 (the "Indenture"), by and between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"). The proceeds of the Series 2009A Bonds will be used to acquire certain capital improvements to the Wastewater System (as defined herein), pay in full the Authority's Subordinate Sewer Revenue Notes, Series 2007 (the "Series 2007 Notes"), refund a portion of the Authority's Sewer Revenue Bonds, Series 1997A and Sewer Revenue Bonds, Series 1997B, fund the Reserve Fund and pay costs of issuance with respect to the Series 2009A Bonds. The Authority also expects to issue prior to June 30, 2009 its Senior Sewer Revenue Refunding Bonds, Series 2009B (Payable Solely From Installment Payments Secured by Wastewater System Net Revenues) in an anticipated aggregate principal amount of approximately \$500,000,000 to \$600,000,000 to refund all or a portion of its then-outstanding Parity Bonds (herein defined) subject to market conditions.

THE SERIES 2009A BONDS SHALL BE LIMITED OBLIGATIONS OF THE AUTHORITY AND SHALL BE PAYABLE SOLELY FROM THE REVENUES OF THE AUTHORITY AND AMOUNTS ON DEPOSIT IN THE FUNDS AND ACCOUNTS ESTABLISHED UNDER THE INDENTURE (OTHER THAN AMOUNTS ON DEPOSIT IN THE REBATE FUND). EXCEPT AS AFORESAID, THE SERIES 2009A BONDS DO NOT CONSTITUTE A DEBT OR LIABILITY OF THE AUTHORITY, THE CITY OR THE STATE AND NEITHER THE FAITH NOR CREDIT OF THE AUTHORITY, THE CITY OR THE STATE ARE PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE SERIES 2009A BONDS. THE AUTHORITY HAS NO TAXING POWER.

The Series 2009A Bonds are limited obligations of the Authority primarily secured by Revenues (herein defined) of the Authority, which consist primarily of 2009A Installment Payments (herein defined) to be made by the City to the Authority pursuant to the Master Installment Purchase Agreement, dated as of September 1, 1993, as amended and supplemented (the "Master Installment Purchase Agreement"), including as supplemented by the 2009-1 Supplement dated as of May 1, 2009 to the Master Installment Purchase Agreement (the "2009-1 Supplement" and, together with the Master Installment Purchase Agreement, the "Installment Purchase Agreement"), each by and between the City and the Authority, and amounts on deposit in the funds and accounts established under the Indenture (other than amounts on deposit in the Rebate Fund). The City has pledged Net System Revenues (herein defined) of the Wastewater System pursuant to the Installment Purchase Agreement to the payment of the Installment Payments (herein defined), including the 2009A Installment Payments. The City's pledge and assignment of and lien on the Net System Revenues securing the 2009A Installment Payments are, in all respects, on parity with the City's pledge and assignment of and lien on the Net System Revenues securing the other Parity Obligations (as described herein) under the Installment Purchase Agreement. The principal of and interest on the Series 2009A Bonds and any premium upon the redemption of any thereof are not a debt of the City nor a legal or equitable pledge, charge, lien or encumbrance upon any of its property or upon any of its income, receipts or revenues but are secured by and payable solely from the Revenues of the Authority and amounts on deposit in the funds and accounts established under the Indenture (other than amounts on deposit in the Rebate Fund).

Pursuant to the Installment Purchase Agreement, the City may incur additional Obligations, payments with respect to which will be on parity with or subordinate in priority to the City's obligation to make 2009A Installment Payments, subject to satisfaction of the conditions specified in the Installment Purchase Agreement. As of May 13, 2009, subsequent to the incurrence of the 2009A Installment Payments and the refundings described herein, there will be Outstanding Parity Obligations in the aggregate principal amount of \$1,297,425,000 and Subordinated Obligations (as defined herein) in the aggregate principal amount of \$71,925,170. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2009A BONDS – Outstanding Obligations" herein.

The Series 2009A Bonds will accrue interest from their date of delivery and interest thereon will be payable on May 15 and November 15 of each year, commencing on November 15, 2009. The Series 2009A Bonds will bear interest at the respective rates per annum set forth on the inside cover page hereof. See "DESCRIPTION OF THE SERIES 2009A BONDS – General" herein and Appendix C – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS" attached hereto.

The Series 2009A Bonds will be issued only in fully-registered form in denominations of \$5,000 and any integral multiple thereof, and when issued, will be registered in the name of Cede & Co., as the nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Series 2009A Bonds. Ownership interests in the Series 2009A Bonds may be purchased in book-entry form only. So long as DTC or its nominee is the Owner of the Series 2009A Bonds, principal and redemption premium, if any, of and interest on the Series 2009A Bonds will be made as described in Appendix F – "INFORMATION REGARDING THE BOOK-ENTRY ONLY SYSTEM" attached hereto.

The Series 2009A Bonds are subject to optional redemption and mandatory sinking fund redemption prior to maturity as described herein. See "DESCRIPTION OF THE SERIES 2009A BONDS – Redemption" herein.

This cover page contains information for general reference only. Potential purchasers are advised to read the entire Official Statement to obtain information essential to making an informed investment decision.

The Series 2009A Bonds are offered when, as and if issued, subject to the legal opinion of Nixon Peabody LLP, Los Angeles, California, Bond Counsel. Certain legal matters will be passed upon for the Authority by Hawkins Delafield & Wood LLP, Los Angeles, California, Disclosure Counsel, for the Authority and the City by Jan I. Goldsmith, City Attorney, and for the Underwriters by their counsel, Stradling Yocca Carlson & Rauth, A Professional Corporation, Newport Beach, California. It is anticipated that the Series 2009A Bonds will be available for delivery through the facilities of DTC in New York, New York on or about May 13, 2009.

Banc of America Securities LLC

Citi
Fidelity Capital Markets

Siebert Brandford Shank & Co., LLC
Wedbush Morgan Securities

\$453,775,000
PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO
SENIOR SEWER REVENUE BONDS, SERIES 2009A
(Payable Solely From Installment Payments
Secured by Wastewater System Net Revenues)

MATURITY SCHEDULE

Maturity Date (May 15)	Principal Amount	Interest Rate	Yield	Price	CUSIP[†]
2010	\$ 6,810,000	2.000%	0.640%	101.360%	79730AFE3
2011	7,075,000	2.750	1.830	101.803	79730AFF0
2012	5,000,000	2.750	2.230	101.503	79730AFG8
2012	9,560,000	4.000	2.230	105.117	79730AFW3
2013	5,000,000	3.000	2.530	101.779	79730AFH6
2013	10,090,000	5.000	2.530	109.352	79730AFX1
2014	5,100,000	3.250	2.900	101.619	79730AFJ2
2014	10,640,000	4.500	2.900	107.404	79730AFY9
2015	4,935,000	3.500	3.180	101.736	79730AFK9
2015	11,450,000	5.000	3.180	109.878	79730AFZ6
2016	1,890,000	3.500	3.380	100.742	79730AFL7
2016	3,395,000	4.000	3.380	103.838	79730AGA0
2016	11,840,000	5.000	3.380	110.030	79730AGL6
2017	4,640,000	4.000	3.590	102.830	79730AFM5
2017	13,285,000	5.000	3.590	109.735	79730AGB8
2018	8,990,000	5.000	3.800	109.079	79730AFN3
2019	9,435,000	4.250	4.000	102.044	79730AFP8
2020	9,835,000	4.000	4.200	98.251	79730AFQ6
2021	10,230,000	5.000	4.350	105.227*	79730AGC6
2022	2,430,000	4.500	4.500	100.000	79730AFR4
2022	8,315,000	5.000	4.500	103.992*	79730AGJ1
2023	11,270,000	5.000	4.640	102.855*	79730AGD4
2024	11,830,000	5.000	4.780	101.733*	79730AFS2
2025	12,425,000	5.000	4.930	100.547*	79730AGE2
2026	13,040,000	5.000	5.050	99.433	79730AFT0
2027	13,695,000	5.000	5.120	98.599	79730AGF9
2028	14,380,000	5.000	5.170	97.957	79730AGG7
2029	15,100,000	5.125	5.230	98.706	79730AFU7

\$ 79,520,000 5.250% Term Bonds due May 15, 2034 – Priced to Yield: 5.370% – Price: 98.358 – CUSIP[†]: 79730AGK8
\$ 8,655,000 5.375% Term Bonds due May 15, 2034 – Priced to Yield: 5.370% – Price: 100.037* – CUSIP[†]: 79730AFV5
\$113,915,000 5.250% Term Bonds due May 15, 2039 – Priced to Yield: 5.430% – Price: 97.348 – CUSIP[†]: 79730AGH5

*Priced to par call on May 15, 2019.

[†] Copyright, American Bankers Association. CUSIP data is provided by Standard & Poor's CUSIP Service Bureau, a Division of the McGraw-Hill Companies, Inc., and is set forth herein for convenience of reference only. The City, the Authority and the Underwriters do not assume responsibility for the accuracy of such data.

No dealer, broker, salesperson or other person has been authorized by the City or the Authority to give any information or to make any representations other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by the City or the Authority. 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 Series 2009A Bonds by a person in any jurisdiction in which it is unlawful for such person to make an offer, solicitation or sale.

This Official Statement is not a contract with the purchasers of the Series 2009A 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 a representation of facts.

The information set forth herein has been furnished by the City and by other sources which are believed to be reliable. The Underwriters have provided the following sentence for inclusion in this Official Statement: the Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibility to investors under the Federal securities law as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

The information and expressions of opinion 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 City, the Authority or any other parties described herein since the date hereof. All summaries of the Series 2009A Bonds, the Indenture, the Installment Purchase Agreement, the 2009-1 Supplement and other documents summarized herein, are made subject to the provisions of such documents respectively and do not purport to be complete statements of any or all of such provisions.

This Official Statement is submitted in connection with the execution and delivery of the Series 2009A Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

The City maintains a website with investor information at <http://www.sandiego.gov/investorinformation>. However, the information presented there is not part of this Official Statement, is not incorporated by reference herein and should not be relied upon in making an investment decision with respect to the Series 2009A Bonds.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2009A 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 SERIES 2009A BONDS TO CERTAIN DEALERS AND 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.

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CITY OF SAN DIEGO

Mayor

Jerry Sanders

City Council

Sherri S. Lightner (District 1)

Kevin Faulconer (District 2)

Todd Gloria (District 3)

Tony Young (District 4)

Carl DeMaio (District 5)

Donna Frye (District 6)

Marti Emerald (District 7)

Ben Hueso, Council President (District 8)

City Attorney

Jan I. Goldsmith

City Officials

Jay M. Goldstone, *Chief Operating Officer*

Mary Lewis, *Chief Financial Officer*

Gail R. Granewich, *City Treasurer*

Eduardo Luna, *City Auditor*

Tracy McCraner, *Interim City Comptroller*

Andrea Tevlin, *Independent Budget Analyst*

Elizabeth Maland, *City Clerk*

Metropolitan Wastewater Department

Jim Barrett, Director of Public Utilities

Robert Ferrier, Assistant Director

Alan Langworthy, Acting Deputy Director, Environmental Monitoring and Technical Services

Darlene Morrow-Truver, Deputy Director, Administrative Services

Jesse Pagliaro, Deputy Director, Wastewater Treatment and Disposal

Ann Sasaki, Deputy Director, Engineering and Program Management

Christopher Toth, Deputy Director, Wastewater Collection

Special Services

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Los Angeles, California

DISCLOSURE COUNSEL

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Los Angeles, California

FINANCIAL ADVISOR

Montague DeRose and Associates LLC

Walnut Creek, California

TRUSTEE

The Bank of New York Mellon Trust Company, N.A.

Los Angeles, California

FEASIBILITY CONSULTANT

Malcolm Pirnie, Inc.

Carlsbad, California

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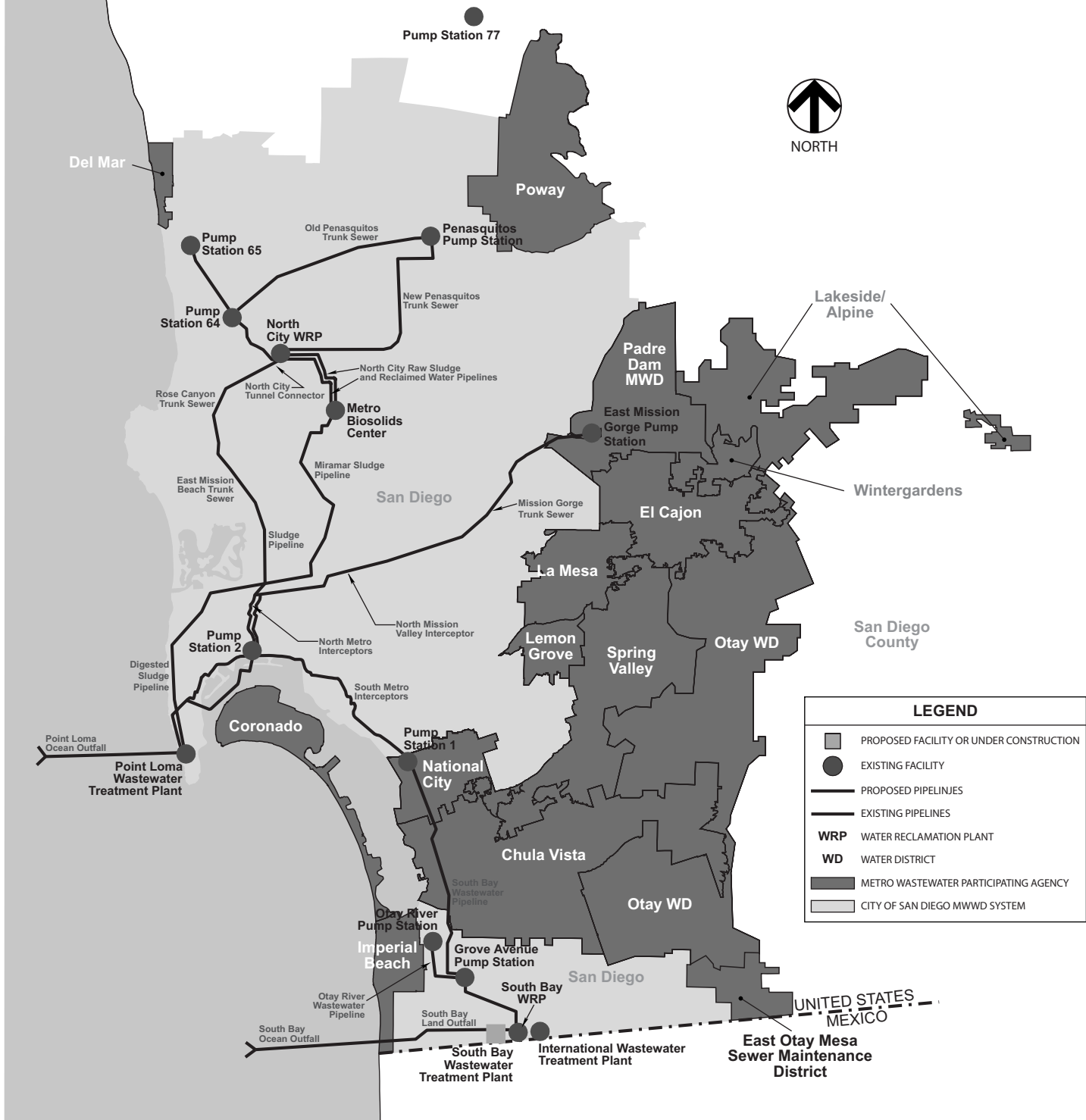
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The City of San Diego

Metropolitan Wastewater System Existing and Planned Facilities



NORTH

LEGEND

- PROPOSED FACILITY OR UNDER CONSTRUCTION
- EXISTING FACILITY
- PROPOSED PIPELINES
- EXISTING PIPELINES
- WRP** WATER RECLAMATION PLANT
- WD** WATER DISTRICT
- METRO WASTEWATER PARTICIPATING AGENCY
- CITY OF SAN DIEGO MWW SYSTEM

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OFFICIAL STATEMENT

\$453,775,000

**PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO
SENIOR SEWER REVENUE BONDS, SERIES 2009A
(Payable Solely From Installment Payments
Secured by Wastewater System Net Revenues)**

INTRODUCTION

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 described herein. All statements contained in this introduction are qualified in their entirety by reference to the entire Official Statement. References to and summaries of the laws of the State of California and any documents referred to herein do not purport to be complete and such references are qualified in their entirety by reference to the complete provisions. All capitalized terms used in this Official Statement and not otherwise defined herein have the meanings set forth in the Indenture and the Installment Purchase Agreement.

General

The \$453,775,000 Public Facilities Financing Authority of the City of San Diego Senior Sewer Revenue Bonds, Series 2009A (Payable Solely From Installment Payments Secured by Wastewater System Net Revenues) (the “Series 2009A Bonds”) are being issued by the Public Facilities Financing Authority of the City of San Diego (the “Authority”) pursuant to the provisions of the Joint Exercise of Powers Act (commencing with Section 6500) of the Government Code of the State of California (the “State”) and an Indenture, dated as of May 1, 2009 (the “Indenture”), by and between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee thereunder (the “Trustee”). The proceeds of the Series 2009A Bonds will be used to acquire certain capital improvements to the Wastewater System (as defined herein), pay in full the Authority’s Subordinate Sewer Revenue Notes, Series 2007 (the “Series 2007 Notes”), refund a portion of the Authority’s Sewer Revenue Bonds, Series 1997A (the “Series 1997A Bonds”) and Sewer Revenue Bonds, Series 1997B (the “Series 1997B Bonds”), fund the Reserve Fund and pay costs of issuance with respect to the Series 2009A Bonds. The Authority also expects to issue prior to June 30, 2009 its Senior Sewer Revenue Refunding Bonds, Series 2009B (Payable Solely From Installment Payments Secured by Wastewater System Net Revenues) (the “Series 2009B Bonds”) in an anticipated aggregate principal amount of approximately \$500,000,000 to \$600,000,000 to refund a portion of its then-outstanding Parity Bonds (herein defined) subject to market conditions.

The Series 2009A Bonds

The Series 2009A Bonds will accrue interest from their date of delivery and interest thereon will be payable on May 15 and November 15 of each year, commencing on November 15, 2009 (each, an “Interest Payment Date”). The Series 2009A Bonds will bear interest at the respective rates per annum set forth on the inside cover page hereof. See “DESCRIPTION OF THE SERIES 2009A BONDS – General” herein and Appendix C – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS” attached hereto.

The Series 2009A Bonds will be issued only in fully-registered form in denominations of \$5,000 and any integral multiple thereof, and when issued, will be registered in the name of Cede & Co., as the nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities

depository for the Series 2009A Bonds. Ownership interests in the Series 2009A Bonds may be purchased in book-entry form only. So long as DTC or its nominee is the Owner of the Series 2009A Bonds, the principal and redemption premium, if any, of and interest on the Series 2009A Bonds will be made as described in Appendix F – “INFORMATION REGARDING THE BOOK-ENTRY ONLY SYSTEM” attached hereto.

Security and Sources of Payment for the Series 2009A Bonds

The City of San Diego (the “City”) owns the Wastewater System and operates such system through its Metropolitan Wastewater Department (the “MWW”). The City has expanded the Wastewater System from time to time to satisfy its mission statement, which is to provide wastewater collection, treatment, discharge and disposal. See “THE WASTEWATER SYSTEM – Wastewater System Management”, “– Metropolitan Sub-System Facilities” and “– Municipal Sub-System Facilities” herein.

The Series 2009A Bonds are limited obligations of the Authority primarily secured by Revenues (herein defined) of the Authority consisting primarily of 2009A Installment Payments (herein defined) to be made by the City, pursuant to the Master Installment Purchase Agreement, dated as of September 1, 1993, as amended and supplemented (the “Master Installment Purchase Agreement”), including as supplemented by the 2009-1 Supplement dated as of May 1, 2009 to the Master Installment Purchase Agreement (the “2009-1 Supplement” and, together with the Master Installment Purchase Agreement, the “Installment Purchase Agreement”), each by and between the City and the Authority, and amounts on deposit in the funds and accounts established under the Indenture (other than amounts on deposit in the Rebate Fund). The City has pledged Net System Revenues (herein defined) of the Wastewater System pursuant to the Installment Purchase Agreement to the payment of the Installment Payments, including the 2009A Installment Payments. The pledge and assignment of and lien on the Net System Revenues securing the 2009A Installment Payments are, in all respects, on parity with the pledge and assignment of and lien on the Net System Revenues securing the other Parity Obligations (as defined in the Installment Purchase Agreement; the bonds secured by such Parity Obligations are referred to herein as “Parity Bonds”) under the Installment Purchase Agreement. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2009A BONDS” herein.

THE SERIES 2009A BONDS SHALL BE LIMITED OBLIGATIONS OF THE AUTHORITY AND SHALL BE PAYABLE SOLELY FROM THE REVENUES OF THE AUTHORITY AND AMOUNTS ON DEPOSIT IN THE FUNDS AND ACCOUNTS ESTABLISHED UNDER THE INDENTURE (OTHER THAN AMOUNTS ON DEPOSIT IN THE REBATE FUND). EXCEPT AS AFORESAID, THE SERIES 2009A BONDS DO NOT CONSTITUTE A DEBT OR LIABILITY OF THE AUTHORITY, THE CITY OR THE STATE AND NEITHER THE FAITH NOR CREDIT OF THE AUTHORITY, THE CITY OR THE STATE ARE PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE SERIES 2009A BONDS. THE AUTHORITY HAS NO TAXING POWER.

Redemption of the Series 2009A Bonds

The Series 2009A Bonds are subject to optional redemption and mandatory sinking fund redemption prior to maturity as described herein. See “DESCRIPTION OF THE SERIES 2009A BONDS – Redemption” herein.

Rate Covenant

The City has covenanted in the Installment Purchase Agreement to fix, prescribe and collect rates and charges for the Wastewater Service (defined herein) which will be at least sufficient (i) to pay during each Fiscal Year all Obligations (other than Parity Obligations) payable in such Fiscal Year, and (ii) to yield during each Fiscal Year Net System Revenues equal to 120% of the Debt Service (defined in the Installment Purchase Agreement generally to mean the aggregate amount of principal, sinking fund payments and interest payable in respect of all Parity Obligations for such Fiscal Year) for such Fiscal Year. The Wastewater Service rendered by the City includes services relating to the Metropolitan Sub-System (herein defined), of which the Participating Agencies are a part. See “THE WASTEWATER SYSTEM – Participating Agencies” for a description of the rates and charges paid and to be paid by the Participating Agencies. See also “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2009A BONDS – Rate Covenant”, “WASTEWATER SYSTEM FINANCIAL OPERATIONS – Rate Stabilization Fund and Other Reserves”, “RISK FACTORS – Rate-Setting Process Under Proposition 218” and “CONSTITUTIONAL LIMITATIONS ON TAXES AND WASTEWATER RATES AND CHARGES – Articles XIIC and XIID” herein and Appendix C – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS” attached hereto.

Reserve Fund

The Indenture requires the Authority to establish and maintain a Reserve Fund and the Authority must maintain therein or have credited thereto an amount of money equal to the Reserve Requirement. “Reserve Requirement” is defined to be, as of any date of calculation, the least of (i) 10% of the proceeds (within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended (the “Code”)) of the Series 2009A Bonds and any Additional Bonds (defined herein) issued under the Indenture (collectively, the “Bonds”); (ii) 125% of average annual debt service on the then-Outstanding Bonds; or (iii) the Maximum Annual Debt Service for that and any subsequent Fiscal Year. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2009A BONDS – Reserve Fund” herein for a description of the Reserve Fund.

Outstanding Obligations

As of May 13, 2009, subsequent to the incurrence of the 2009A Installment Payments and the refundings described herein, there will be outstanding \$1,297,425,000 aggregate principal amount of Parity Obligations (the “Outstanding Parity Obligations”) and \$71,925,170 aggregate principal amount of Subordinated Obligations (the “Outstanding Subordinated Obligations”). The Outstanding Parity Obligations and the Outstanding Subordinated Obligations were incurred to finance the costs of certain improvements relating to the Wastewater System. The Outstanding Parity Obligations will consist of Installment Payments relating to seven series of bonded indebtedness (including the Series 2009A Bonds). The Outstanding Subordinated Obligations will consist of Subordinated Installment Payments relating to eleven State Revolving Fund Loans (each, an “Existing SRF Loan” and collectively, the “Existing SRF Loans”). See “PLAN OF FINANCE” and “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2009A BONDS – Outstanding Obligations” herein.

Incurrence of Additional Obligations

Pursuant to the Installment Purchase Agreement, the City may incur additional Obligations, payments with respect to which will be on parity with or subordinate in priority to the City’s obligation to make 2009A Installment Payments, subject to satisfaction of the conditions specified in the Installment Purchase Agreement. The MWWD applied for an additional State Revolving Fund Loan in the principal amount of \$40 million in calendar year 2008 (the “Additional SRF Loan”) to finance a grit processing

project at the Point Loma Plant (herein defined), which is a part of the Wastewater System CIP (herein defined). The Additional SRF Loan, if received and approved by the City Council, is expected to constitute a Parity Obligation under the Installment Purchase Agreement. The Authority also expects to issue prior to June 30, 2009 its Series 2009B Bonds in an anticipated aggregate principal amount of approximately \$500,000,000 to \$600,000,000 to refund a portion of any then-outstanding Parity Bonds subject to market conditions. In connection with the issuance of the Series 2009B Bonds, the City will incur additional Obligations under the Installment Purchase Agreement to secure the Series 2009B Bonds. The City also expects to incur additional Obligations from time to time to finance a portion of the capital improvements to the Wastewater System, as described under the caption “WASTEWATER SYSTEM CAPITAL IMPROVEMENT PROGRAM – Background” herein.

See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2009A BONDS – Incurrence of Additional Obligations” herein.

Continuing Disclosure

The City has agreed to provide, or cause to be provided, in accordance with Rule 15c2-12(b)(5), promulgated by the U.S. Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended (the “Rule”), certain annual financial information and operating data and, in a timely manner, notice of certain material events. These covenants have been made in order to assist the Underwriters in complying with the Rule. Beginning in March 2004, the City failed to comply with various filing deadlines for a number of undertakings due to the unavailability of audited financial statements for the City. Each required annual report and audited financial statement was subsequently filed. The City is current with its filings and is in compliance with its continuing disclosure obligations. See “CONTINUING DISCLOSURE” herein.

Feasibility Study for the Series 2009A Bonds

Malcolm Pirnie, Inc., Carlsbad, California (the “Feasibility Consultant”), was retained to prepare the “Feasibility Study for 2009 Series Wastewater Revenue Bonds”, dated April 23, 2009 (the “Feasibility Study”), for inclusion in this Official Statement as Appendix B. The Feasibility Study was prepared prior to the pricing of the Series 2009A Bonds and included assumptions regarding the amount of Series 2009A Bonds to be issued to finance certain capital improvements to the Wastewater System (the “New Money Portion”) and repay the Series 2007 Notes (the “2007 Notes Repayment Portion”). The Feasibility Study has not been revised to reflect actual annual debt service associated with the New Money Portion and 2007 Notes Repayment Portion of the Series 2009A Bonds, which is lower in every year than the assumed annual debt service for the Series 2009A Bonds in the Feasibility Study. In addition, the Feasibility Study does not reflect any debt service savings which the City anticipates will result from the issuance of the Series 2009A Bonds and the anticipated issuance of the Series 2009B Bonds and the refundings in connection therewith. See “PLAN OF FINANCE” herein. Subject to the qualifications set forth therein, the Feasibility Study states that the projections of revenues and expenses reviewed in comparison with historical data were found to be reasonable and consistent with the stated assumptions. The Feasibility Study also states that, with the anticipated annual rate increases described herein and in the Feasibility Study, those already adopted by the City for Fiscal Years 2009 and 2010 and those included in the last three years of the forecast period (which are subject to City Council approval), the assumptions utilized for the forecast period are reasonable. Further, the Feasibility Consultant determined that both the MWWD forecast and the sensitivity analyses prepared demonstrate the reasonableness of the expected financial results including the 1.20x Debt Service Coverage requirement on Parity Obligation debt, the 1.10x Debt Service Coverage requirement on Existing SRF Loans, and established internal cash reserve targets. See “THE FEASIBILITY STUDY” herein and Appendix B – “FEASIBILITY STUDY FOR 2009 SERIES WASTEWATER REVENUE BONDS” attached hereto.

Recent Events Regarding the City

There have been various investigations regarding the City and certain of its financial statements. Such investigations led to the restatement of the City's financial statements for the Fiscal Year 2002, including portions relating to the City's wastewater utility enterprise fund. However, the investigations, including the investigations of the U.S. Securities and Exchange Commission (the "SEC") into the City did not, to the knowledge of the City, specifically relate to the security for or sources of payment of any of the City's Senior Sewer Revenue Bonds.

Investigations Regarding Misleading Disclosures

In early 2004, the City filed three voluntary disclosure filings with the Nationally Recognized Municipal Securities Information Repositories. The first two filings, on January 27, 2004, revised prior disclosure regarding the unfunded accrued actuarial liability of the City's pension system (see "WASTEWATER SYSTEM FINANCIAL OPERATIONS – San Diego City Employees' Retirement System" herein), and described certain errors discovered in the comprehensive annual financial report (the "CAFR") of the City as of June 30, 2002 and the financial statements of the Metropolitan Wastewater Utility as of June 30, 2002 and 2001. A subsequent filing, on March 12, 2004, described numerous errors in the notes of the City's audited annual financial reports for Fiscal Year 2002 (the City's fiscal year, beginning on July 1 and ending on June 30 of the following year, is referred to herein as "Fiscal Year").

As a result of the January 27 filings, on February 13, 2004, the SEC began an investigation into the City's disclosure practices relating to the funding of the San Diego City Employees' Retirement System ("SDCERS"). At the same time, the United States Attorney's office for the Southern District of California began its own investigation into the same matters. In addition, over the course of calendar years 2004 and 2005, the City hired various consultants to conduct investigative reports and to make appropriate recommendations to the City Council.

On November 14, 2006, the City entered into a cease-and-desist order (the "Order") with the SEC relating to violations of the antifraud provisions of the Federal securities laws in connection with the offer and sale of municipal securities in calendar years 2002 and 2003, and other related public financial disclosures concerning its pension and retiree health care liabilities. The SEC concluded that the "City, through its officials, acted with scienter," because "City officials acted recklessly in failing to disclose material information regarding [pension and retiree health care] liabilities." The Order imposed certain remedial sanctions, including the retention of an independent consultant to review and assess the City's policies, procedures and internal controls with respect to bond offerings, including disclosures made in its financial statements. On January 16, 2007, the City retained Stanley Keller of the law firm of Edwards Angell Palmer & Dodge, LLP to serve as Independent Consultant. The Independent Consultant is required to conduct annual reviews of the City's policies, procedures and internal controls for a three year period, and provide copies of such annual reports to the SEC. The reports provided to date, including the Independent Consultant's second annual report issued on April 24, 2009, have included recommendations with respect to, among other things, finalizing and providing for the staffing needs attendant to the City's internal audit function, completing the formation of the City's Audit Committee improving as necessary such committee's review of the City's CAFR, adopting an improper influence ordinance, implementing internal controls remediation and financial reporting enhancements, coordinating and integrating such efforts with the City's overall business processes, continuing to improve the quality of the City's financial disclosure and adopting any necessary modifications to the communication process and information flow between the City and representatives of the City's pension system. The Mayor and the City Council have begun to implement the recommendations and continue to work towards establishing a policy of best practices in the City's financial reporting and disclosure.

The City established in 2004 its Disclosure Practices Working Group, a collaborative, consensus-based group formed to address the City's disclosure requirements. The purpose of DPWG is to ensure the compliance by the City (including the City Council, City officers, and staff) with Federal and State securities laws and to promote the highest standards of accuracy in disclosures provided by the City relating to securities issued by the City or by its related entities. DPWG consists of five voting members (the Chief Operating Officer, the Chief Financial Officer, the City Director of Debt Management, the City Attorney and the Deputy City Attorney for Finance and Disclosure) and two non-voting members (the City's outside Disclosure Counsel and the City Auditor). The City's Independent Budget Analyst or, from time to time, that official's designee, is an ex officio participant of DPWG. The Independent Budget Analyst is appointed by majority vote of the City Council. The Office of the Independent Budget Analyst was created in 2006 to assist the City Council in the conduct of budgetary inquiries and in the making of budgetary decisions, which includes providing budget oversight on legislative initiatives that have policy and financial impacts. The Office of the Independent Budget Analyst was made a permanent component of the City's governance structure pursuant to voter-approved amendments to the City Charter in June 2008. These amendments to the City Charter also created a separate Office of the City Auditor whose purpose is to advance open and accountable government through accurate, independent, and objective audits that seek to improve the economy, efficiency, and effectiveness of City government.

The City understands that other investigations by the SEC or other government agencies may still be ongoing as to entities or individuals other than the City. On December 11, 2007, the Commission filed a settled civil fraud action against the City's Independent Auditor, Thomas J. Saiz and his firm Calderon, Jaham & Osborn, in connection with the City's false and misleading financial statements in five bond offerings in calendar years 2002 and 2003. On April 7, 2008, the SEC filed securities fraud charges against five former City officials, including the former City Manager, former Auditor and Comptroller, former Assistant Auditor and Comptroller, former Deputy City Manager and former City Treasurer for allegedly giving false and misleading statements regarding City bond offerings in calendar years 2002 and 2003. On December 19, 2008, however, the SEC notified four former members of the City Council, the former Mayor and a current City Councilmember that it had concluded its investigation into their involvement in the five bond offerings in years 2002 and 2003 and did not intend to recommend charges against them.

Audited Financial Reports

As a result of the investigations into the City, the completion and release of the City's audited financial statements were substantially delayed. The City issued its CAFRs for Fiscal Years 2003 through 2007 during the period from June 2007 through December 2008 and released the Fiscal Year 2008 CAFR on March 26, 2009, which was received and filed by the City Council on April 13, 2009.

City Ratings

A further consequence of the City's voluntary disclosures and the ensuing investigations was a series of actions taken by the rating agencies. Beginning in 2004, Moody's Investors Service, Inc. ("Moody's"), and Fitch Ratings ("Fitch") began to downgrade the credit ratings on the City's obligations and changed the outlook on those ratings to negative. Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P"), placed the City's credit rating, including the credit rating of Bonds secured by Net System Revenues of the Wastewater System, on negative outlook and subsequently suspended its credit ratings on all City obligations. The City's credit ratings were reinstated in May 2008 in connection with the release of its CAFRs for Fiscal Years 2003 through 2006. The City currently maintains ratings on its bonds and other City debt obligations, including ratings on the Bonds secured by Net System Revenues of the Wastewater System, from all three rating agencies. See "RATINGS" herein for a description of the ratings assigned to the Series 2009A Bonds.

The Authority

The Authority is a California joint exercise of powers authority established pursuant to a Joint Exercise of Powers Agreement by and between the City and the Redevelopment Agency of the City of San Diego. The Authority was organized, in part, to finance, acquire, construct, maintain, repair, operate and control certain capital facilities improvements for the City.

Forward-Looking Statements

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements.” Such statements are generally identifiable by the terminology used such as “plan,” “expect,” “estimate,” “budget,” “projected” 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. Although such expectations reflected in such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct in whole or in part. Neither the City nor the Authority is obligated to issue any updates or revisions to the forward-looking statements if or when expectations, or events, conditions or circumstances on which such statements are based do or do not occur.

Tax Matters

In the opinion of Nixon Peabody LLP, Bond Counsel, under existing law and assuming compliance with the tax covenants described herein, and the accuracy of certain representations and certifications made by the City and the Authority described herein, interest on the Series 2009A Bonds is excluded from gross income for Federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”). Bond Counsel is also of the opinion that such interest is not treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations. Bond Counsel is further of the opinion that interest on the Series 2009A Bonds is exempt from State of California personal income taxes. See “TAX MATTERS” herein regarding certain other tax considerations.

Miscellaneous

Copies of the Indenture, the Installment Purchase Agreement, the 2009-1 Supplement, other financing documents and additional information may be obtained upon request from the Trustee at The Bank of New York Mellon Trust Company, N.A., 700 S. Flower Street, 5th Floor, Los Angeles, California 90017.

PLAN OF FINANCE

The proceeds of the Series 2009A Bonds will be used to acquire certain capital improvements to the Wastewater System (see “WASTEWATER SYSTEM CAPITAL IMPROVEMENT PROGRAM” herein), pay in full the Series 2007 Notes on its maturity date, refund a portion of the Series 1997A Bonds and the Series 1997B Bonds, each as specified in the following table, fund the Reserve Fund and pay costs of issuance with respect to the Series 2009A Bonds.

REFUNDED OBLIGATIONS

Series	Maturity Date(s)	Principal Amount	Prepayment Price	Redemption/ Payment Date	CUSIP [†]
Series 1997A Bonds	May 15, 2012	\$ 5,345,000	100%	May 15, 2009	797263BM9
	May 15, 2013	5,625,000	100	May 15, 2009	797263BN7
	May 15, 2014	5,920,000	100	May 15, 2009	797263BP2
	May 15, 2015	6,240,000	100	May 15, 2009	797263BQ0
	May 15, 2016	6,575,000	100	May 15, 2009	797263BR8
	May 15, 2017	6,930,000	100	May 15, 2009	797263BS6
Series 1997B Bonds	May 15, 2012	1,955,000	100	May 15, 2009	797263CK2
	May 15, 2013	2,060,000	100	May 15, 2009	797263CL0
	May 15, 2014	2,170,000	100	May 15, 2009	797263CM8
	May 15, 2015	2,285,000	100	May 15, 2009	797263CN6
	May 15, 2016	2,405,000	100	May 15, 2009	797263CP1
	May 15, 2017	2,535,000	100	May 15, 2009	797263CQ9
2007A Notes	May 15, 2009	223,830,000	100	May 15, 2009	79730AEX2

[†] Copyright, American Bankers Association. CUSIP data is provided by Standard & Poor's CUSIP Service Bureau, a Division of the McGraw-Hill Companies, Inc., and is set forth herein for convenience of reference only. The City, the Authority, the Corporation and the Underwriters do not assume responsibility for the accuracy of such data.

ESTIMATED SOURCES AND USES OF FUNDS

The proceeds of the Series 2009A Bonds and their expected uses are set forth below:

SOURCES:

Principal Amount of the Series 2009A Bonds	\$453,775,000.00
Prior Bond Funds	1,335,593.75
Net Premium	<u>3,880,530.50</u>
Total Sources	<u>\$458,991,124.25</u>

USES:

Deposit to 2009A Acquisition Account	\$145,003,819.21
Deposit into Reserve Fund	35,764,569.42
Payment of Series 2007 Notes	223,830,000.00
Refunding of Series 1997A Bonds and 1997B Bonds	51,380,593.75
Costs of Issuance ⁽¹⁾	<u>3,012,141.87</u>
Total Uses	<u>\$458,991,124.25</u>

⁽¹⁾ Includes Underwriters' discount, trustee fees, financial advisor fees, rating agency fees, bond counsel fees and expenses, disclosure counsel fees and expenses, printing costs and other miscellaneous expenses.

DESCRIPTION OF THE SERIES 2009A BONDS

General

The Series 2009A Bonds will be issued as fully-registered bonds in denominations of \$5,000 and any integral multiple thereof and when issued, will be registered in the name of Cede & Co., as the nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository for the Series 2009A Bonds. Ownership interests in the Series 2009A Bonds may be purchased in book-entry form only. So long as DTC or its nominee is the Owner of the Series 2009A Bonds, principal of redemption premium, if any, and interest on the Series 2009A Bonds will be made as described in Appendix F – “INFORMATION REGARDING THE BOOK-ENTRY ONLY SYSTEM” attached hereto.

The Series 2009A Bonds will accrue interest from their date of delivery and interest thereon will be payable on May 15 and November 15 of each year, commencing on November 15, 2009. The Series 2009A Bonds will bear interest at the respective rates set forth on the inside cover page hereof. See Appendix C – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS” attached hereto.

Interest on the Series 2009A Bonds shall be calculated on the basis of a 360-day year, comprised of twelve thirty-day months. Interest coming due on a date which is not a Business Day shall be payable on the immediately following Business Day. Each Series 2009A Bond shall bear interest from the Interest Payment Date next preceding the date of authentication thereof, unless such date of authentication is during the period commencing after a Record Date through and including the next succeeding Interest Payment Date, in which event it shall bear interest from such Interest Payment Date, or unless such date of authentication is on or before the first Record Date, in which event it shall bear interest from its dated date; provided, however, that if on the date of authentication of any Series 2009A Bonds, interest is then in default on the Outstanding Series 2009A Bonds, such Series 2009A Bonds shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment on the Outstanding Series 2009A Bonds. Payment of interest on the Series 2009A Bonds due on or before the maturity or prior redemption thereof shall be made to the Owner or Owners of record as of the Record Date preceding the applicable Interest Payment Date, on the registration books kept by the Trustee, such interest to be paid by check mailed by first class mail on such Interest Payment Date to such Owner at his address as it appears on such books; provided, that in the event the ownership of such Series 2009A Bonds is no longer maintained in book-entry form by the Depository, such payment shall be made by wire transfer to any Owner of at least \$1,000,000 in aggregate principal amount of Series 2009A Bonds, in immediately available funds to an account in the continental United States designated in writing by such Owner to the Trustee prior to the applicable Record Date.

Redemption

Optional Redemption. The Series 2009A Bonds maturing on and before May 15, 2019 are not subject to optional redemption prior to their stated maturities. The Series 2009A Bonds maturing on and after May 15, 2020 shall be subject to optional redemption, in whole or in part, at the option of the Authority (upon the direction of the City), on any date on or after May 15, 2019, from and to the extent of prepaid Series 2009A Installment Payments paid pursuant to the Indenture, at a redemption price equal to the principal amount of Series 2009A Bonds called for redemption, together with interest accrued thereon to the date fixed for redemption, without premium.

Mandatory Sinking Fund Redemption. The Series 2009A Bonds which are Term Bonds (herein defined) shall be subject to mandatory redemption, on each date which a sinking account payment for such Term Bonds is payable from sinking account payments set forth below, by lot, in an amount equal to

such sinking account payments, plus accrued interest to the redemption date and without premium. At the option of the Authority, it may credit against any sinking account payment requirement Term Bonds or portions thereof which are of the same maturity as the Term Bonds subject to redemption and which, prior to said date, have been purchased, with funds other than moneys in the Redemption Account, at public or private sale or redeemed and cancelled by the Authority and not theretofore applied as a credit against any mandatory sinking account payment requirement. The principal amount of Term Bonds that have been redeemed at the option of the Authority pursuant to the Indenture will be credited against the sinking account payments of such Term Bonds as may be specified by the City on behalf of the Authority.

The Series 2009A Bonds maturing on May 15, 2034 and bearing interest at 5.250% (the “2034 5.250% Series 2009A Term Bonds”) are subject to mandatory sinking fund redemption prior to their stated maturity, in part by lot, from sinking account payments deposited in the Redemption Account, on each May 15 commencing on May 15, 2030 at a redemption price equal to the principal amount thereof, plus interest accrued to the date fixed for redemption, without premium, in the principal amounts as follows:

Series 2009A Term Bonds Maturing on May 15, 2034 Bearing Interest at 5.250%

Sinking Fund Payment Dates (May 15)	<u>Sinking Account Payments</u>
2030	\$14,325,000
2031	15,070,000
2032	15,865,000
2033	16,695,000
2034 [†]	17,565,000

[†] Maturity.

The Series 2009A Bonds maturing on May 15, 2034 and bearing interest at 5.375% (the “2034 5.375% Series 2009A Term Bonds”) are subject to mandatory sinking fund redemption prior to their stated maturity, in part by lot, from sinking account payments deposited in the Redemption Account, on each May 15 commencing on May 15, 2030 at a redemption price equal to the principal amount thereof, plus interest accrued to the date fixed for redemption, without premium, in the principal amounts as follows:

Series 2009A Term Bonds Maturing on May 15, 2034 Bearing Interest at 5.375%

Sinking Fund Payment Dates (May 15)	<u>Sinking Account Payments</u>
2030	\$1,550,000
2031	1,640,000
2032	1,725,000
2033	1,820,000
2034 [†]	1,920,000

[†] Maturity.

The Series 2009A Bonds maturing on May 15, 2039 (the “2039 Series 2009A Term Bonds” and, together with the 2034 5.250% Series 2009A Term Bonds and the 2034 5.375% Series 2009A Term Bonds, the “Term Bonds”) are subject to mandatory sinking fund redemption prior to their stated maturity, in part by lot, from sinking account payments deposited in the Redemption Account, on each May 15 commencing on May 15, 2035 at a redemption price equal to the principal amount thereof, plus interest accrued to the date fixed for redemption, without premium, in the principal amounts as follows:

Series 2009A Term Bonds Maturing on May 15, 2039

Sinking Fund Payment Dates <u>(May 15)</u>	<u>Sinking Account Payments</u>
2035	\$20,515,000
2036	21,590,000
2037	22,725,000
2038	23,915,000
2039 [†]	25,170,000

[†] Maturity.

Notice of Redemption. Pursuant to the Indenture, each notice of redemption will be mailed to the Owners not more than 60 days nor less than 30 days prior to the redemption date and will state the date of such notice, the redemption price (including the name and appropriate address of the Trustee), and, in the case of Series 2009A Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice will also state that on said date there will become due and payable on each of said Series 2009A Bonds thereof and in the case of a Series 2009A 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 will cease to accrue, and will require that such Series 2009A Bonds be then surrendered at the address of the Trustee specified in the redemption notice. Notice of redemption may be conditioned upon the occurrence of one or more events and may be revoked prior to the redemption date. Notice of redemption may be conditioned upon the occurrence of future events, including but not limited to the issuance of refunding bonds, and may be given and rescinded by the Trustee prior to the redemption date, upon written instruction of the Authority.

Effect of Redemption. If notice of redemption has been duly given as provided in the Indenture and money for the payment of the redemption price of the Series 2009A Bonds called for redemption is held by the Trustee, then on the redemption date designated in such notice, the Series 2009A Bonds will become due and payable, and from and after the date so designated, interest on the Series 2009A Bonds so called for redemption will cease to accrue, and the Owners of such Series 2009A Bonds will have no rights in respect thereof except to receive payment of the redemption price thereof. A deficiency in any such notice will not affect the sufficiency of the proceedings for redemption. All Series 2009A Bonds redeemed pursuant to the provisions of the Indenture will be cancelled by the Trustee and will not be reissued, and the Trustee will thereupon deliver a certificate of cancellation to the Authority.

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2009A BONDS

Source of Payment; Priority of Pledge of Net System Revenues

The Series 2009A Bonds shall be limited obligations of the Authority payable solely from the Revenues of the Authority and amounts on deposit in the funds and accounts established under the Indenture (other than amounts on deposit in the Rebate Fund). “Revenues” means all amounts received

by or due to be paid to the Authority pursuant to or with respect to the Installment Purchase Agreement in connection with the Bonds and all interest or gain derived from the investment of money in any of the funds (other than the Rebate Fund) established under the Indenture. The 2009A Installment Payments are secured by and payable solely from Net System Revenues and are required to be paid by the City to the Authority. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2009A BONDS – Net System Revenues” herein for a description of Net System Revenues.

The pledge and right of payment from Net System Revenues securing the 2009A Installment Payments (which, in turn, secure the Series 2009A Bonds) is on parity with the pledge and right of payment from Net System Revenues securing the Installment Payments represented by the Authority’s Outstanding Parity Obligations, which will be outstanding in the aggregate principal amount of \$1,297,425,000 as of May 13, 2009, subsequent to the incurrence of the 2009A Installment Payments and the refundings described herein, and any other Parity Obligations that may be issued from time to time in accordance with the Installment Purchase Agreement. See “PLAN OF FINANCE” and “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2009A BONDS – Incurrence of Additional Obligations” and “– Parity Obligations” herein. All Parity Obligations, including Parity Installment Payment Obligations, shall be secured by a first priority lien on and pledge of Net System Revenues. All Parity Obligations shall be of equal rank with each other without preference, priority or distinction of any Parity Obligations over any other Parity Obligations.

The pledge and right of payment from Net System Revenues securing the 2009A Installment Payments (which, in turn, secure the Series 2009A Bonds) is senior to the pledge and right of payment from Net System Revenues securing the Subordinated Obligations, consisting of the Existing SRF Loans, which will be outstanding in the aggregate principal amount of \$71,925,170 as of May 13, 2009, subsequent to the incurrence of the 2009A Installment Payments and the refundings described herein. See “PLAN OF FINANCE” herein. All Subordinated Obligations shall be secured by a second priority lien on and pledge of Net System Revenues that are junior and subordinate to the lien on and pledge of Net System Revenues securing Parity Obligations. All Subordinated Obligations shall be of equal rank with each other without preference, priority or distinction of any Subordinated Obligations over any other Subordinated Obligations. The Installment Purchase Agreement provides that, subject to satisfaction of the requirements set forth therein for the incurrence of additional Obligations of the City, nothing therein shall limit the ability of the City to grant liens on and pledges of Net System Revenues that are subordinate to the liens on and pledges of Net System Revenues for the benefit of Parity Obligations and Subordinated Obligations contained in the Installment Purchase Agreement. See Appendix C – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS” attached hereto.

The Additional SRF Loan in the principal amount of \$40 million applied for by the City, if received and approved by the City Council, and any other State Revolving Fund Loans subsequent thereof are expected to constitute Parity Obligations. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2009A BONDS – Outstanding Obligations” herein.

Sewer Revenue Fund

The City accounts for its wastewater operations through an enterprise fund known as the “Sewer Revenue Fund” (also referenced as the “Sewer Utility Fund” in the City’s CAFRs). The Sewer Revenue Fund was established by an amendment to the Municipal Code of the City (the “City Municipal Code”) on August 2, 1956. All System Revenues are deposited in the Sewer Revenue Fund.

All moneys in the Sewer Revenue Fund must first be used to pay: (1) directly or as otherwise required all Maintenance and Operation Costs of the Wastewater System; (2) to the Trustee amounts due in respect of Parity Installment Obligations for deposit in the Payment Fund for Parity Installment

Obligations, the amounts specified in any Issuing Instrument, as payments due on account of Parity Obligations; (3) to the obligee specified therein, any payment due as to any Parity Obligation that is not a Parity Installment Obligation (including any Credit Provider Reimbursement Obligations designated as Parity Obligations), other than (A) payments due on account of Qualified Take or Pay Obligations and (B) payments due by the City under a Qualified Swap Agreement; (iv) to the obligee specified therein, any payment due as to Qualified Take or Pay Obligations; and (v) to the counterparty specified in any Qualified Swap Agreement, the amounts or payments due under such Qualified Swap Agreement as Parity Obligations. In the event there are insufficient Net System Revenues to make all of the payments contemplated by clauses (2), (3), (4) and (5) of the immediately preceding sentence, then said payments shall be made as nearly as practicable, pro rata, based upon the respective unpaid principal amounts of said Parity Obligations. After such payments have been made, any remaining Net System Revenues must be used to make up any deficiency in the Reserve Funds or Reserve Accounts for Parity Obligations.

Notwithstanding anything in the Installment Purchase Agreement to the contrary, no payments from the Sewer Revenue Fund will be made in respect of any Subordinated Obligations unless the following conditions are met: (1) all Maintenance and Operation Costs of the Wastewater System are being and have been paid and are then current and (2) all deposits and payments contemplated by the Installment Purchase Agreement have been made in full and no deficiency in any Reserve Fund or Reserve Account for Parity Obligations shall exist, and there shall have been paid, or segregated within the Sewer Revenue Fund, the amounts payable during the current month pursuant to the Installment Purchase Agreement; provided, however, that if the amounts payable during any month pursuant to the Installment Purchase Agreement are not able to be determined at the time of the payment of any Subordinated Obligation due to periods in which the actual interest rate accruing in respect of any Parity Obligations cannot yet determined, then no payments from the Sewer Revenue Fund shall be made in respect of any Subordinated Obligations unless there shall have been made segregated within the Sewer Revenue Fund the maximum amount that may be payable in that month under the Installment Purchase Agreement as specified in the Issuing Instruments of the Parity Obligations and in accordance with applicable law.

Subject to the Installment Purchase Agreement, the City will apply any amounts thereafter remaining in the Sewer Revenue Fund (A) to the payment of Subordinated Credit Provider Expenses and (B) to the obligee specified therein, any payment due as to any Subordinated Obligations. In the event that there are insufficient Net System Revenues remaining in the Sewer Revenue Fund after the payments described in the Installment Purchase Agreement to make all payments contemplated by clause (B) of the immediately preceding sentence, then said payments shall be made as nearly practicable, pro rata based on the respective unpaid principal amounts of said Subordinated Obligations.

There are no Outstanding Qualified Take or Pay Obligations or Qualified Swap Agreements and there will be no such obligations or agreements as of the date of issuance of the Series 2009A Bonds.

Net System Revenues

“Net System Revenues” means, for any Fiscal Year, System Revenues for such Fiscal Year less Operation and Maintenance Costs of the Wastewater System for such Fiscal Year.

The term “System Revenues” is defined in the Installment Purchase Agreement to include all income, rents, rates, fees, charges and other moneys derived from the ownership or operation of the Wastewater System, including, without limiting the generality of the foregoing, (1) all income, rents, rates, fees, charges (including standby and capacity charges), or other moneys derived by the City from the wastewater services, facilities, and commodities or byproducts sold, furnished or supplied through the facilities of or in the conduct or operation of the business of the Wastewater System, and including,

without limitation, investment earnings on the operating reserves to the extent that the use of such earnings is limited to the Wastewater System by or pursuant to law, earnings on any Reserve Fund for Obligations, but only to the extent that such earnings may be utilized under the Issuing Instrument for the payment of debt service for such Obligations; (2) the proceeds derived by the City directly or indirectly from the lease of a part of the Wastewater System; (3) any amount received from the levy or collection of taxes which are solely available and are earmarked for the support of the operation of the Wastewater System; and (4) amounts received under contracts or agreements with governmental or private entities and designated for capital costs; and (5) grants received from the United States of America or from the State of California; provided, however, that System Revenues shall not include: (a) in all cases, customers' deposits or any other deposits or advances subject to refund until such deposits or advances have become the property of the City; and (b) the proceeds of borrowings. Notwithstanding the foregoing, there shall be deducted from System Revenues any amounts transferred, into a Rate Stabilization Fund as contemplated by the Installment Purchase Agreement, and there shall be added to System Revenues any amounts transferred out of such Rate Stabilization Fund to pay Maintenance and Operation Costs of the Wastewater System.

“Maintenance and Operation Costs of the Wastewater System” is defined in the Installment Purchase Agreement to include: (a) a Qualified Take or Pay Obligation and (b) the reasonable and necessary costs spent or incurred by the City for maintaining and operating the Wastewater System, calculated in accordance with generally accepted accounting principles, including (among other things) the reasonable expenses of management and repair and other expenses necessary to maintain and preserve the Wastewater System in good repair and working order, and including administrative costs of the City attributable to the Project and the Installment Purchase Agreement, salaries and wages of employees, payments to employees retirement systems (to the extent paid from Wastewater System Revenues), overhead, taxes (if any), fees of auditors, accountants, attorneys or engineers and insurance premiums, and including all other reasonable and necessary costs of the City or charges required to be paid by it to comply with the terms of the Obligations, including this Installment Purchase Agreement, including any amounts required to be deposited in the Rebate Fund pursuant to the Tax Certificate, fees and expenses payable to any Credit Provider (other than in repayment of a Credit Provider Reimbursement Obligation), and expenses incurred or accrued incident to the formation of an entity to which the City may transfer substantially all of the Metropolitan Sub-System pursuant to the Installment Purchase Agreement, but excluding in all cases (i) depreciation, replacement and obsolescence charges or reserves therefor, (ii) amortization of intangibles or other bookkeeping entries of a similar nature, (iii) costs of capital additions, replacements, betterments, extensions or improvements to the Wastewater System which under generally accepted accounting principles are chargeable to a capital account or to a reserve for depreciation, (iv) charges for the payment of principal and interest on any general obligation bond heretofore or hereafter issued for Wastewater System purposes, and (v) charges for the payment of principal and interest on any debt service on account of any obligation on a parity with or subordinate to the Installment Payments.

Obligation of City under Installment Purchase Agreement

Pursuant to the Installment Purchase Agreement, the City commits, absolutely and unconditionally, to make Installment Payments (including the 2009A Installment Payments) to the Authority solely from Net System Revenues until such time as the Purchase Price has been paid in full (or provision for the payment thereof has been made pursuant to the Installment Purchase Agreement). The City will not discontinue or suspend any 2009A Installment Payments required to be made by it under the Installment Purchase Agreement when due, whether or not the Project or any part thereof is operating or operable or has been completed, or its use is suspended, interfered with, reduced or curtailed or terminated in whole or in part, and such 2009A Installment Payments will not be subject to reduction whether by offset or otherwise and will not be conditioned upon the performance or nonperformance by any party of any agreement for any cause whatsoever.

Under the Installment Purchase Agreement, the City has retained the right to transfer ownership of substantially all of the Metropolitan Sub-System, including amounts in the Sewer Revenue Fund attributable to the Metropolitan Sub-System and any amounts in the Rate Stabilization Fund agreed upon by the City and the transferee as being attributable to the Metropolitan Sub-System, to the MWW or any other governmental agency whose primary purpose is to provide wastewater treatment and disposal services upon the satisfaction of certain conditions. See “WASTEWATER SYSTEM – General” herein and Appendix C – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Master Installment Purchase Agreement – Covenants of the City – Transfer of Metropolitan Sub-System Components” attached hereto.

Rate Covenant

The City has covenanted in the Installment Purchase Agreement to fix, prescribe and collect rates and charges for Wastewater Service, which will be at least sufficient (i) to pay during each Fiscal Year all Obligations (other than Parity Obligations) payable in such Fiscal Year, and (ii) to yield during each Fiscal Year Net System Revenues equal to 120% of the Debt Service (defined in the Installment Purchase Agreement generally to mean the aggregate amount of principal, sinking fund payments and interest payable in respect of all Parity Obligations for such Fiscal Year) for such Fiscal Year (the “Rate Covenant”). See Appendix C – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – DEFINITIONS” attached hereto. The Wastewater Service rendered by the City includes services relating to the Metropolitan Sub-System, of which the Participating Agencies are a part. See “THE WASTEWATER SYSTEM – Participating Agencies” for a description of the rates and charges paid and to be paid by the Participating Agencies. Obligations include Subordinated Obligations and other obligations. The City may make adjustments from time to time in such rates and charges and may make such classification thereof as it deems necessary to the fullest extent permitted by law, but the City will not reduce the rates and charges then in effect unless the Net System Revenues from such reduced rates and charges will at all times be sufficient to meet the requirements of Installment Purchase Agreement. Pursuant to the Installment Purchase Agreement, from time to time the City may deposit into the Rate Stabilization Fund, from current System Revenues, such amounts as the City shall determine and the amount of available current System Revenues shall be reduced by the amount so transferred. Amounts may be transferred from the Rate Stabilization Fund solely and exclusively to pay Maintenance and Operation Costs of the Wastewater System, and any amounts so transferred will be deemed System Revenues when so transferred. All interest or other earnings upon amounts in the Rate Stabilization Fund may be withdrawn therefrom and accounted for as System Revenues. See “WASTEWATER SYSTEM FINANCIAL OPERATIONS – Rate Stabilization Fund and Other Reserves” herein and Appendix C – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS” attached hereto. See also “RISK FACTORS – Rate-Setting Process Under Proposition 218” and “CONSTITUTIONAL LIMITATIONS ON TAXES AND WASTEWATER RATES AND CHARGES – Articles XIII C and XIII D” for a description of State Constitutional limits upon the City’s rate-setting process.

Reserve Fund

The Indenture requires the Authority to establish and maintain in the Reserve Fund an amount of money which, together with the amount already on deposit therein, including the stated amount of a Surety Bond, if any, then on deposit, is equal to the Reserve Requirement. The “Reserve Requirement” is defined to be, as of any date of calculation, the least of (i) ten percent (10%) of the proceeds (within the meaning of Section 148 of the Code) of the Bonds; (ii) 125% of average annual debt service on the then-Outstanding Bonds; or (iii) the Maximum Annual Debt Service for that and any subsequent Fiscal Year. The Authority may fund the Reserve Requirement by depositing into the Reserve Fund cash from a portion of the proceeds of Bonds issued under the Indenture or a Surety Bond. The Authority anticipates that in connection with the issuance of the Series 2009A Bonds it will initially fund the Reserve Fund through a deposit of \$35,764,569.42 from proceeds of the Series 2009A Bonds.

Outstanding Obligations

As of May 13, 2009, subsequent to the incurrence of the 2009A Installment Payments and the refundings described herein, there will be outstanding \$1,297,425,000 aggregate principal amount of Outstanding Parity Obligations and \$71,925,170 aggregate principal amount of Outstanding Subordinated Obligations. The Outstanding Parity Obligations and the Outstanding Subordinated Obligations were issued to finance the costs of certain improvements relating to the Wastewater System. The Outstanding Parity Obligations consist of Installment Payments relating to seven series of bonded indebtedness (including the Series 2009A Bonds). The Outstanding Subordinated Obligations consist of the Existing SRF Loans.

Table 1 below sets forth the Outstanding Parity Bonds, Subordinated Notes and Existing SRF Loans secured by Net System Revenues of the Wastewater System.

TABLE 1
CITY OF SAN DIEGO METROPOLITAN WASTEWATER DEPARTMENT
OUTSTANDING PARITY BONDS, SUBORDINATED NOTES AND EXISTING SRF LOANS
As of May 13, 2009

<u>Name of Issue</u>	<u>Original Principal Amount</u>	<u>Principal Outstanding⁽¹⁾</u>	<u>Remaining Interest Payments⁽¹⁾</u>	<u>Total Principal and Interest⁽¹⁾</u>	<u>Scheduled Final Maturity⁽¹⁾</u>
Series 1993 Bonds	\$ 250,000,000	\$ 167,955,000	\$ 72,532,198	\$ 240,487,198	May 15, 2023
Series 1995 Bonds	350,000,000	265,540,000	128,696,623	394,236,623	May 15, 2025
Series 1997A and B Bonds ⁽²⁾	250,000,000	146,755,000	97,651,283	244,406,283	May 15, 2027
Series 1999A and B Bonds	315,410,000	263,400,000	160,789,789	424,189,789	May 15, 2029
Series 2007 Notes ⁽²⁾	223,830,000	--	--	--	--
Series 2009A Bonds	453,775,000	453,775,000	404,733,620	858,508,620	May 15, 2039
Existing SRF Loans ⁽³⁾	<u>98,991,000</u>	<u>71,925,170</u>	<u>10,192,334⁽⁴⁾</u>	<u>82,117,504</u>	April 30, 2026 ⁽⁵⁾
TOTAL	<u>\$1,942,006,000</u>	<u>\$1,369,350,170</u>	<u>\$874,595,847</u>	<u>\$2,243,946,017</u>	

Source: Metropolitan Wastewater Department, City of San Diego.

⁽¹⁾ Amounts prior to the payment of the Series 2007 Notes and the refunding of a portion of the Series 1997 Bonds, as described herein. See "PLAN OF FINANCE" herein.

⁽²⁾ A portion of the proceeds of the Series 2009A Bonds will be used to refund \$36,635,000 aggregate principal amount of Series 1997A Bonds and \$13,410,000 aggregate principal amount of Series 1997B Bonds. A portion of the proceeds of the Series 2009A Bonds will be used to pay in full the Series 2007 Notes. See "PLAN OF FINANCE" herein.

⁽³⁾ Data reflects the aggregate amount of the eleven Existing SRF Loans which are currently outstanding.

⁽⁴⁾ Reflects aggregate interest payments required to be paid under the Existing SRF Loans, regardless of the date of payment or prepayment by the City. See Note 6 – "Business-Type Activities Long-Term Liabilities" contained in Appendix A-1 – "BASIC FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY INFORMATION FROM THE COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY OF SAN DIEGO FOR FISCAL YEAR 2008" attached hereto for a schedule of the Existing SRF Loans and their effective interest rates.

⁽⁵⁾ April 30, 2026 is the final scheduled maturity date for the Existing SRF Loan with the furthest scheduled maturity date.

Incurrence of Additional Obligations

Pursuant to the Installment Purchase Agreement, the City may incur additional Obligations, payments with respect to which will be on parity with or subordinate in priority to the City's obligation to make 2009A Installment Payments, subject to satisfaction of the conditions specified in the Installment Purchase Agreement.

Parity Obligations. The City may not create any Obligations the payments of which are senior or prior to the pledge and right of payment from Net System Revenues securing the Parity Obligations. The City may at any time and from time to time issue or create any other Parity Obligations, so long as there shall not have occurred and be continuing (i) an Event of Default under the Installment Purchase Agreement or any Issuing Instrument or (ii) an Event of Default or Termination Event (as defined in any Qualified Swap Agreement) under any Qualified Swap Agreement; and the City obtains or provides a certificate or certificates, prepared by the City or at the City's option by a Consultant, showing that:

(1) the Net System Revenues as shown by the books of the City for any 12 consecutive month period out of the 18 consecutive months ending immediately prior to the incurring of such additional other Parity Obligations shall have amounted to at least 1.20 times the Maximum Annual Debt Service on all Parity Obligations Outstanding during such period; and

(2) the estimated Net System Revenues for the next 12 months following the date of issuance of such other Parity Obligations will be at least equal to 1.20 times the Maximum Annual Debt Service for all Parity Obligations which will be Outstanding immediately after the issuance of the proposed Parity Obligations.

The certificate or certificates described above in clause (2) above will not be required if the Parity Obligations being issued are for the purpose of refunding (i) then-Outstanding Parity Obligations if at the time of the issuance of such Parity Obligations a certificate of an Authorized City Representative is delivered showing that the sum of Debt Service in each Fiscal Year on all Parity Obligations Outstanding after the issuance of the refunding Parity Obligations will not exceed Debt Service in each corresponding Fiscal Year on all Parity Obligations Outstanding prior to the issuance of such refunding Parity Obligations; or (ii) then-Outstanding Balloon Indebtedness, Tender Indebtedness or Variable Rate Indebtedness, but only to the extent that the principal amount of such indebtedness has been put, tendered to or otherwise purchased by a standby purchase or other liquidity facility relating to such indebtedness. For additional information relating to the terms and conditions for the issuance of the Parity Obligations under the Installment Purchase Agreement, see Appendix C – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS" attached hereto.

Subordinated Obligations. The City may at any time issue or create Subordinated Obligations that are payable from Net System Revenues on a basis subordinate to the payment by the City of the Installment Payments securing the Outstanding Parity Bonds (as defined in the Installment Purchase Agreement), so long as no Event of Default has occurred and is continuing and no event of default or Termination Event (as defined in any Qualified Swap Agreement) under any Qualified Swap Agreement has occurred and is continuing, and provided the City obtains or provides a certificate or certificates, prepared by the City or at the City's option by a Consultant, showing that:

(1) the Net System Revenues as shown by the books of the City for any 12-consecutive month period out within the 18-consecutive months ending immediately prior to the incurring of such additional other Subordinated Obligations shall have amounted to at least 1.00 times the Maximum Annual Debt Service on all Obligations Outstanding immediately after the issuance of the proposed Subordinated Obligations; or

(2) the estimated Net System Revenues for the five Fiscal Years following the earlier of (a) the end of the period during which interest on those Subordinated Obligations is to be capitalized or, if no interest is to be capitalized, the Fiscal Year in which the Subordinated Obligations are issued; or (b) the date on which substantially all new facilities financed with such Subordinated Obligations are expected to commence operations, will be at least equal to 1.00

times the Maximum Annual Debt Service on all Obligations which will be Outstanding immediately after the issuance of the proposed Subordinated Obligations.

The certificate or certificates described above in clause (2) above will not be required if the Subordinated Obligations being issued are for the purpose of refunding (i) then-Outstanding Parity Obligations or Subordinated Obligations if at the time of the issuance of such Subordinated Obligations a certificate of an Authorized City Representative is delivered showing that the sum of Debt Service for all remaining Fiscal Years on all Parity Obligations and Subordinated Obligations Outstanding after the issuance of the refunding Subordinated Obligations will not exceed the sum of Debt Service for all remaining Fiscal Years on all Parity Obligations and Subordinated Obligations Outstanding prior to the issuance of such refunding Subordinated Obligations; or (ii) then-Outstanding Balloon Indebtedness, Tender Indebtedness or Variable Rate Indebtedness, but only to the extent that the principal amount of such indebtedness has been put, tendered to or otherwise purchased by a standby purchase or other liquidity facility relating to such indebtedness. For additional information relating to the terms and conditions for the issuance of the Subordinated Obligations under the Installment Purchase Agreement, see Appendix C – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS” attached hereto.

The obligation of the City to make all payments required by the Existing SRF Loans to the State Water Board is a Subordinated Obligation under the Installment Purchase Agreement and payable solely from Net System Revenues. Pursuant to the Existing SRF Loans, the City may incur additional Parity Obligations (the payments of which are senior or prior in right to the payment by the City of its obligations required by the Existing SRF Loans, and all other contracts between the City and the State Water Board that, by their terms, expressly provide therefor), including the 2009A Installment Payments, provided that (1) all Parity Obligations (including the Parity Obligations proposed to be incurred) shall have an “A” rating (without regard to any refinement or gradation of such rating category by a numerical modifier or otherwise) or better by at least two nationally recognized rating agencies; and (2) the City fixes, prescribes and collects rates and charges for Wastewater Service which will be sufficient to ensure that Net System Revenues to pay the obligations required by the Existing SRF Loans are at least 1.10 times the current year’s debt service on the Existing SRF Loans.

Annual Debt Service Requirements on Parity Bonds

Table 2 below sets forth the amounts required in each Fiscal Year for the payment of principal of and interest on the Outstanding Parity Bonds, excluding the principal of and interest on the portion of the Series 1997A Bonds and the Series 1997B Bonds to be refunded as set forth under “PLAN OF REFUNDING” herein, and amounts payable on the Series 2009A Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2009A BONDS” herein.

**TABLE 2
DEBT SERVICE ON ALL PARITY BONDS**

Fiscal Year ending June 30	Outstanding Parity Bonds ⁽¹⁾			Series 2009A Bonds			Total Debt Service ⁽²⁾
	Principal	Interest	Total Principal and Interest	Principal	Interest	Total Principal and Interest	
2009	\$ 31,700,000	\$ 44,020,043	\$ 75,720,043				\$ 75,720,043
2010	33,200,000	41,175,778	74,375,778	\$ 6,810,000	\$ 22,168,120	\$ 28,978,120	103,353,897
2011	34,870,000	39,507,600	74,377,600	7,075,000	21,909,444	28,984,444	103,362,044
2012	29,355,000	37,723,128	67,078,128	14,560,000	21,714,881	36,274,881	103,353,009
2013	30,850,000	36,226,890	67,076,890	15,090,000	21,194,981	36,284,981	103,361,871
2014	32,395,000	34,682,710	67,077,710	15,740,000	20,540,481	36,280,481	103,358,191
2015	34,065,000	33,012,113	67,077,113	16,385,000	19,895,931	36,280,931	103,358,044
2016	35,795,000	31,282,938	67,077,938	17,125,000	19,150,706	36,275,706	103,353,644
2017	37,610,000	29,465,900	67,075,900	17,925,000	18,356,756	36,281,756	103,357,656
2018	49,465,000	27,583,975	77,048,975	8,990,000	17,506,906	26,496,906	103,545,881
2019	51,995,000	25,055,563	77,050,563	9,435,000	17,057,406	26,492,406	103,542,969
2020	54,630,000	22,417,100	77,047,100	9,835,000	16,656,419	26,491,419	103,538,519
2021	57,420,000	19,624,500	77,044,500	10,230,000	16,263,019	26,493,019	103,537,519
2022	60,325,000	16,724,438	77,049,438	10,745,000	15,751,519	26,496,519	103,545,956
2023	63,370,000	13,677,588	77,047,588	11,270,000	15,226,419	26,496,419	103,544,006
2024	50,255,000	10,476,888	60,731,888	11,830,000	14,662,919	26,492,919	87,224,806
2025	52,800,000	7,930,238	60,730,238	12,425,000	14,071,419	26,496,419	87,226,656
2026	31,895,000	5,254,563	37,149,563	13,040,000	13,450,169	26,490,169	63,639,731
2027	33,520,000	3,622,263	37,142,263	13,695,000	12,798,169	26,493,169	63,635,431
2028	18,600,000	1,906,750	20,506,750	14,380,000	12,113,419	26,493,419	47,000,169
2029	19,535,000	976,750	20,511,750	15,100,000	11,394,419	26,494,419	47,006,169
2030	--	--	--	15,875,000	10,620,544	26,495,544	26,495,544
2031	--	--	--	16,710,000	9,785,169	26,495,169	26,495,169
2032	--	--	--	17,590,000	8,905,844	26,495,844	26,495,844
2033	--	--	--	18,515,000	7,980,213	26,495,213	26,495,213
2034	--	--	--	19,485,000	7,005,900	26,490,900	26,490,900
2035	--	--	--	20,515,000	5,980,538	26,495,538	26,495,538
2036	--	--	--	21,590,000	4,903,500	26,493,500	26,493,500
2037	--	--	--	22,725,000	3,770,025	26,495,025	26,495,025
2038	--	--	--	23,915,000	2,576,963	26,491,963	26,491,963
2039	--	--	--	25,170,000	1,321,425	26,491,425	26,491,425
Total ⁽²⁾ :	<u>\$843,650,000</u>	<u>\$482,347,710</u>	<u>\$1,325,997,710</u>	<u>\$453,775,000</u>	<u>\$404,733,620</u>	<u>\$858,508,620</u>	<u>\$2,184,506,330</u>

Source: City of San Diego, Department of Debt Management.

(1) Reflects the refunding of a portion of the Series 1997A Bonds and the Series 1997B Bonds with a portion of the proceeds of the Series 2009A Bonds.

(2) Amounts may not total due to rounding.

THE FEASIBILITY STUDY

The Feasibility Consultant has been retained by the City to prepare the Feasibility Study for inclusion in this Official Statement as Appendix B. The Feasibility Consultant is a consulting engineering firm specializing in partnering with clients to deliver major environmental capital projects and providing utility management services. The Feasibility Study contains a review and analysis of technical, economic and environmental aspects of the Wastewater System and other related matters. The review presented in the Feasibility Study is an assessment of current and recent actions, plans and approaches to the management and operation of the Wastewater System, taking into account future conditions that could impact the management and operation of the Wastewater System. The estimates, opinions and conclusions expressed in the Feasibility Study are based upon certain assumptions, calculations and qualifications set forth therein, and the Feasibility Study should be read in its entirety. While the Feasibility Consultant believes these assumptions to be reasonable for purposes of the Feasibility Study, the assumptions may vary significantly from actual future conditions due to unanticipated events and circumstances. To the extent that actual future conditions vary from those assumed in the Feasibility Study, the actual results will vary from those contained in the Feasibility Study. The Feasibility Study was prepared prior to the pricing of the Series 2009A Bonds and included assumptions regarding the New Money Portion and the 2007 Notes Repayment Portion. The Feasibility Study has not been revised to reflect actual annual debt service associated with the New Money Portion and 2007 Notes Repayment Portion of the Series 2009A Bonds which is lower in every year than the assumed annual debt service for the Series 2009A Bonds in the Feasibility Study. In addition, the Feasibility Study does not reflect any debt service savings which the City anticipates will result from the issuance of the Series 2009A Bonds and the anticipated issuance of the Series 2009B Bonds and the refundings in connection therewith. See “PLAN OF FINANCE” herein.

The following sets forth the summary and conclusions of the Feasibility Consultant set forth in the Feasibility Study (see Appendix B – “FEASIBILITY STUDY FOR 2009 SERIES WASTEWATER REVENUE BONDS – Executive Summary – Summary of Conclusions” attached hereto) prepared by the Feasibility Consultant and attached as Appendix B hereto. A full review should be made of the entire Feasibility Study. The City, the Authority and the Underwriters do not accept any responsibility for the accuracy or completeness of the following information

Based on information gained by the Feasibility Consultant through site visits, discussions with the MWWD’s engineering, administrative, and operating personnel, reviews of planning documents, reports, and studies prepared by external consultants for the MWWD, reviews of regulatory requirements and performance documents, and financial forecasts, including the five-year Wastewater System CIP:

1. The MWWD is organized in a manner which provides satisfactory and reliable wastewater management services that meet public needs. The organizational structure provides for appropriate delegation of management authority. Positions are staffed with qualified and trained personnel.
2. The technology employed by the MWWD at its wastewater treatment facilities meets or exceeds that of most other comparable utilities, is appropriate for its application, and results in adequate wastewater treatment.
3. Together with the Engineering and Capital Projects Department, the MWWD has the requisite staffing, experience and qualifications to plan and execute and to operate the Wastewater System projects within the projected Wastewater System CIP.
4. Generally, facilities were found to be well-maintained and properly staffed.

5. The Wastewater System satisfies current Federal, State, regional, County of San Diego and City regulations. However, future regulations may require operational modifications and additional capital improvements. The Wastewater System CIP has provisions for planned and unplanned improvements to meet these regulations. The Wastewater System CIP also incorporates projects that will allow MWWD to meet the requirements of the Final Consent Decree (as further described under the caption entitled “WASTEWATER SYSTEM REGULATORY REQUIREMENTS – Collection of Sewage” herein) related to sanitary sewer overflows. MWWD has obtained or has applied for the required wastewater system permits. MWWD also has an outstanding environmental compliance record for effluent quality.

6. The wastewater treatment facilities have adequate capacity to meet customer requirements and anticipated future requirements through the planning period. Furthermore, the Wastewater System CIP incorporates projects to improve effluent quality from the water reclamation facilities, thus providing for future customer requirements.

7. The MWWD is addressing the near-term physical needs of the Wastewater System during the Wastewater System CIP planning process as well as planning for future needs. The Wastewater System CIP planning process represents a prudent capital planning process that reflects industry standards.

8. The Wastewater System CIP is reasonable to address near and long-term capacity objectives of the Wastewater System, effecting necessary rehabilitation and replacement work, and general compliance with regulatory standards.

9. Projections of revenues and expenses reviewed in comparison with historical data were found to be reasonable and consistent with the stated assumptions.

10. With the anticipated annual rate increases, being those already adopted by the City for Fiscal Year 2009 and Fiscal Year 2010 and those proposed by the MWWD in the last three years of the forecast (which are subject to City Council approval); the assumptions utilized for this forecast period are reasonable. Further, both the MWWD forecast and the sensitivity analyses prepared demonstrate the reasonableness of the expected financial results including the 1.20x Debt Service Coverage requirement on Parity Obligation debt, the 1.10x Debt Service Coverage requirement on current State Revolving Fund Loans, and established cash reserve targets.

11. Application of the additional bonds test requirements to the Series 2009A Bonds as stated in the Installment Purchase Agreement and the Rate Covenant, indicate that Net System Revenues are sufficient to achieve a debt service coverage ratio of 1.20x on Parity Obligation debt.

THE WASTEWATER SYSTEM

General

The “Wastewater System” consists of two sub-systems, the Municipal Sub-System (the “Municipal Sub-System”) and the Metropolitan Sub-System (the “Metropolitan Sub-System”). The Municipal Sub-System is a municipal sewage collection system for the City’s residents and consists of all elements required for the collection and conveyance of wastewater generated by the service area. The Municipal Sub-System consists of the piping and pumping facilities that service the City and ultimately discharge into the Metropolitan Sub-System. The Metropolitan Sub-System is a regional sewage treatment and disposal system that serves the City and various other public agencies, including cities situated within common drainage areas. The Metropolitan Sub-System includes all the facilities

associated with treatment and disposal within the San Diego metropolitan area. The Metropolitan Sub-System treats and disposes of the wastewater generated by the City and certain amounts from 15 other cities and districts near the City. The Metropolitan Sub-System was designed to provide sufficient capacity to accommodate a regional population in excess of 2.5 million. As of June 30, 2008, the Wastewater System had approximately 275,000 customers, 15 Participating Agencies and approximately \$325 million in sewer service charge revenues. The Wastewater System is managed by the MWWD and covers approximately 450 square miles, including most of the City, and stretches from Del Mar and Poway to the north, Alpine and Lakeside to the east, and south to San Ysidro, California. The service area within the City is serviced by the Municipal Sub-System and the service area for the Participating Agencies is serviced by the Metropolitan Sub-System. The communities and agencies served by the Wastewater System form the third largest integrated metropolitan area in the State, surpassed only by the Los Angeles and San Francisco metropolitan areas. The map that follows the Table of Contents of this Official Statement sets forth the sewer service area boundaries of the Wastewater System.

The City, as operator of the Wastewater System, is the holder of two National Pollutant Discharge Elimination System (“NPDES”) permits, one for the discharge of sewage at the Point Loma Wastewater Treatment Plant (the “Point Loma Plant”) (the NPDES permit relating to the Point Loma Plant is referred to herein as the “Point Loma Discharge Permit”) and the other for the discharge of sewage at the South Bay Water Reclamation Plant (the “South Bay Plant”) (the NPDES permit relating to the South Bay Plant is referred to herein as the “South Bay Discharge Permit”). As the holder of such permits, the City is responsible for complying with the discharge requirements under Federal law, including the Clean Water Act (the “Clean Water Act”). The Metropolitan Sub-System provides advanced primary treatment of sewage at the Point Loma Plant. See “WASTEWATER SYSTEM REGULATORY REQUIREMENTS – Treatment of Sewage” herein for information regarding the waiver from secondary treatment standards of the Clean Water Act and the City’s current application to renew such waiver. The South Bay Plant and the North City Plant are designed to treat sewage to the tertiary level and filter effluent to the secondary level. The North City Plant is also capable of providing treatment beyond the tertiary level through the demineralization of a portion of the effluent, which is reclaimed water, to reduce total dissolved solids. Reclaimed water from the South Bay Plant is not required to undergo a demineralization process because the concentration of total dissolved solids from the plant is below the City’s established limit of 1,000 milligrams per liter.

Wastewater System Management

General. The MWWD is a part of the City’s Public Utilities Group which reports to the City’s Chief Operating Officer. The MWWD is led by the Public Utilities Director, who is responsible for the MWWD and the City of San Diego Water Department (the “Water Department”). Five deputy directors divide the organizational responsibilities of the MWWD and report to the Assistant Director of MWWD, who reports to the Director of Public Utilities. In addition to the five Deputy Directors, there is an Assistant Deputy Director in two of the divisions, Wastewater Collection and Wastewater Treatment and Disposal, who share management responsibilities. The Water Department and the MWWD are examining the feasibility of combining certain common services through the reorganization of certain of their respective departments that support such activities as safety, long-range planning, engineering programs, regulatory liaisons, training, human resources capabilities, administrative support, internal control and financial services. The MWWD is considering the consolidation of components of the following wastewater divisions with corresponding divisions of the Water Department by Fiscal Year 2010: the Administrative Services Division, the Engineering and Program Management Division, the Environmental Monitoring and Technical Services Division. There are no plans to merge the Water Department’s Water Utility Fund and the MWWD’s Sewer Revenue Fund.

Divisions. The MWWD consists of five divisions, the Administrative Services Division (“AS”), the Environmental Monitoring and Technical Services Division (“EMTS”), the Engineering and Program Management Division (“EPM”), Wastewater Collection Division (“WWC”) and the Wastewater Treatment and Disposal Division (“WWTD”). The WWTD is the first publicly-owned wastewater treatment operation in the nation to receive ISO 14001 Certification, which provides a structure for environmental management systems that ensures commitment to regulatory compliance, pollution prevention and continual improvement. Subsequently, EMTS, WWC, all of the MWWD’s treatment facilities and the City’s major pump stations have received ISO 14001 Certification for their continuing commitment to the standards of the International Organization for Standardization in Geneva, Switzerland.

AS administers the MWWD’s finances, including budgeting and rate-setting, grant development, safety and training, human resources, information technology, and the collection and analysis of sewage flow data. AS also administers all contracts with the Participating Agencies (defined herein) and manages billing with the Participating Agencies. In addition, AS manages MWWD’s strategic planning and programs to facilitate MWWD’s mission.

EMTS operates several programs in support of the treatment and disposal of wastewater. These include the Industrial Wastewater Control Program, which regulates industrial discharges to the sewers and a comprehensive ocean monitoring program that evaluates the effect on the ocean environment of the discharges from the Point Loma Plant and the South Bay Plant. Additionally, EMTS produces all required regulatory discharge reports, acts as a liaison with regulatory agencies, and performs laboratory testing for process control and regulatory reporting purposes to ensure compliance with all regulatory permits.

EPM provides engineering services for the Metropolitan Sub-System and the Municipal Sub-System to ensure new facilities, repairs and upgrades are planned and implemented in a fiscally-sound manner to meet regulatory and environmental standards. Specifically, EPM provides long-range master planning, condition assessment, sewer modeling, planning and pre-design for infrastructure, energy management, environmental support, and oversight of the implementation of the Wastewater System’s Capital Improvement Program (the “Wastewater System CIP”).

WWC is responsible for safe and effective wastewater conveyance throughout the Municipal Sub-System. WWC provides ongoing preventive cleaning, maintenance, and repair of the system, emergency removal of sewer line stoppages, equipment overhaul and repair and on-site facility inspections. WWC repairs and replaces sewer laterals in the public rights-of-way as well as sewer mains throughout the collection system, operates and maintains 75 sewer pump stations and administers the MWWD’s Food Establishment Waste Disposal Program.

WWTD is responsible for the operation and maintenance of all wastewater treatment facilities, including treatment and water reclamation facilities, a bio-solids processing facility and major pump stations providing regional wastewater treatment and disposal services for the City and the Participating Agencies.

Officers. The current officers of the MWWD and their respective biographies are as follows:

Jim Barrett. Mr. Jim Barrett currently serves as the City’s Director of Public Utilities and oversees the MWWD and the Water Department. Mr. Barrett holds an undergraduate degree in Architecture from the University of Virginia and a graduate degree in Civil Engineering from Stanford University. He is a licensed Professional Civil Engineer in the State of California and has been with the City for approximately three years. Mr. Barrett is an appointed member on the Board of Directors for both

the San Diego County Water Authority and the Metropolitan Water District of Southern California. He also serves as a member of the Association of California Water Agencies Federal Affairs Committee. Prior to joining the City, Mr. Barrett served as Vice President of Federal Programs with Earth Tech, Incorporated. He retired from the United States Navy with extensive experience in infrastructure, contract and utilities management after more than twenty years of service.

Robert Ferrier. Mr. Robert Ferrier currently serves as the Assistant Director of the MWWD. In his capacity as Assistant Director, Mr. Ferrier oversees the day-to-day operations of the MWWD. Mr. Ferrier's responsibilities also include operation and maintenance of the sewage collection system. Prior to becoming Assistant Director in November 2001, Mr. Ferrier served in the unclassified service as the Deputy Director of the Refuse Disposal Division, Environmental Services Department; Park Development Division, Park and Recreation Department; Systems Division, Water Utilities Department and as a Labor Relations Manager with the Office of the City Manager. Mr. Ferrier began his career with the City of San Diego in 1968. He holds both a Bachelor of Arts and a Master's Degree in Public Administration from San Diego State University.

Darlene Morrow-Truver. Ms. Darlene Morrow-Truver is the Deputy Director for the MWWD's Administrative Services Division. Ms. Morrow-Truver has an active Certified Public Accountant license in the State of California. Ms. Morrow-Truver began her career with the City of San Diego in 1981 as an accountant in the Auditor and Comptroller Office and subsequently held various positions in the Accounting Division and Financial Systems Division. Ms. Morrow-Turner served as a Payment Services Division Manager beginning in 1996, the Audit Division Manager beginning in 2001 and served as the Acting Assistant Director from July 2004 – July 2005. Ms. Morrow-Truver earned a Bachelor of Science Degree in Business Administration with an emphasis in Accounting from San Diego State University in 1980 and a teaching credential from United States International University in 2000.

Alan Langworthy. Mr. Alan Langworthy currently serves as the Acting Deputy Director for the MWWD's Environmental Monitoring and Technical Services Division. Mr. Langworthy is responsible for the regulation of industrial discharges to the Municipal Sub-System, regulatory permitting, monitoring and compliance, and laboratory process control support to operating wastewater treatment facilities. Prior to retiring from his position as a Deputy Director of the MWWD in December 2008, Mr. Langworthy had worked with the City for 31 years including 15 years with the Water Department in which he occupied various positions with respect to wastewater research, water filtration and operations and maintenance. He is a member and past chairman of the Board of Directors (Commission) for the Southern California Coastal Water Research Project and has participated on the Environmental Engineering Curriculum Advisory Committee for San Diego State University. Mr. Langworthy holds a Bachelor of Science degree in Chemistry from San Diego State University. MWWD expects to hire a Deputy Director for the Environmental Monitoring and Technical Services Division to succeed Mr. Langworthy by the end of summer 2009.

Ann Sasaki. Ms. Ann Sasaki is the Deputy Director for the MWWD's Engineering and Program Management Division. In this capacity, Ms. Sasaki is responsible for planning, developing and overseeing projects for the Wastewater System CIP, Energy Management, Environmental Review and Development Review. Ms. Sasaki was appointed to the position of Deputy Director in August 2001 after serving for two years as an Assistant Deputy Director. Ms. Sasaki began her career with the City of San Diego in 1986, as a Junior Engineer in the Water Utilities Department and later served as a Senior Civil Engineer. Ms. Sasaki earned a Bachelor of Science degree in Civil Engineering from California State University, Long Beach and a Masters in Business Administration from the University of San Diego. She is a licensed Professional Civil Engineer in the State of California.

Christopher Toth. Mr. Christopher Toth is the Deputy Director for the MWWD's Wastewater Collection Division. Mr. Toth is responsible for a field organization of 241 positions with an operating budget of \$48.7 million for Fiscal Year 2009. Mr. Toth has spent 25 years with the City of San Diego. For more than seventeen years, he has managed both wastewater treatment and wastewater collection system infrastructure. Mr. Toth has particular expertise in managing large, municipal government field organizations. Mr. Toth holds a Bachelor of Science Degree in Chemical Engineering from Oregon State University and a Master of Science Degree in Civil Engineering from San Diego State University. He is a licensed Professional Civil Engineer in the State of California.

William Denhart. Mr. William Denhart is the Assistant Deputy Director for MWWD's Wastewater Collection Division. He has served as an Assistant Deputy Director since September 2002, after serving for eleven years as a District Refuse Collection Supervisor in the Collection Services Division of the Environmental Services Department. Mr. Denhart's current management responsibilities include assisting the Deputy Director of the Wastewater Collection Division oversee its 241 budgeted positions. Mr. Denhart began his career with the City of San Diego in 1972 as a seasonal summer worker while attending San Diego State University. He joined the City on a full-time basis in 1977 after earning his Bachelor's Degree in Social Science from San Diego State University. Mr. Denhart received his Masters Degree in Public Administration in 1983 from San Diego State University.

Jesse Pagliaro. Mr. Jesse Pagliaro is the Deputy Director for the MWWD's Wastewater Treatment and Disposal Division. Mr. Pagliaro holds a Grade V Wastewater Treatment Plant Operator Certificate issued by the State of California and is a credited contributor to the sixth edition of the Water Environment Federation's Operation of Municipal Wastewater Treatment Plants Manual of Practice 11. In his capacity as Deputy Director, Mr. Pagliaro is responsible for management of the Point Loma Plant, the Metropolitan Biosolids Center, the North City Plant, the South Bay Plant and eight large pump stations. Mr. Pagliaro began his career with the City of San Diego in 1988 as a Wastewater Plant Operator and subsequently served in progressively responsible positions. Prior to his appointment as Deputy Director of WWTD in 2008, Mr. Pagliaro served as Assistant Deputy Director of WWTD.

Christopher McKinney. Mr. Christopher McKinney is the Assistant Deputy Director for the WWTD. Mr. McKinney was appointed Assistant Deputy Director of WWTD in February 2009. Mr. McKinney has been an employee of the MWWD since 2002. Prior to his appointment as Assistant Deputy Director of WWTD, Mr. McKinney worked for six years as an Electrical Engineer in the Energy Group of the Engineering and Program Management Division. Beginning in 2007, Mr. McKinney has served as an MWWD Asset Management Coordinator. Mr. McKinney holds both a Bachelor of Science degree and a Masters of Engineering in Electrical Engineering and Computer Science from the Massachusetts Institute of Technology.

Oversight. The Independent Rates Oversight Committee ("IROC") was established by ordinance in 2007 to assume and expand upon the oversight previously undertaken by the Public Utilities Advisory Commission, which no longer exists. There are 11 members on the IROC, all of whom are appointed by the Mayor and confirmed by the City Council. The membership of IROC consists of representatives of each rate class and professional experts in such fields as finance, engineering, construction and the environment. IROC serves as an official advisory body to the Mayor and the City Council on issues relating to the oversight of the MWWD and the Water Department operations including, but not limited to, resource management, planned expenditures, service delivery methods, public awareness and outreach efforts, efforts to achieve high quality and affordable utility services provided by the MWWD and the Water Department. IROC's duties and functions include reviewing reports from staff and an independent audit organization on rates and bond proceed expenditures, advising on the efficiency and performance of the Wastewater System and Water System, advising on future cost allocation models and the preparing an annual public report on such issues to the Mayor and City Council. Adjustments to sewer service charges

and rates are not subject to approval by IROC. IROC meets at least every other month to review activities and issues for the MWWD and the Water Department.

On February 10, 2009, IROC issued its “Annual Report on the San Diego Water Department (SDWD) and Metropolitan Wastewater Department (MWWD) for the Fiscal Year 2008” (the “2008 IROC Report”). The 2008 IROC Report included a series of recommendations related to water conservation and wastewater reuse, including recommendations that the MWWD and the Water Department begin planning the upgrade of certain water treatment processes to fully implement indirect potable reuse strategies, develop additional capacity for such reuse and facilitate the transportation of the resulting purified water. The 2008 IROC Report also recommended adopting rate structures that encourage reuse of wastewater and reduced water consumption, and disclosing to ratepayers the potential financial impact of a failure to reduce water usage. With respect to capital improvements, the 2008 IROC Report recommended that the MWWD and the Water Department develop capital improvement programs that account for the risks associated with deferred maintenance and suboptimal rates of capital investment and exclude revenue constraint considerations to the extent possible, with a view towards reviewing and modifying their respective approaches to capital projects as risks and revenue constraints are realized. The 2008 IROC Report also recommended that the MWWD and the Water Department begin to fully fund a set of reserves based on risks to ratepayers posed by any deferred maintenance and suboptimal investments. See “WASTEWATER SYSTEM FINANCIAL OPERATIONS – Rate Stabilization Fund and Other Reserves” herein for a description of the recommendations relating to the Dedicated Reserve for Efficiency and Savings.

In addition, the 2008 IROC Report recommended that, should the 2008 Tentative Order (defined herein) with respect to the Point Loma Plant be approved, the MWWD continue to pursue reasonable alternatives to ensure the granting of future variances or develop cost-effective alternatives to meet the requirements currently waived under the terms of the Modified Permit (defined herein). Further, the IROC recommended that the MWWD continue to monitor, clean, rehabilitate and replace portions of the Wastewater System on a priority basis to minimize the conditions that lead to sewer spills. The MWWD is currently considering the recommendations set forth in the 2008 IROC Report.

Participating Agencies

Regional Wastewater Disposal Agreement. The Metropolitan Sub-System provides “wholesale” treatment services, including some sewage transportation, treatment and disposal operations, to the cities of Chula Vista, Coronado, Del Mar, El Cajon, Imperial Beach, La Mesa, National City and Poway, and the East Otay Sewer Maintenance District, the Lakeside/Alpine Sanitation District, Lemon Grove Sanitation District, the Otay Water District, the Padre Dam Municipal Water District, the Spring Valley Sanitation District and the Winter Gardens Sewer Maintenance District (such cities and districts are collectively referred to as the “Participating Agencies”) pursuant to the Regional Wastewater Disposal Agreement, effective June 24, 1998 (the “Regional Wastewater Disposal Agreement”). The Regional Wastewater Disposal Agreement replaced separate sewage disposal agreements between the City and the Participating Agencies (other than the East Otay Sewer Maintenance District) that were entered into as early as 1960 and applies to all facilities of the Metropolitan Sub-System required to comply with the Clean Water Act and the Ocean Pollution Reduction Act of 1994 (“OPRA”). See “WASTEWATER SYSTEM REGULATORY REQUIREMENTS – Treatment of Sewage” herein. The Regional Wastewater Disposal Agreement expires on December 31, 2050. On or before December 31, 2040, the parties will begin discussions on an agreement to provide wastewater treatment services beyond the year 2050. See “WASTEWATER SYSTEM FINANCIAL OPERATIONS – Management’s Discussion and Analysis” herein. The City has full ownership of the Metropolitan Sub-System, including all additions to the Metropolitan Sub-System and facilities constructed pursuant to the Regional Wastewater Disposal Agreement. In addition, the City has the authority to sell the Metropolitan Sub-System to a governmental

entity or divest a portion of the Metropolitan Sub-System, subject to the Participating Agencies' right of first refusal and the provisions of the Installment Purchase Agreement. See Appendix C – "Summary of Principal Legal Documents – Master Installment Purchase Agreement" attached hereto.

Pursuant to the Regional Wastewater Disposal Agreement, the Participating Agencies are required to pay their respective share of planning, design and construction of Metropolitan Sub-System facilities and costs relating to the operation and maintenance of the Metropolitan Sub-System by the City. The amount to be paid by the Participating Agencies is calculated based on a Sewer System Charge and a New Contract Capacity Charge (each as herein defined). The "Sewer System Charge" is a charge that is calculated annually, billed quarterly and based on flow and strength coming into the Metropolitan Sub-System. The "New Contract Capacity Charge" is an amount to be paid by any Participating Agency for the right to discharge any new or additional capacity into the Metropolitan Sub-System beyond its existing allotted capacity. The New Contract Capacity Charge is not expected to generate revenues in the near future because the Participating Agencies have not expressed any recent interest in new or additional capacity. Pursuant to the Regional Wastewater Disposal Agreement, the Participating Agencies pay their proportionate costs of the Metropolitan Sub-System, including operation and maintenance costs of all Metropolitan Sub-System facilities, based on flow and strength for all facilities, including water reclamation facilities (but excluding any water reclamation distribution pipelines) necessary to expand the Wastewater System as specified in the Regional Wastewater Disposal Agreement, and Wastewater System CIP costs, the aggregate costs of which constituted approximately 32% of the total Metropolitan Sub-System's operation and maintenance costs and Wastewater System CIP costs for the Fiscal Year 2008. Annual costs attributable to the Participating Agencies include those associated with administration, operation, maintenance, replacement, annual debt service costs and other periodic financing costs and charges, capital improvement, insurance premiums, claims payments and claims administration costs of the Metropolitan Sub-System.

The MWWD and the Participating Agencies are currently reviewing the Participating Agencies' obligation to pay their proportionate share of the cost of the Metropolitan Sub-System's share of maintaining the operating reserve and debt coverage pursuant to the City's current rate case projections. The MWWD is working with the Participating Agencies through the Metropolitan Commission (the "Metropolitan Commission"), a coalition comprised of the Participating Agencies that was formed in 1998, to clarify that the Metropolitan Sub-System's share of maintaining the operating reserve and debt coverage pursuant to the City's current rate case projections is included in the operation and maintenance costs payable under the Regional Wastewater Disposal Agreement. The MWWD expects the modification to result in approximately \$15 million to \$20 million in additional operation and maintenance charges from the Participating Agencies. However, such increased charges are expected to be revenue-neutral because the increase will correspond with decreased collections from customers of the Municipal Sub-System. The City plans to deposit any such collections into the DRES (defined herein). See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2009A BONDS – Rate Covenant", "WASTEWATER SYSTEM FINANCIAL OPERATIONS – Rate Stabilization Fund and Other Reserves" herein and "THE WASTEWATER SYSTEM – Metropolitan Sub-System Facilities" herein.

The Participating Agencies have historically paid charges due and payable under the Regional Wastewater Disposal Agreement in a timely manner. Further, the Participating Agencies may only dispute amounts owed after payment of the amounts set forth in their respective invoices from the City.

Transportation Agreements. The Participating Agencies and the City are responsible for the retail collection operations within their respective jurisdictions. The Participating Agencies also transport collected sewage through large municipal trunk lines to the Metropolitan Sub-System. The collection systems and many of the transport trunk lines outside City limits are owned by the individual

Participating Agencies. Transportation of wastewater through the Municipal Sub-System to the Metropolitan Sub-System is facilitated by 13 separate transportation agreements (each, a “Transportation Agreement” and, collectively, the “Transportation Agreements”) each between the City and a Participating Agency. The City is in the process of negotiating eleven of the Transportation Agreements, which have expired. The City and the Participating Agencies with expired Transportation Agreements have agreed to continue their operations pursuant to mutually acceptable terms until new agreements are executed. All parties have, however, agreed upon an updated rate for the transportation of sewage. Such rate is calculated at the unit transportation rate per million gallons of flow for each mile the flow is transported in the Municipal Sub-System and by calculating the Participating Agency’s respective share of any Wastewater System CIP costs incurred for municipal infrastructure utilized by its flow. Over the last five fiscal years, revenues from such transportation charges, which cover maintenance and operations costs, have varied from \$77,000 in Fiscal Year 2008 to \$641,000 in Fiscal Year 2007. The MWWD expects revenues from transportation charges to range from \$200,000 to \$366,000 for Fiscal Years 2009 to 2013. The City and the Participating Agencies expect to adjust this rate annually for inflation in accordance with the California Consumer Price Index as determined by the State of California’s Economic Forecast Index. The City expects to finalize all Transportation Agreements during calendar year 2009. The Transportation Agreement by and between the City and the City of Del Mar is scheduled to expire in 2013. The Transportation Agreement by and between the City and the East Otay Sewer Maintenance District is scheduled to expire in 2011. The City does not and will not have Transportation Agreements with the Spring Valley Sanitation District or the Otay Water District because such entities do not transport collected sewage through the Municipal Sub-System.

The City is also in negotiations with many of the Participating Agencies for payment of past capital improvement projects on portions of the Municipal Sub-System through which wastewater from such Participating Agencies flows. The Participating Agencies contribute to capital improvements for the Metropolitan Sub-System on a pay-as-you-go basis and by making annual debt service payments on Outstanding Obligations payable from the Sewer Revenue Fund based upon their respective allocable share of benefits derived from such improvements. Participating Agencies are only obligated to contribute to capital projects on portions of the Municipal Sub-System’s infrastructure they use. The City expects to receive between \$20 million and \$30 million from the Participating Agencies through periodic payments from Fiscal Year 2010 to Fiscal Year 2014 for their respective shares of the past municipal infrastructure costs pursuant to the Transportation Agreements.

For the Fiscal Year 2008, of a total average daily sewage flow of approximately 170 million gallons per day (“mgd”), the total City flow through the Metropolitan Sub-System was approximately 110 mgd, which is 65% of the total average flow. None of the Participating Agencies are currently utilizing all of their capacity rights for sewage treatment and disposal. The City of Chula Vista expects that it will exceed its capacity rights in 2013. The MWWD expects the proportion of sewage flow from the City and the Participating Agencies to continue at their current levels.

The Participating Agencies in the Metropolitan Sub-System, their respective estimated population, current capacity rights and the percentage of total capacity represented by the capacity rights are set forth in the Table 3 below.

TABLE 3
METROPOLITAN SUB-SYSTEM
CITY AND PARTICIPATING AGENCIES FLOW AND CAPACITY RIGHTS
Fiscal Year 2008
(Unaudited)

Participating Agencies	Estimated Population	Capacity Rights (in mgd)	% of Total Capacity	Average Flow (mgd)	% of Total Average Flow
City of Chula Vista	233,903	19.843	8.268%	16.765	9.855%
City of Coronado	16,650	3.078	1.283	2.004	1.178
City of Del Mar	4,548	0.821	0.342	0.614	0.361
City of El Cajon	98,000	10.260	4.275	9.116	5.358
City of Imperial Beach	28,300	3.591	1.496	2.180	1.281
City of La Mesa	57,375	6.634	2.764	5.278	3.102
City of National City	57,900	7.141	2.975	4.521	2.657
City of Poway	46,076	5.630	2.346	3.444	2.024
East Otay Mesa Sewer Maintenance District ⁽¹⁾	2,875	1.000	0.417	0.000	0.000
Lakeside/Alpine Sanitation District	41,250	4.586	1.911	3.198	1.880
Lemon Grove Sanitation District	26,000	2.873	1.197	2.156	1.267
Otay Water District	4,800	1.231	0.513	0.274	0.161
Padre Dam Municipal Water District	72,000	5.882	2.451	3.103	1.824
Spring Valley Sanitation District	83,125	9.808	4.087	6.159	3.620
Winter Gardens Sewer Maintenance District	<u>11,688</u>	<u>1,241</u>	<u>0.517</u>	<u>0.885</u>	<u>0.520</u>
SUBTOTAL	784,490	83.619	34.841	59.697	35.090
City of San Diego	<u>1,297,000</u>	<u>156.381</u>	<u>65.159</u>	<u>110.427</u>	<u>64.910</u>
TOTAL:	2,081,490	240.000	100.000%	170.124 ⁽²⁾	100.000%

Sources: County Facility Plan for population figures for the Lakeside/Alpine Sanitation District, the Spring Valley Sanitation District and the Winter Gardens Sewer Maintenance District; the San Diego Association of Governments for all other population figures; the Metropolitan Wastewater Department, City of San Diego for capacity rights and flow data.

⁽¹⁾ This Participating Agency completed its wastewater facilities in 2008. Average flow data is not available.

⁽²⁾ Excludes flow through plants that are not part of the Metropolitan Sub-System - Escondido Plant (defined herein) and Solana Beach (which is serviced by the San Elijo Plant (defined herein)), and flow of reclaimed water through the North City Plant (defined herein).

The City has the right to make all decisions with respect to the planning, design, construction, operation and maintenance of the Metropolitan Sub-System. Decisions on issues that impact the Participating Agencies are made with the advice of the Metropolitan Commission. The Metropolitan Commission consists of one representative from each Participating Agency and advocates for fair rates and other issues of importance to the Participating Agencies. Although the Metropolitan Commission may make recommendations to the City, the City retains ownership and decision-making authority over all elements of the Metropolitan Sub-System, including the capital improvements for the Metropolitan Sub-System.

Metropolitan Sub-System Facilities

General. The current Metropolitan Sub-System infrastructure, with the exception of the South Metropolitan Interceptor Pipeline, is located within the jurisdictional boundaries of the City and is concentrated along a kidney-shaped corridor running from Mission Bay to the north, and along the perimeter of the San Diego Bay to the south. The map that follows the Table of Contents of this Official Statement shows the geographic concentration of the Metropolitan Sub-System's infrastructure and identifies the major trunk lines that service the Participating Agencies. The Metropolitan Sub-System's infrastructure currently consists of three wastewater treatment plants, two ocean outfalls, a biosolids center, four pump stations and force mains and gravity flow interceptors. The Metropolitan Sub-System infrastructure also includes two interceptors, which collect and route wastewater to the Point Loma Plant from the Municipal Sub-System and the Participating Agencies. See Appendix B – "FEASIBILITY STUDY FOR 2009 SERIES WASTEWATER REVENUE BONDS" attached hereto. The Wastewater System CIP is dependent upon maintaining certain permits and waivers with respect to the Wastewater System under Federal and State law. If existing permits and waivers are not maintained, the City could incur costs in addition to those currently included in the City's budgets and projections. See "WASTEWATER SYSTEM REGULATORY REQUIREMENTS – Treatment of Sewage" herein. The following is a summary description of the Metropolitan Sub-System's current facilities and their respective primary functions.

Point Loma Plant. The Point Loma Plant began operation in 1963. The site is part of the Fort Rosecrans military reservation and was acquired by the City from the U.S. Department of the Interior, Bureau of Land Management. The Point Loma Plant is the principal treatment facility in the Metropolitan Sub-System, with a permitted treatment capacity of 240 mgd flow with 432 mgd peak wet weather flow. During Fiscal Year 2008, the Point Loma Plant had an average daily flow rate of 163 mgd, including return flows from the Metropolitan Biosolids Center, North City Plant and South Bay Plant. The average daily flow rate at the Point Loma Plant accounted for approximately 92.4% of the wastewater flow generated within the Metropolitan Sub-System. Almost all the inflow to the Point Loma Plant is conveyed through the Metropolitan Sub-System's Pump Station No. 2, which is the terminus for the North Metropolitan Interceptor Pipeline and South Metropolitan Interceptor Pipeline. Flow from the North City Plant which is not distributed to reclaimed water users is returned to the sewage conveyance system and is treated at the Point Loma Plant. In addition, the Point Loma Plant serves as a standby facility for the North City Plant and the South Bay Plant in the event one or both of these facilities is taken off-line for maintenance purposes. See Appendix B – "FEASIBILITY STUDY FOR 2009 SERIES WASTEWATER REVENUE BONDS" attached hereto.

The Point Loma Plant currently provides advanced primary treatment of sewage in accordance with a waiver from the secondary treatment standards of the Clean Water Act, which was originally received by the City in 1995, and renewed on September 13, 2002 for the period through June 2008. The City applied for an extension of the waiver and, in December 2008, the City received a tentative decision from the United States Environmental Protection Agency (the "U.S. EPA") that the Point Loma Plant and Point Loma Ocean Outfall (defined herein) be granted a renewed waiver. A final determination is expected in mid-2009. The Point Loma Plant continues to operate under the current waiver through the consideration and public comment process. See "WASTEWATER SYSTEM REGULATORY REQUIREMENTS – Treatment of Sewage" herein. Treated wastewater from the Point Loma Plant is discharged through the Point Loma Ocean Outfall ("Point Loma Outfall"), which was built in 1963. In 1993, the Point Loma Outfall was extended 2.0 miles from its original length, which resulted in the present length of 4.5 miles. See "– Point Loma Ocean Outfall" herein. Ongoing capital improvements to the Point Loma Plant are included in the Wastewater System CIP. See "WASTEWATER SYSTEM CAPITAL IMPROVEMENT PROGRAM" herein.

Operations at the Point Loma Plant are monitored and controlled from a distributed, computer-based control system located in the Point Loma Plant's control center. Local control stations are also strategically located around the Point Loma Plant and can be used to access the entire plant control system. See Appendix B – "FEASIBILITY STUDY FOR 2009 SERIES WASTEWATER REVENUE BONDS" attached hereto.

Presently, the Point Loma Plant is capable of removing 85% to 90% of total suspended solids ("TSS"). The Point Loma Plant has increased its TSS removal rates through operational improvements of its chemical treatment processes. The wastewater treatment process currently employed at the Point Loma Plant consists of advanced primary treatment and a digester gas utilization facility. Dewatering of sludge is provided at the Metropolitan Biosolids Center (described below). Methane gas produced during the digestion is fed to a City-owned cogeneration plant where it is converted to electricity and used to provide power to operate the plant. Excess energy is sold back to the local electrical power grid. See " – Metropolitan Biosolids Center" herein.

North City Water Reclamation Plant. The North City Water Reclamation Plant (the "North City Plant") is a sewage treatment facility that is capable of processing sewage to both secondary and tertiary treatment levels. The North City Plant commenced operations in 1997 and is located adjacent to Interstate 805 and Miramar Road in the northwestern quadrant of the City. The North City Plant operates pursuant to a "Waste Discharge and Water Recycling Requirements for the Production and Purveyance of Recycled Water", Order No. 97-03, Addendum No. 1, which was adopted by the California Regional Water Quality Board (the "Regional Water Board") on June 11, 2003 (the "North City Plant Permit"). The North City Plant Permit, as amended, is effective until it is revoked or further modified.

The North City Plant receives influent through the North City Tunnel Connector and from the Penasquitos Pump Station. The North City Plant process includes screening, grit removal, settling, flow equalization, activated sludge processing, tertiary filtration and effluent disinfection. The Metropolitan Biosolids Center (described below) digests and dewateres the sludge that is produced at the North City Plant. Support facilities of the North City Plant include an administration building, operation and maintenance building and chemical building. The North City Plant has a permitted capacity of 30 mgd average daily flow and operated at a flowrate of approximately 23 mgd during Fiscal Year 2008. The North City Plant is producing an average of 6 mgd of reclaimed water each day that is distributed to users through the Water Department's Northern Water Distribution System. The North City Plant limits its production of reclaimed water to the amount the Water Department expects to sell. Sewage that is treated at the North City Plant for conversion to reclaimed water flows to the Water Department's Northern Water Distribution System and sewage that is treated at the North City Plant for discharge into the ocean flows to the Point Loma Plant. Approximately 13 mgd of return flow to the Wastewater System results from excess secondary effluent from the North City Plant, which is returned to the collection system for disposal via the Point Loma Plant. See " – Point Loma Plant" herein. The solids that are removed during the sewage treatment process, either by sedimentation or biological oxidization, are pumped to the Metropolitan Biosolids Center for further treatment. See " – Metropolitan Biosolids Center" herein and Appendix B – "FEASIBILITY STUDY FOR 2009 SERIES WASTEWATER REVENUE BONDS" attached hereto.

In March 2006, an independent advisory panel authorized by the City Council published its "City of San Diego Water Reuse Study" (the "Water Reuse Study"), which concluded that indirect potable reuse is a viable method to maximize reclaimed water use at the lowest unit cost to the City. Revenues from the sale of reclaimed water are collected by the Water Department for deposit in the Water Utility Fund and used to pay for the cost of the reclaimed water distribution system and then operations and maintenance costs for the distribution system. The North City Plant currently produces water that serves approximately 440 retail end users and 2 wholesale users that resell the reclaimed water for landscape

irrigation. Reclaimed water is also used for dual plumbing. The City has initiated a pilot indirect potable reuse demonstration project to determine the feasibility of using highly treated reclaimed water to augment the City's drinking water supply; such project is not expected to materially affect the Wastewater System in the near future.

South Bay Water Reclamation Plant. The South Bay Plant commenced operations in 2002. This plant, located on Dairy Mart Road west and north of the International Border with Tijuana, Mexico, is a sewage treatment facility that is capable of processing sewage to both secondary and tertiary treatment levels. The South Bay Plant operates under an NPDES permit for the treatment and disposal of wastewater through the shared South Bay Ocean Outfall and Reclaimed Water Permit No. 2000-203 (the "Reclaimed Water Permit"), which authorizes water reclamation from the South Bay Plant. The Reclaimed Water Permit, as previously amended, is effective until it is revoked. See "WASTEWATER SYSTEM REGULATORY REQUIREMENTS – General" herein.

Untreated wastewater is pumped to the South Bay Plant's headworks from the Otay River Pump Station and the Grove Avenue Pump Station, which divert flow from the South Metropolitan Interceptor Pipeline. The average influent flows treated during 2008 were approximately 8.7 mgd with 2.8 mgd discharged to ocean outfall and 4.8 mgd reclaimed water distributed. The South Bay Plant has a rated capacity of 15 mgd and operated at approximately 9 mgd during Fiscal Year 2008. The South Bay Plant uses a phased tertiary process that allows the tertiary portion of the plant to be bypassed when reclaimed water is not being produced, which increases efficiency and reduces plant operations and maintenance costs. The South Bay Plant discharges all of its flows to the reclaimed water system or to the South Bay Ocean Outfall. Accordingly, it does not treat its own solids and cannot discharge its solids to the Metropolitan Biosolids Center directly. Primary sludge is pumped to the South Metropolitan Interceptor Pipeline and conveyed to the Point Loma Plant for further treatment and from there to the Metropolitan Biosolids Center for processing. See "– Point Loma Plant" and "– Metropolitan Biosolids Center" herein. The Metropolitan Biosolids Center returns centrate streams to the Point Loma Plant for treatment, which causes an increase in the solids measured at the Point Loma Plant. Flows from the South Bay Plant are treated to secondary effluent requirements and discharged through the South Bay Ocean Outfall. See "– South Bay Ocean Outfall" herein.

The South Bay Plant limits its production of reclaimed water to the amount the Water Department expects to sell. The City is seeking to increase use of reclaimed water generated by the South Bay Plant and has entered into an agreement with the Otay Water District pursuant to which the Otay Water District may purchase up to 6 mgd of reclaimed water for resale by the Otay Water District for landscape irrigation. During 2008, 54% of the treated sewage was beneficially reused by the Otay Water District, the International Wastewater Treatment Plant, a federally owned and operated treatment facility in the Tijuana River Valley, or used for in-plant purposes. During warmer periods of the year, almost the entire amount of wastewater treated at the South Bay Plant is reused.

The Participating Agencies have asserted that under the terms of the Regional Wastewater Disposal Agreement they should be apportioned a percentage of the capacity fees and revenues from the sale of reclaimed water from the South Bay Plant. The current amount in dispute is approximately \$2 million. The capacity fees and revenues from the sale of the reclaimed water are being held by the City pending resolution of this matter. See "– Participating Agencies; Regional Wastewater Disposal Agreement; Transportation Agreements" herein.

Operations at the South Bay Plant are monitored and controlled from a distributed, computer-based control system located in the South Bay Plant's control center. Local control stations are also strategically located around the South Bay Plant and can be used to access the entire plant control system.

Point Loma Ocean Outfall. The Point Loma Ocean Outfall was constructed in 1963 to provide a method for disposal of all Point Loma Plant effluent. The original capacity of the 2.5 mile long, 108-inch diameter outfall has been estimated at 390 mgd under the original design configuration. The Point Loma Ocean Outfall Extension, a 2.0 mile extension of the original outfall, was completed in 1993, resulting in a 4.5-mile long outfall discharging treated sewage effluent at an approximate depth of 320 feet of water at the discharge point and a capacity of 432 mgd. The Point Loma Ocean Outfall uses a Y-shaped diffuser to provide for a wide dispersal of effluent into the ocean. It is one of the longest, deepest ocean outfalls in the United States. The MWWD believes that the length, depth, design and location of the Point Loma Ocean Outfall facilitates protection of ocean water beneficial uses.

South Bay Ocean Outfall. The South Bay Ocean Outfall discharges flows from the City's South Bay Plant and the International Boundary and Water Commission's International Treatment Plant. The South Bay Ocean Outfall consists of a land portion running 3.3 miles and an ocean portion discharging 3.5 miles off the coast at a depth of 95 feet. The outfall is jointly owned by the City and the International Boundary and Water Commission. The City has a 40% ownership interest in the South Bay Ocean Outfall, or approximately 133 mgd of the peak flow capacity of 333 mgd.

Metropolitan Biosolids Center. The Metropolitan Biosolids Center commenced operations in 1998 on a 39-acre site leased from the United States Navy within the Miramar Marine Corps Air Station located off Highway 52 in the north central portion of the City. The Metropolitan Biosolids Center is regulated under the Point Loma Plant's Modified Permit (hereinafter defined) because all waste streams from the Metropolitan Biosolids Center are sent to the Point Loma Plant for treatment. See "WASTEWATER SYSTEM REGULATORY REQUIREMENTS – Treatment of Sewage" herein. The lease with the United States Navy (the "Prime Lease") expire in 2045. The United States Navy may terminate the Prime Lease during its term without the payment of any compensation to the City without cause only in the event of a national or military emergency or with cause if the City fails to cure any breach of the lease within 30 days notice from the United States Navy. In the event the Prime Lease is terminated during its term by the United States Navy, the City would be obliged to vacate the site and relocate this facility elsewhere.

The Metropolitan Biosolids Center discharges side streams (centrate) from the raw sludge thickening and biosolids (digested sludge) dewatering centrifuges as well as effluent from other internal processes to the Point Loma Plant. The Metropolitan Biosolids Center is an essential part of the Modified Permit described under the caption "WASTEWATER SYSTEM REGULATORY REQUIREMENTS – Treatment of Sewage – Relief From Secondary Treatment Requirements" herein. The facility consists of anaerobic digestors, storage tanks, screening and dewatering systems, polymer injection systems, eight dewatering centrifuges, five thickening centrifuges, a state of the art odor control facility, chemical building, operations and maintenance building, and a privately operated cogeneration facility serving the energy needs of the Metropolitan Biosolids Center. The facility thickens and digests sludge from the North City Plant that is received through the 5-mile North City Raw Sludge Pipeline. In addition, the facility mechanically dewateres the North City Plant's digested sludge as well as the sludge that is digested at the Point Loma Plant. The digested sludge from the Point Loma Plant is pumped to the Metropolitan Biosolids Center through the 17-mile Miramar Pipeline.

Once sludge is thickened, digested and dewatered at the Metropolitan Biosolids Center, the MWWD disposes of biosolids through landfill disposal, direct land application, or alternate daily cover. See "WASTEWATER SYSTEM REGULATORY REQUIREMENTS – Grant and Loan-Related Regulatory Requirements" herein. Due to the nature of operations at the Metropolitan Biosolids Center, the facility employs extensive odor control facilities to treat the foul air from the major treatment processes.

The Metropolitan Biosolids Center and North City Plant have privatized cogeneration plants which are owned and operated by Minnesota Methane San Diego, LLC (“MMSD”), a subsidiary of Fortistar Methane Group, LLC. The City has subleased methane gas rights from the adjacent landfill (the “Miramar Landfill”) and the Metropolitan Biosolids Center’s digester gas to MMSD (the “Landfill Gas Lease”), which burns the fuel in its cogeneration plants to produce electricity and heat. The City has purchase contracts (the “Cogeneration Facility Agreements”) with MMSD to buy electricity for operations at the Metropolitan Biosolids Center and the North City Plant. The Cogeneration Facility Agreements are scheduled to expire in June 2019. Any excess power that is generated is sold by MMSD to the power grid. This arrangement allows the Wastewater System, including portions used by the Participating Agencies, to decrease its dependence on external sources of power and reduces energy expenditures. The Participating Agencies do not receive revenues with respect to the Cogeneration Facility Agreements. Under the Landfill Gas Lease and the Cogeneration Facility Agreements, the City bears the risk of a possible termination of the Prime Leases. The Prime Leases allow the Federal government to terminate such lease in the event the City breaches the terms thereof or, in some instances, without breach by the City. If the United States Navy terminates the Prime Leases for its convenience, it will owe the City an equitable adjustment of the City’s rent on the parcels on which the Miramar landfill and the Metropolitan Biosolids Center stand. If the United States Navy terminates the Prime Leases for any reason, then the City must purchase MMSD’s facilities, including the landfill gas collection system installed by MMSD and the cogeneration plants at the Metropolitan Biosolids Center and the North City Plant at a purchase price equal to the greater of a “stipulated purchase price” (provided by formula in the contract, which takes into account such factors as initial and depreciated values) or the “fair market value” of the facilities, as each of these terms is defined in the agreements with MMSD. The maximum amount of exposure to the City for the loss of these facilities is estimated to be \$28 million. Such a loss would only arise upon the occurrence of a default by the City or termination by the United States Navy for its convenience. The City believes that it is unlikely that the United States Navy will terminate the Prime Leases for any reason other than an uncured breach by the City or in the event of a national or military emergency in part because of the United States Navy’s reliance on the landfill and the City’s substantial investments in placing regionally crucial wastewater infrastructure, such as the Metropolitan Biosolids Center at Miramar. See “RISK FACTORS – Utility Costs” herein.

Pump Stations. There are four pump stations that service the Metropolitan Sub-System. Two pump stations, Pump Station No. 1 and Pump Station No. 2, began operation in 1963. A third pump station, the Grove Avenue Pump Station, began operations in 2002 to pump wastewater to the South Bay Plant. The Otay River Pump Station was added to the Metropolitan Sub-System in 2003 to pump wastewater to the South Bay Plant. In addition, the Metropolitan Sub-System is serviced by the East Mission Gorge Pump Station, Sewage Pump Station No. 64, Sewage Pump Station No. 65 and Penasquitos Pump Station, which are part of the Municipal Sub-System.

Interceptors. The Metropolitan Sub-System interceptors consist of two major branches, the South Branch and the North Branch, which meet at Pump Station No. 2. Interceptor capacities are adequate for current peak flows and the City models capacity consistent with all current regulations. Due to capacity limitations at Pump Station No. 2, the MWWD initiated the Wet Weather Storage Facility Project which is expected to be needed by 2011 in order to minimize the risk of sewage spills. The Wet Weather Storage Project will include the construction of an underground storage tank with a capacity of seven million gallons near Pump Station No. 2 to store excess wastewater flow during the peak wet weather flow period to relieve the capacity constraint at Pump Station No. 2. An alternative to the Wet Weather Storage Facility Project is the Wet Weather Intermittent Stream Discharge Project which the MWWD is currently studying. The Wet Weather Intermittent Stream Discharge Project will include a study of the feasibility of disposing the tertiary treated reclaimed water from the North City Plant to the streams or canyons during the peak wet weather flow period to relieve the capacity constraint at Pump Station No. 2. If MWWD deems that this project is feasible, the Wet Weather Intermittent Stream

Discharge Project will require the acquisition of an NPDES permit from the Regional Water Board and the modification of existing reclaimed water and sewer facilities. The Wet Weather Storage Project can be deferred to 2015 if the Wet Weather Intermittent Stream Discharge Project is implemented.

Municipal Sub-System Facilities

The Municipal Sub-System consists of approximately 3,000 miles of trunk and collector mains, 79 sewer pump stations, including East Mission Gorge Pump Station, Sewage Pump Station No. 64, Sewage Pump Station No. 65, and Penasquitos Pump Station, serving approximately 275,000 accounts with connections to the sanitary sewer system. Approximately 83% of these connections are from accounts relating to single family dwellings, 11% are from accounts relating to multifamily dwellings and the remaining 6% are from accounts relating to commercial and industrial customers (these percentages include multiple accounts at some locations). On average, these accounts generate 110 mgd of wastewater which is conveyed by the Municipal Sub-System to the Metropolitan Sub-System for treatment and disposal. The Municipal Sub-System also includes 54 permanent flow monitoring stations which are utilized for multiple purposes, including strength-based billing, facility planning, sewer modeling, criticality evaluation, infiltration/inflow analysis and spill detection.

Additional Contractual Capacity to the Escondido Plant and the San Elijo Plant

MWWD does not connect the Rancho Bernardo sewer service area to pipelines within the Municipal Sub-System. Pursuant to a sewage disposal agreement with the City of Escondido entered into in 1972, up to five mgd of sewage emanating from the Rancho Bernardo sewer service area of the City may be treated at Escondido's Hale Avenue Treatment Plant (the "Escondido Plant"). The Escondido Plant is not owned by the City and is not part of the Municipal Sub-System. This agreement is scheduled to terminate in 2022, fifty years from the date on which sewage flow commenced through the Escondido Plant and may be extended at the City's option for an unlimited number of ten-year periods. The Escondido Plant, which can process up to 18 mgd of sewage, currently has capacity to treat approximately 3 mgd of flow from the City. The City of Escondido is considering options to increase its treatment capacity to accommodate expected population growth.

Pursuant to a sewage disposal agreement with the Solana Beach Sanitation District entered into in 1974, as amended and supplemented in 1975, the City has the right to connect to sewer lines within the Solana Beach Sanitation District. Pursuant to such agreement, the City may permit the connection to the Solana Beach Sanitation District of up to 300 EDUs, or 84,000 gallons per day, of sewage emanating from the portion of the City contiguous to Del Mar and Solana Beach may be treated at the San Elijo Water Reclamation Plant (the "San Elijo Plant"). Sewage treated at the San Elijo Plant is disposed through the San Elijo Ocean Outfall, which is owned by the City of Solana Beach and the Cardiff Sanitation District and operated by the Solana Beach Sanitation District, the Cardiff Sanitation District and the City of Escondido. The San Elijo Plant and the San Elijo Ocean Outfall are not owned by the City and they are not part of the Municipal Sub-System. This sewage disposal agreement terminates in 2025 and contains no provisions for extension or renewal.

Historical Wastewater System Flow

Table 4 below sets forth total annual system flow through the Wastewater System (including the Point Loma Plant and the South Bay Plant) and through the City of Escondido to the Escondido Plant and the City of Solana Beach to the San Elijo Plant, and total annual reclaimed water flow through the North City Plant for Fiscal Years 1999 through 2008.

TABLE 4
WASTEWATER SYSTEM
TOTAL ANNUAL FLOW
(In Million Gallons)
Fiscal Year 1999 through Fiscal Year 2008

Fiscal Year Ended June 30	City Flow Through Point Loma Plant	Participating Agency Flow Through Point Loma Plant	City Flow Through Escondido Plant⁽¹⁾	City Flow Through San Elijo Plant⁽¹⁾	Reclaimed Water Through North City Plant	City Flow Through South Bay Plant	Total System Flow	Average MGD For The Year
1999	45,117	20,934	1,319	0	745	0	68,115	187
2000	44,771	21,489	1,401	0	1,267	0	68,928	189
2001	44,735	21,437	1,412	0	879	0	68,463	188
2002	43,395	21,326	1,316	0	958	0	66,995	184
2003	42,567	22,188	1,353	0	1,201	1,637	68,946	189
2004	40,665	21,688	1,342	32	1,182	1,702	66,611	182
2005	43,817	23,124	1,439	32	522	1,726	70,660	194
2006	42,240	22,270	1,279	32	1,259	1,632	68,712	188
2007	38,295	21,886	1,106	32	1,544	2,949	65,812	180
2008	37,207	21,849	1,096	32	1,749	3,210	65,143	178

Source: Metropolitan Wastewater Department, City of San Diego.

⁽¹⁾ The City does not treat flows through the Escondido Plant or the San Elijo Plant.

WASTEWATER SYSTEM REGULATORY REQUIREMENTS

General

Wastewater System operations are subject to Federal, State, and local environmental regulations that primarily address the quality of effluent that may be discharged from the Wastewater System, the disposal of sludge generated by the Wastewater System, and the nature of waste material (particularly industrial waste) discharged into the collection system. The Federal regulations that have the most significant effect on the Wastewater System are the Clean Water Act, which is administered by the U.S. EPA, the State Water Board and the Regional Water Board, the Federal Clean Air Act, and the Federal Resource Conservation and Recovery Act. The Wastewater System is in compliance with the major elements of each of the foregoing regulations and other programs managed by the Federal government and the State. See Appendix B – “FEASIBILITY STUDY FOR 2009 SERIES WASTEWATER REVENUE BONDS – Section 5 – Regulatory Requirements” attached hereto.

In addition to the general compliance mandates under the applicable Federal regulations, the City is subject to the specific requirements of the Final Consent Decree (herein defined) among the U.S. EPA and two environmental groups in connection with sewer spills from December 1996 to April 2001. See

“– Collection of Sewage – The Municipal Sub-System Collection System” herein. To date, the City has met the targets established as part of the Final Consent Decree. See Appendix B – “FEASIBILITY STUDY FOR 2009 SERIES WASTEWATER REVENUE BONDS – Section 5 – Regulatory Requirements” attached hereto.

Collection of Sewage

General. The Clean Water Act and the NPDES permit system, including the Point Loma Discharge Permit and the South Bay Discharge Permit issued thereunder, set effluent limitations on the discharge of pollutants at treatment plants and generally prohibit the discharge of pollutants into navigable waterways. Such prohibited discharges from the collection system are also subject to injunctive or penalty proceedings by the Regional Water Board.

The Municipal Sub-System Collection System. The Clean Water Act prohibits the discharge of wastewater to surface waters, including discharges as a result of sanitary sewer overflows (“SSOs”) into the collection system, except as authorized under an NPDES permit. The California Water Code has a broader interpretation of SSOs, to include waste discharges that could affect the quality of State waters, both surface and groundwater.

To provide a consistent, statewide regulatory approach to address SSOs, the State Water Board adopted the Statewide General Waste Discharge Requirements for Sanitary Sewer Systems, Water Quality Order No. 2006-0003 on May 2, 2006 (the “Sanitary Sewer Order”). The Sanitary Sewer Order requires public agencies that own or operate sanitary sewer systems to develop and implement a Sewer System Management Plan (“SSMP”) and report all SSOs to the State Water Board’s SSO database. The SSMP must include an operation and maintenance program, a current map of the sanitary sewer system, a rehabilitation and replacement plan, a training plan and an inventory of equipment and replacement parts.

In March 2001, two environmental groups filed suit against the City alleging that the Municipal Sub-System’s collection system was deficient as a result of sewer spills which had occurred since December 1996. The U.S. EPA and the State filed similar suits against the City in July 2003. The resulting settlements were memorialized in a Partial Consent Decree (the “Partial Consent Decree”) which expired on June 30, 2006 and a Second Partial Consent Decree (the “Second Partial Consent Decree”), which expired on June 30, 2007. Under the Partial Consent Decree and the Second Partial Consent Decree, the City agreed to rehabilitate or replace 200 miles of sewer pipeline by June 30, 2007. In 2007, the City, the United States, the EPA, the environmental groups entered into a final Consent Decree (the “Final Consent Decree” and, together with the Partial Consent Decree and the Second Partial Consent Decrees, the “Consent Decrees”).

The Final Consent Decree requires, among other things, increased sewer spill response and tracking, increased root control and replacement or rehabilitation of an additional 250 miles of pipeline between July 1, 2007 and June 30, 2013. The Final Consent Decree provides that the City will replace or rehabilitate 30 miles of pipeline in Fiscal Year 2008, 45 miles of pipeline per year from Fiscal Year 2009 to Fiscal Year 2012, and 40 miles of pipeline in Fiscal Year 2013. The City has replaced or rehabilitated approximately 41.2 miles of sewer pipeline, including 13.98 miles banked in Fiscal Year 2008, between July 1, 2007 and January 31, 2009 and has awarded contracts for the completion of an additional 30.26 miles. The City may assert its right to extend the deadline to replace or rehabilitate 45 miles of sewer pipeline during Fiscal Year 2009. The Final Consent Decree states that if more than the specified miles of pipeline are replaced, rehabilitated or permanently repaired in one year, the City may apply the excess amount against the requirement to replace, rehabilitate, or permanently repair pipeline in any future year. In addition, the Final Consent Decree requires an analysis of the feasibility of relocating sewer lines out of certain canyons by March 1, 2009, which has been completed. Further, the Final Consent Decree

requires upgrades or replacement of more than 20 pump stations and force main upgrades, and court supervision of these upgrades at least through July 2013. The costs for bidding, constructing and completing the required work will depend on variables such as the cost of materials and labor. No civil penalty payment was required under the Consent Decrees. However, the Final Consent Decree provides that the City may be subject, at the discretion of the Federal government, to various stipulated penalties for subsequent violations of the provisions relating to, among other things, reporting and plan submissions, compliance milestone and SSOs. To date, the City has not been subject to any penalties resulting from alleged violations of the Final Consent Decree. See Appendix A-1 – “BASIC FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY INFORMATION FROM THE COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY OF SAN DIEGO FOR FISCAL YEAR 2008” attached hereto.

Based on the Rate Model as of March 26, 2009, the estimated average annual cost of the Final Consent Decree for Fiscal Years 2009 through 2013 is \$117 million for capital projects, including pipeline repair and replacement and \$48.7 million (based on the projected expenditures for WWC for Fiscal Year 2009) for operations and maintenance, including increased cleaning of Wastewater System facilities and funding for video-monitoring. Such estimated average annual costs are included in the Wastewater System’s budget and the fiscal information set forth in Table 5 and Table 17. See “WASTEWATER SYSTEM CAPITAL IMPROVEMENT PROGRAM” and “WASTEWATER SYSTEM FINANCIAL OPERATIONS – Financial Projections” herein. Some of the upgrades required by the Final Consent Decree are under construction. Upgrades required by the Final Consent Decree will be financed through the Wastewater System CIP, as described under “WASTEWATER SYSTEM CAPITAL IMPROVEMENT PROGRAM – Background” herein, including with a portion of the proceeds of the Series 2009A Bonds. See “WASTEWATER SYSTEM CAPITAL IMPROVEMENT PROJECTS – Capital Improvement Projects – Municipal Sub-System Projects” herein.

In 2001, the MWWD initiated a program to reduce SSOs by maintaining a system-wide cleaning schedule, video monitoring and assessing the condition of the oldest and most problematic sewer lines in the Wastewater System and increasing the number of miles of sewer lines replaced or rehabilitated annually. See Appendix B – “FEASIBILITY STUDY FOR 2009 SERIES WASTEWATER REVENUE BONDS” attached hereto. The MWWD has reduced sewer spills by 80% between calendar year 2000 and calendar year 2008. During calendar year 2008, there were 62 SSOs in the Municipal Sub-System.

Treatment of Sewage

The Clean Water Act generally requires that all wastewater treatment plants provide secondary treatment for sewage before it is discharged into waterways. The Clean Water Act allows wastewater treatment plants to apply for a waiver from the secondary treatment standards for certain ocean discharges (a “Treatment Waiver”). The Clean Water Act grants the U.S. EPA the discretion to grant or deny any Treatment Waiver. The South Bay Plant complies with the secondary treatment requirements of the Clean Water Act and therefore does not need a Treatment Waiver to operate. The City operates the Point Loma Plant subject to a Treatment Waiver from the U.S. EPA that must be renewed every five years.

The City first applied for a Treatment Waiver for the Point Loma Plant in 1979. In July 1988, subsequent to unsuccessful efforts by the City to obtain a Treatment Waiver, the United States of America, acting through the Department of Justice and the EPA, and the State sued the City for alleged violations of the Clean Water Act and the Point Loma Discharge Permit due to sewer overflows, failure to meet the secondary treatment requirements of the Clean Water Act and alleged irregularities in the City’s pretreatment program that regulates industrial waste. As a result of this lawsuit, the City paid a penalty of \$500,000, enacted a low flow toilet ordinance as a credit project, and agreed to a stipulated final order (the “Final Order”) that required certain improvements to the Wastewater System, all of which the City

has completed. The Final Order was eligible for termination on June 30, 2003, but has not been terminated because additional compliance orders were subsequently issued to address sewer spills. See “– Collection of Sewage” herein.

In 1994, at the request of the City, the United States Congress adopted OPRA, amending the Clean Water Act to allow the City to apply for a Treatment Waiver, subject to certain conditions. These conditions required, among other things, that the City achieve a system capacity of 45 mgd of reclaimed wastewater per day by January 1, 2010, remove not less than 80% of TSS (on a monthly average) in the discharge of the Point Loma Plant, remove not less than 58% of the biochemical oxygen demand (“BOD”) (on an annual average) in the discharge of the Point Loma Plant, and reduce the quantity of TSS discharged by the Wastewater System into the Pacific Ocean during the period of modification.

The City applied for and was granted the Point Loma Plant Treatment Waiver on November 9, 1995 (such Treatment Waiver, granted pursuant to OPRA, is referred to herein as a “Modified Permit”). The City must seek a renewal of its Modified Permit every five years if it seeks to renew the Point Loma Discharge Permit without implementing secondary treatment. The City has satisfied the OPRA requirements to achieve a system capacity of 45 mgd of reclaimed wastewater per day by constructing the North City Plant, which has a capacity of 30 mgd, and the South Bay Plant, which has a capacity of 15 mgd. The Point Loma Plant has consistently met or exceeded the 80% removal requirement for TSS and the 58% removal of BOD. The quantity of TSS discharged into the Pacific Ocean has conformed to OPRA requirements and all other permit requirements. The City, the U.S. EPA and certain environmental groups disagree on how the OPRA requirements may apply to future Modified Permits. Currently, there are no active lawsuits or appeals with respect to the OPRA requirements.

The City filed a renewal application for a Modified Permit and received a Tentative Decision and Tentative Order (the “2002 Tentative Order”) on February 11, 2002. Initially, the California Coastal Commission objected to the consistency certification submitted by the City in connection with its request for a Modified Permit. The California Coastal Commission noted three areas of concern that it believed needed to be addressed in order for the discharges to be consistent with the applicable California Coastal Management Plan standards: (1) reduction in permitted levels of mass emissions; (2) commitments for water reclamation; and (3) additional monitoring provisions. Subsequently, the Regional Water Board modified its staff-recommended permit conditions and (1) reduced the total permitted mass emission loadings; (2) requested annual reports from its staff of the City’s progress towards implementing water reclamation, which would be independent of the NPDES permit, and noted that it could impose future reclamation requirements if adequate progress was not forthcoming; and (3) instructed its staff to review and prepare for future adoption by the Regional Water Board modifications to the monitoring program, including specific provisions for deep ocean receiving stations, human pathogens, and long term trends, which would also be independent of the NPDES permit.

In separate proceedings, the City successfully appealed the actions of the California Coastal Commission and the Regional Water Board. In May 2002, the City resubmitted its consistency certification to the California Coastal Commission and appealed the Commission’s consistency certification objection to the Secretary of Commerce. In addition, the City appealed the Regional Water Board’s NPDES permit action modifying the mass emission limits to the State Water Board. In August 2002, the State Water Board ordered the mass emission limits to be returned to the originally drafted levels. Subsequently, the City resubmitted its consistency certification for the waiver as modified and ordered by the State Water Board. The State Water Board concluded that the Regional Water Board had “...failed to make findings, either in its order or during its deliberations, that justify reducing the mass emissions limit for TSS...in the waste discharge requirements.” The California Coastal Commission then approved the consistency certification for the treatment waiver.

The City appealed to the Environmental Appeals Board (“EAB”) the provision of the 2002 Tentative Order requiring the City to comply with OPRA’s requirements regarding reduction of the quantity of TSS discharged by the Wastewater System into the Pacific Ocean over the period of modification. Concurrent with the City’s appeal, three environmental groups filed challenges to the Modified Permit contesting the maximum discharge limit of TSS and the EPA’s interpretation of the OPRA requirements. The City’s challenge and all the challenges filed by such environmental groups have been resolved by a Joint Stipulation for Withdrawal of Appeals (“Joint Stipulation for Withdrawal of Appeals”) in which the City agreed to (a) evaluate improved ocean monitoring; (b) pilot test biological aerated filters as a form of technology to increase solids removal; and (c) study increased water reuse. The Joint Stipulation for Withdrawal of Appeals was approved by the EAB on March 29, 2004, and, as approved, confirmed the provisions of the current Modified Permit through June 2008 and reserved each of the parties’ respective position on OPRA to future permits.

Based upon the MWW’s review of its annual biosolids reports from 2003 through 2007, the MWW determined that the Metropolitan Biosolids Center and Point Loma Plant satisfied the criteria for biosolids disposal required by the Clean Water Act and for the use or disposal of sewage sludge that includes the analytical results. In December 2007, the City submitted an application to the U.S. EPA to request a renewal of the Modified Permit for the Point Loma Plant. The City’s renewal application followed the same conventions as previous applications relative to OPRA. The U.S. EPA has permitted the City to operate pursuant to the existing Modified Permit until it renders a final decision with respect to the City’s renewal application because the City filed a renewal application in a timely manner. The City received a Tentative Decision and Tentative Order to approve the Modified Permit for an additional five years (the “2008 Tentative Order”) from the U.S. EPA on December 2, 2008. In January 2009, the City Council approved a resolution authorizing the City to negotiate and execute an agreement with two local environmental groups regarding the Modified Permit for the Point Loma Plant. Pursuant to such agreement, the two environmental groups agreed not to challenge the 2008 Tentative Order and the City is obligated to research options to increase the use of reclaimed wastewater and decrease discharges to the Pacific Ocean from the Point Loma Plant for a total cost not to exceed \$2 million. The Regional Water Board will comment on the 2008 Tentative Order to ensure that all applicable State water quality standards are satisfied. The U.S. EPA and the Regional Water Board held an initial, joint hearing in January 2009 to accept public comment on the 2008 Tentative Order. Another hearing will be held in mid-2009 to make a final decision to approve, deny or modify the 2008 Tentative Order, which, if approved, would then be issued in final form within a few months of the decision. Modified Permits are reviewed by the U.S. EPA every five years. See “THE WASTEWATER SYSTEM – Metropolitan Sub-System Facilities – Point Loma Plant” herein.

Although the City has obtained two successive Modified Permits from the EPA, the City can give no assurances that the U.S. EPA will renew or grant Modified Permits to the City in the future. If the City does not obtain a renewal of the Modified Permit (or any subsequent Modified Permit), the City may no longer be permitted to continue discharging sewage from the Point Loma Plant without complying with the secondary treatment requirements of the Clean Water Act. The City considered two alternatives to address this contingency. One of these contemplates upgrading the Point Loma Plant with conventional secondary treatment capabilities. The City also considered, subject to verification of its effectiveness, an alternative to implement a new process for treating sewage at the Point Loma Plant that may entail less capital but greater maintenance and operation costs. The City could also be required to build additional solids processing facilities to reduce the burden at the Point Loma Plant or bring the Point Loma Plant into compliance with the secondary treatment requirements of the Clean Water Act if the quantity of TSS that the Wastewater System discharges into the Pacific Ocean increases above the levels required by OPRA, as finally determined by the EPA. Pursuant to the 2002 Tentative Order, a renewed Modified Permit will be granted based on, among other things, the continued satisfaction of the conditions established under OPRA, as set forth above.

The City estimates the cost of the alternatives to bring the Point Loma Plant into compliance with the secondary treatment requirements of the Clean Water Act will be between \$800 million and \$1.5 billion in capital costs, based on Fiscal Year 2008 calculations, if the 2008 Tentative Order is terminated and the Regional Water Board and U.S. EPA do not approve the Modified Permit. The larger amount assumes that, among other things, the City cannot access land from the United States Navy or the United States Park Service. Further, in the event the waiver is not approved for renewal, the City estimates there would also be an increase in operating and maintenance costs of approximately \$40 million per year, including additional energy and personnel costs, once the Point Loma Plant is fully operational at the secondary treatment level. Such estimated costs are not reflected in the financial information included in Table 5 and Table 17. See “WASTEWATER SYSTEM CAPITAL IMPROVEMENT PROGRAM” and “WASTEWATER SYSTEM FINANCIAL OPERATIONS – Financial Projections” herein.

Discharge and Disposal of Sewage

Enacted in 1972, the Clean Water Act is a comprehensive revision of prior Federal water pollution control legislation requiring operators of wastewater treatment plants to operate such facilities in accordance with NPDES permits which set forth discharge limitations and reporting requirements applicable to wastewater treatment facilities. The NPDES permit sets effluent limitations on what is discharged into any public waters and prohibits any non-authorized discharges such as sewer system overflows. The Point Loma Plant and the South Bay Plant must each obtain an NPDES permit authorizing them to discharge sewage into the ocean because, at present, all of the Wastewater System’s sewage that is discharged into the ocean is discharged through either the Point Loma Plant or the South Bay Plant. The Regional Water Board adopted Waste Discharge Requirements (“WDR”) for the Point Loma Plant on April 10, 2002, and authorized the U.S. EPA to issue the Point Loma Discharge Permit in conjunction with the renewal of the Point Loma Plant’s NPDES permit for discharge to the Pacific Ocean pursuant to the Clean Water Act. The conditions of the WDR were appealed to the State Water Board by the City. The final permit was signed by the U.S. EPA Regional Administrator on September 13, 2002 and became effective on October 16, 2002. The Regional Water Board approved an addendum to the Point Loma Discharge Permit (“Addendum No. 1”) on June 11, 2003. Addendum No. 1 modified the monitoring and reporting program of the Point Loma Discharge Permit to incorporate recommendations of the Southern California Coastal Water Research Project’s Model Monitoring Program for Large Ocean Discharges in Southern California. The Regional Water Board adopted waste discharge requirements for the South Bay Plant on November 8, 2006, and authorized the issuance of the South Bay Discharge Permit for discharges into the Pacific Ocean. The South Bay Discharge Permit became effective January 1, 2007 and is scheduled to expire January 1, 2012.

In 1993, the U.S. EPA promulgated its “Standards for the Use or Disposal of Sewage Sludge” (Code of Federal Regulations Title 40, Part 503), which established, among other things, pollutant limitations, operational standards, management practices and other provisions intended to protect public health. In addition to Federal requirements, the City must also comply with State Water Board adopted Water Quality Order No. 2004-12-DWQ, which expands upon Federal regulations with respect to biosolids and streamlines the regulatory process for the use of biosolids as a soil amendment. See Appendix B – “FEASIBILITY STUDY FOR 2009 SERIES WASTEWATER REVENUE BONDS” attached hereto.

The City must also comply with effluent water-quality based State requirements. The California Water Code Article 4 (commencing with Section 13160) of Chapter 3 of Division 7 requires the State Water Board to formulate and adopt a water quality control plan for the ocean waters of the State known as the California Ocean Plan (the “Ocean Plan”). The Ocean Plan sets forth waste discharge limitations and monitoring and enforcement guidelines to ensure that water quality objectives are met. Section

303(c)(1) of the Clean Water Act and Section 13170.2(b) of the State Water Code require that ocean water quality standards be reviewed at least once every three years. In the event significant changes to the discharge requirement for TSS are approved with respect to the Ocean Plan, future waivers for the Point Loma Plant may be threatened. In 2007, the State Water Board solicited comments regarding proposed amendments to the Ocean Plan. Potential changes to the Ocean Plan are being considered but none has been approved. See Appendix B – “FEASIBILITY STUDY FOR 2009 SERIES WASTEWATER REVENUE BONDS” attached hereto.

The City’s proposed water reclamation projects are subject to the Porter-Cologne Water Quality Control Act of 1969, as amended (the “Porter Cologne Act”) and are being designed in consultation with State officials to comply with its requirements. The Porter-Cologne Act directly addresses the issues of water reclamation and reuse. A declared policy of the law is the development of facilities to reclaim wastewater to supplement existing surface and underground water supplies to meet their water requirements. The law requires the State Department of Health Services to establish statewide reclamation criteria for each type of use where such use involves public health.

State law AB 939 required the City to divert at least 50% of all solid waste from landfill disposal by December 31, 2000. For calendar year 2008, the City estimates that it diverted approximately 100% of biosolids from landfill disposal. Biosolids diversion is an integral part of the City’s compliance with AB 939, as biosolids were disposed of in the City’s landfill during the baseline year used for calculating the diversion rate. The City entered into a franchise disposal agreement with a private company pursuant to which the company shall be responsible for the disposal of all biosolids generated at the Metropolitan Biosolids Center through a combination of land application and alternative daily cover methods for landfill use. The City is considering alternative sludge disposal methods to employ in the event regulations change in the future.

Industrial Wastewater Control Program

The Point Loma Discharge Permit, the South Bay Discharge Permit and various Federal regulations require that the City control discharges from the Wastewater System by implementing an industrial wastewater control program (an “IWCP”). The Metropolitan Sub-System has had an IWCP in effect since 1972. The Metropolitan Sub-System’s ICWP was formally approved by the U.S. EPA in 1983. The Metropolitan Sub-System’s ICWP administers and enforces Federal general and specific discharge prohibitions, Federal categorical pretreatment standards, treatment plant-specific local limits and local source control programs within the City. The City’s Industrial Waste Ordinance lists Federal general and specific prohibitions and authorizes the issuance of permits, which include applicable Federal and local discharge standards. The City’s Industrial Waste Ordinance also authorizes administrative penalties and other enforcement measures in response to permit or ordinance violations. As required by the EPA, the City has entered into inter-jurisdictional pretreatment agreements (each, a “Pretreatment Agreement” and, collectively, the “Pretreatment Agreements”) with each of the Participating Agencies whose sewage is treated by the MWW. See Appendix B – “FEASIBILITY STUDY FOR 2009 SERIES WASTEWATER REVENUE BONDS” attached hereto. The Pretreatment Agreements specify that each Participating Agency must either implement an equivalent IWCP or authorize the City to administer an IWCP in their respective agencies. The City currently administers the IWCP in each of the Participating Agencies. Collectively, the IWCP operated by the City regulates 1,569 dischargers throughout the Metropolitan Sub-System’s tributary area. In addition, inspections have determined that an additional 2,073 facilities do not require permits at this time. Annual audits by the U.S. EPA and the Regional Water Board have determined that the IWCP is in compliance with the Point Loma Discharge Permit, the South Bay Discharge Permit and Federal program requirements.

Grant and Loan Related Regulatory Requirements

The City is subject to regulatory requirements, in addition to those described above, as a condition of receipt of Federal grants received from the EPA, State grants and SRF low-interest loans under the Clean Water Act for the planning and construction of various improvements to the Wastewater System. Among other grant-related requirements are guidelines concerning planning methodologies, design criteria, construction activities, and the operation, maintenance and financing of facilities.

In connection with an U.S. EPA grant of approximately \$76 million that the City received and used for the construction of the North City Plant and other wastewater projects, the grant contained a condition that the City attempt to meet the goal of beneficial reuse of 25% of the flows treated at the North City Plant by December 31, 2003 and 50% by December 31, 2010. The City has diligently reported its progress and efforts to meet the goals set forth in the grant. The U.S. EPA has acknowledged the City's good faith efforts toward compliance with the beneficial reuse goals set forth in its grant and has not imposed any penalties or sanctions under the grant agreement. During calendar year 2008, the City achieved beneficial reuse of 26% of the flows treated at the North City Plant. The City is continuing to explore alternative means to increase reclaimed water use. See "THE WASTEWATER SYSTEM - Metropolitan Sub-System Facilities – North City Water Reclamation Plant" herein.

As a condition of certain other Federal grants, the State Water Board, as the delegate of the EPA, must approve the sewer service charge structures of the City and the Participating Agencies. Such service charge structures require the recovery of annual operations, maintenance and replacement costs from users of the system in a proportionate manner according to the customer's level of use. Such factors as volume, infiltration/inflow, delivery flow rate, and strength of sewage are to be considered for determining proportionate use. Sewer service charge rates for all retail users are reviewed periodically and established at a level necessary to generate sufficient revenues to recover the annual operations, maintenance and replacement costs. Sewer service charge rates for users are established to recognize the volume and strength characteristics of wastewater contributed to the Wastewater System. The City Council has taken various actions to adjust the Wastewater System's rate structure, including in connection with periodic review of the distribution of cost of services. See "WASTEWATER SYSTEM FINANCIAL OPERATIONS – City Council Actions Relating to Rate Changes" herein. The City's rate structure has been approved by the State Water Board and no grant funds or costs under grant funded programs have been disallowed based on the nature of the rate structures.

WASTEWATER SYSTEM CAPITAL IMPROVEMENT PROGRAM

Background

The MWWD prepares an 11-year Wastewater System CIP (consisting of the current budget year and a 10-year projection) on an annual basis, and the City incorporates the first year of such plan into the Wastewater System's annual budget. The EPM of the MWWD also prepares a 25-year internal Wastewater System CIP model in connection with the consideration of longer-term projects. The Wastewater System CIP presents the total estimated project cost since project inception, including expenditures, encumbrances, continuing appropriations, the annual budget for the current fiscal year and projections of expenses in subsequent years. The general objectives of the Wastewater System CIP are to meet Federal and State requirements and City policy regarding water pollution control, to provide satisfactory levels of service to users of the Wastewater System, and to maintain the integrity of the Wastewater System.

The Wastewater System CIP is an ongoing capital expenditure program. During the 1990's, the City completed several large wastewater treatment plant projects in response to litigation involving

violations of the Clean Water Act. Beginning in 2000, the focus of the Wastewater System CIP shifted to the Municipal Sub-System. In April 2002, the City received an Administrative Order from the U.S. EPA directing the City to prepare and submit a plan for rehabilitation and replacement of sewer pipes and structures. In October 2007, the City signed the Final Consent Decree with the EPA, which obligates the City to replace or rehabilitate 250 miles of sewer pipeline between July 2007 and June 2013 and to replace or rehabilitate a number of trunk sewers and pump stations by certain dates. See “WASTEWATER SYSTEM REGULATORY REQUIREMENTS – Collection of Sewage – The Municipal Sub-System Collection System” herein.

The Wastewater System CIP includes annual allocations projects, which are programmed expenditures that allow the City to plan for the expansion, renovation, relocation, or replacement of facilities and equipment that have reached or exceeded their anticipated service life, provides for emergency and accelerated construction needs, and provides for capital improvement project contingency needs. Any amount not allocated to a component task in a particular year is returned to the contributing fund. In addition, the Wastewater System CIP includes phased funding to accommodate, appropriate and contract for large projects to maximize the City’s use of available funds by identifying defined portions or phases of projects on a contingent basis. The Wastewater System CIP also uses split funding, which allows two different revenue sources to be used to fund a capital project on a percentage basis.

Any ongoing project under the Wastewater System CIP, other than an annual allocation, that was initiated prior to the current Fiscal Year will have expenditures, encumbrances or continuing appropriations in the current Fiscal Year. The MWWD may budget additional funding for such projects during current and future Fiscal Years depending upon project scheduling. The MWWD includes the amounts it has budgeted for each Fiscal Year in an annual appropriation ordinance (each, an “Annual Appropriation Ordinance”), which becomes effective upon adoption by the City Council. Each Annual Appropriation Ordinance authorizes the City to appropriate revenues for expenditures relating to capital improvement projects for the applicable Fiscal Year. In addition, each Annual Appropriation Ordinance provides guidance regarding the administration of the Wastewater System CIP. Modifications to a project’s budget may occur during the course of the Fiscal Year through City Council action. Appropriations for projects which are contained in the Wastewater System CIP for the Fiscal Year 2009 have been approved in the Annual Appropriation Ordinance for the Fiscal Year 2009. However, the City is not obligated to expend funds based on any projections made for Fiscal Years 2010 to 2019 because such projections are not contained within the Annual Appropriation Ordinance.

The MWWD currently expects that approximately 80% of the costs of the Wastewater System CIP will be funded with the proceeds of future debt financing and the remaining 20% will be paid on a pay-as-you-go basis from Net System Revenues. The City has approved sewer service charge rates that will be in effect through Fiscal Year 2011 to finance the pay-as-you-go portion of the Wastewater System CIP. Table 5 sets forth the Wastewater System CIP for Fiscal Years 2009 through 2013 and the expected allocations between the Municipal Sub-System and Metropolitan Sub-Systems. See Appendix B – “FEASIBILITY STUDY FOR 2009 SERIES WASTEWATER REVENUE BONDS” attached hereto.

TABLE 5
WASTEWATER SYSTEM
PROJECTED CAPITAL IMPROVEMENT PROGRAM EXPENDITURE SUMMARY⁽¹⁾
Fiscal Years 2009 through 2013
(\$ In Thousands)

<u>Expected Projects</u>	<u>2009</u>	<u>2010⁽²⁾</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>TOTAL</u>
Municipal Sub-System Projects						
Trunk Sewers	\$10,576	\$ 33,153	\$ 75,233	\$ 53,848	\$ 28,744	\$201,554
Pipelines	32,341	89,494	74,560	103,483	61,551	361,429
Pump Stations	5,489	8,820	25,152	2,104	2,719	44,284
Miscellaneous	<u>459</u>	<u>1,576</u>	<u>7,697</u>	<u>2,135</u>	<u>1,579</u>	<u>13,446</u>
Subtotal Municipal Sub-System Projects	<u>\$48,865</u>	<u>\$133,043</u>	<u>\$182,642</u>	<u>\$161,570</u>	<u>\$ 94,593</u>	<u>\$620,713</u>
Metropolitan Sub-System Projects						
Treatment Plants	\$ 4,117	\$ 6,632	\$ 23,033	\$ 26,420	\$ 22,533	\$ 82,735
Pipeline	--	--	--	--	186	186
Large Pump Stations	1,167	6,878	7,171	8,340	676	24,232
Miscellaneous	<u>1,457</u>	<u>7,531</u>	<u>5,263</u>	<u>7,982</u>	<u>1,791</u>	<u>24,024</u>
Subtotal Metropolitan Sub-System Projects	<u>\$ 6,741</u>	<u>\$ 21,041</u>	<u>\$ 35,467</u>	<u>\$ 42,742</u>	<u>\$ 25,186</u>	<u>\$131,177</u>
TOTAL	<u>\$55,606⁽³⁾</u>	<u>\$154,084</u>	<u>\$218,109</u>	<u>\$204,312</u>	<u>\$119,779</u>	<u>\$751,890</u>

Source: Metropolitan Wastewater Department, City of San Diego; reflects Rate Case as of March 14, 2009.

⁽¹⁾ Includes an assumed four percent annual increase in Wastewater System CIP project costs for Fiscal Years 2010 through 2013. Includes projects required by the Final Consent Decree and those required as part of the annual maintenance of the Wastewater System.

⁽²⁾ The City considers the projected capital expenditure schedule for Fiscal Year 2010 aggressive and estimates that it could take between 12 and 18 months to complete.

⁽³⁾ Projected expenditures for Fiscal Year 2009 include costs associated with the design, planning and development of projects to be executed in subsequent years. Costs associated with the execution of projects are attributed to Fiscal Years 2010 through 2013.

Capital Improvement Projects

Municipal Sub-System Projects. The following is a summary description of certain projects identified in the Wastewater System CIP to be constructed for the Municipal Sub-System, including Annual Allocation projects in all of these categories.

1. Trunk Sewers – These projects include replacement or rehabilitation of existing trunk sewers (larger than 15-inches in diameter) due to deterioration or insufficient capacity.
2. Pipelines – These projects include replacement or rehabilitation of various sewer main located throughout the City due to deterioration or insufficient capacity.
3. Pump Stations – These projects include upgrades, renovations, restoration and replacement of major equipment at the Municipal Sub-System’s pump stations.
4. Miscellaneous – Other municipal projects such as developer projects.

Metropolitan Sub-System. The following is a summary description of certain projects identified in the Wastewater System CIP to be constructed for the Metropolitan Sub-System, including annual allocation projects in the majority of these categories.

1. Treatment Plants – These projects include renovations or upgrades at the North City Plant, the South Bay Plant, the Metropolitan Biosolids Center and the Point Loma Plant to implement operating efficiencies, optimize the existing facilities and comply with revised regulatory and operation plan requirements.
2. Pipelines – These projects include replacement or rehabilitation of various sewer interceptors which are deteriorating or have insufficient capacity.
3. Large Pump Stations – These projects include upgrades, renovations, restoration and replacement of major equipment at Pump Station No. 1, Pump Station No. 2, Otay River Pump Station and Grove Avenue Pump Station.
4. Miscellaneous – These projects include, among other things, projects for improvements to the Facilities Distributed Controls System, the Environmental Monitoring and Technical Services Lab, management of wet weather flows, the Metropolitan Facilities Control System Upgrade, which includes upgrades to the distributed controls system at the Metropolitan Biosolids Center, Point Loma Plant, North City Plant and South Bay Plant and Phase I of the Weather Storage Facility, which will implement intermittent stream discharge of reclaimed water from the North City Plant during heavy rain to reduce the capacity demand on the downstream sewer system.

Capital Improvement Financing Plan

The MWWD experienced delays in connection with certain capital projects and expenditures from Fiscal Years 2005 through 2008 in part because of limited access to bond financing, reorganization of City departments and the additional structuring of projects prior to their actual execution. The MWWD has financed its recent Wastewater System CIP projects with proceeds of the Authority’s Sewer Revenue Bonds, Series 2004 (the “Series 2004 Bonds”) and its Series 2007 Notes, which were issued in the aggregate principal amount of \$223,830,000. The proceeds of the Series 2007 Notes were also used to

refund all of the \$144.4 million principal amount of Series 2004 Bonds then outstanding. The Series 2007 Notes will be repaid in full with proceeds of the Series 2009A Bonds.

Table 6 below sets forth the projected sources and uses of funds for the Wastewater System CIP for the Fiscal Years 2009 through 2013. New bond issues are assumed to be bonds secured by Installment Payments that are Parity Obligations. The amount of Installment Payments securing Parity Obligations may decrease if any of the new bond issues are not issued as Parity Obligations. Subject to an award by the State Water Board and approval by the City Council, in Fiscal Year 2009 the City will incur an additional Parity Obligation in the form of the Additional SRF Loan. The potential receipt of the Additional SRF Loan is not included in the City's Rate Model. However, the receipt of such funds is not expected to affect the overall projections because the MWWD will reduce its aggregate borrowing by a like amount for the period covered by its Rate Model. Table 6 takes into account the financial assumptions contained in Appendix B – "FEASIBILITY STUDY FOR 2009 SERIES WASTEWATER REVENUE BONDS" attached hereto.

The Wastewater System CIP includes the costs of the projects described in Table 5 above. The 2009 Adopted MWWD Budget continues to focus the Wastewater System CIP on the annual appropriations, which include, among other things, the replacement of sewer mains, pipeline repair and rehabilitation, and upgrades to trunk sewers and pump stations as required by the Consent Decree. See "WASTEWATER SYSTEM REGULATORY REQUIREMENTS – Collection of Sewage" herein. In the event the City fails to obtain successive Modified Permits or if the City fails to obtain clarification of OPRA in its favor (whether by judicial or legislative means), the capital costs of the Wastewater System CIP could increase substantially. See "WASTEWATER SYSTEM REGULATORY REQUIREMENTS – Treatment of Sewage" herein. If the City is obligated to incur greater costs in repairing and rehabilitating the Municipal Sub-System than the City projects herein, the capital costs of the Wastewater System CIP could increase substantially. See "WASTEWATER SYSTEM REGULATORY REQUIREMENTS – Collection of Sewage" herein.

TABLE 6
SOURCES AND USES OF FUNDS FOR CAPITAL EXPENDITURES OF THE
WASTEWATER SYSTEM CAPITAL IMPROVEMENT PROGRAM
(\$ In Thousands)
Fiscal Years 2009 to 2013

	2009	2010 ⁽⁴⁾	2011	2012	2013	Total ⁽⁵⁾
SOURCE OF FUNDS						
Carryover Balance of Acquisition Fund	\$ 25,641	\$ 126,157	\$ --	\$ --	\$ --	\$ 151,798
New Bond Issue ⁽¹⁾	402,059	--	190,208	178,175	104,458	874,900
Pay-as-You-Go	<u>11,122</u>	<u>27,927</u>	<u>43,622</u>	<u>40,862</u>	<u>23,955</u>	<u>147,488</u>
TOTAL SOURCES	<u>\$ 438,822</u>	<u>\$ 154,084</u>	<u>\$ 233,830</u>	<u>\$ 219,037</u>	<u>\$ 128,413</u>	<u>\$ 1,174,186</u>
USES OF FUNDS						
Costs of Issuance	\$ 4,020	\$ --	\$ 1,902	\$ 1,782	\$ 1,045	\$ 8,749
Debt Service Reserve Fund	29,209	--	13,819	12,943	7,589	63,560
Repayment of Obligations	223,830	--	--	--	--	223,830
Capital Expenditures ⁽²⁾⁽³⁾	<u>55,606</u>	<u>154,084</u>	<u>218,109</u>	<u>204,312</u>	<u>119,779</u>	<u>751,890</u>
TOTAL USES	<u>\$ 312,665</u>	<u>\$ 154,084</u>	<u>\$ 233,830</u>	<u>\$ 219,037</u>	<u>\$ 128,413</u>	<u>\$ 1,048,029</u>
Balance to be Carried Forward	<u>\$ 126,157</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>\$ 126,157</u>

Source: Metropolitan Wastewater Department, City of San Diego; Reflects the Rate Case as of March 14, 2009.

- (1) Reflects projected gross proceeds of bond issuances.
(2) Expenditures may include continuing appropriations from previous years.
(3) Table 6 reflects projected cash expenditures for the Wastewater System CIP.
(4) The City considers the projected capital expenditure schedule for Fiscal Year 2010 aggressive and estimates that it could take between 12 and 18 months to complete.
(5) Reflects projected sources and uses for Fiscal Years 2009 through 2013.

Environmental Compliance

The projects contained in the Wastewater System CIP are generally subject to the California Environmental Quality Act (“CEQA”), as amended (Division 13 of the California Public Resources Code). Under CEQA, a project which may have a significant effect on the environment and which is to be carried out or approved by a public agency must comply with a comprehensive environmental review process, including the preparation of an Environmental Impact Report (“EIR”). An EIR reflects not only an independent technical analysis of the project’s potential impacts, but also the comments of other agencies with some form of jurisdiction over the project and the comments of interested members of the public. Contents of an EIR include a detailed statement of the project’s potentially significant environmental effects; any such effects which cannot be avoided if the project is implemented; mitigation measures proposed to eliminate or minimize such effects; alternatives to the proposed project; and any significant irreversible environmental changes which would result from the project. If an agency determines that the project itself will not have a significant effect on the environment, it may adopt a written statement (called a “Negative Declaration”) to that effect and need not prepare an EIR. A Mitigated Negative Declaration (“MND”) is appropriate for projects that could potentially result in a significant environmental impact, but revisions or standard mitigation measures are incorporated into the project that clearly mitigate the impact. Statutory exemptions are activities that are not subject to CEQA. Wastewater System CIP projects can also be exempted if they fit a specific “category” of activities identified by the State Legislature. Once an agency approves or determines to carry out a project, either following an EIR process or after adopting a negative declaration, it must file a notice of such determination. Any action or proceeding challenging the agency’s determination must be brought within 30 days following the filing of such notice.

As part of its regular planning and budgetary process, the City prepares in accordance with local, State and Federal law and regulations separate environmental documents for each Wastewater System CIP project and evaluates the project under the City's environmental impact review procedures, which were developed in compliance with State law and regulations. The City requires that all environmental documents and evaluations be completed prior to any authorization of funding for construction by the City Council and the Mayor.

The Wastewater System CIP involves replacement, upgrading and increasing capacity of existing facilities. Accordingly, the City does not believe that environmental considerations will adversely affect the completion of the Wastewater System CIP within the contemplated budget or the current timetable.

Project Management for the Wastewater System Capital Improvement Program

The MWWD and the Engineering and Capital Projects Department ("E&CP"), which is a department within the City's Public Works Group, are responsible for the implementation of the Wastewater System CIP. The MWWD is responsible for selecting the projects that are included in the Wastewater Capital Improvement Program. Selection of such projects involves, among other things, assessing conditions, sewer modeling, preparing planning reports, prioritizing projects, scheduling and allocating the budget. Once the MWWD determines that a particular project should proceed, the MWWD sends a scope of work, planning report or 10% design, as appropriate, and the proposed schedule and budget to E&CP. E&CP is responsible for the design, construction and start-up of all Wastewater System CIP projects.

Each Fiscal Year, the MWWD and E&CP enter into a Service Level Agreement (each, an "SLA") which outlines the responsibilities of each department as it relates to the planning, design and construction of sewer improvements with respect to sewer mains, trunk sewers, pump stations and treatment plants. Pursuant to the SLA, E&CP provides engineering services including project management, design, environmental, permitting, land acquisition, scheduling, budget and construction management. E&CP implements the Wastewater System CIP from design of projects to completion, including capitalization of the final asset and management of warranty issues, as directed by the MWWD. The MWWD provides overall direction and policy for planning, financing, and operations and maintenance of the Wastewater System. Further, the MWWD funds the positions and non-personnel expenses, which are necessary for the service provider of a particular project to fulfill its responsibilities.

Contract Disputes

From time to time, the City is engaged in disputes with the contractors and subcontractors working on the Wastewater System CIP. As of May 6, 2009, there are no pending contract disputes with vendors or contractors working on the Wastewater System CIP in excess of \$1 million.

Insurance for Construction

The City requires the consultant or contractor selected to design or construct a Wastewater System CIP project to provide insurance therefor. Design consultants are required to provide at a minimum commercial general liability insurance of \$1 million per occurrence (\$2 million aggregate), commercial auto liability insurance of \$1 million per occurrence, workers' compensation insurance of \$1 million, architect and engineer's professional liability insurance of \$1 million per occurrence (\$2 million aggregate) and errors and omissions insurance for design-build projects. Construction contractors are required to provide at a minimum, among other things, commercial and general liability insurance aggregate limit of \$2 million (other than products/completed operations) and \$2 million (products/completed operations), personal injury insurance of \$1 million each occurrence, commercial

automobile liability insurance of \$1 million combined single limit per accident, and contractors builders risk property insurance in an amount equal to 115% of the contract value. Further, depending upon the size and scope of a project, the City's Risk Management Department may require increased coverage based upon the degree of risk for with such project.

WASTEWATER SYSTEM FINANCIAL OPERATIONS

General

The MWWD manages and operates the Wastewater System with funds derived primarily from service charges which are deposited in the Sewer Revenue Fund. The Sewer Revenue Fund was established in 1956. Funds in the Sewer Revenue Fund are used for the operation, maintenance and capital improvement of the Metropolitan Sub-System and the Municipal Sub-System. See "WASTEWATER SYSTEM FINANCIAL OPERATIONS – Establishment, Calculation and Collection of Sewer Service Charges" herein.

The City's primary sources of moneys deposited in the Sewer Revenue Fund are derived from revenues generated by sewer service charges to City residents and commercial enterprises, capacity charges on new, additional or larger connections to the Wastewater System within the City, revenues from the Participating Agencies pursuant to the Regional Sewage Disposal Agreement and interest income on fund balances. See "WASTEWATER SYSTEM FINANCIAL OPERATIONS – Participating Agencies; Regional Wastewater Disposal Agreement; Transportation Agreements" herein. The City also deposits into the Sewer Revenue Fund revenues received from the United States Navy pursuant to "Department of the Navy Negotiated Water and Sewage Contract" by and between the City and United States Navy.

Budgetary Process

The City budgets revenues and expenditures to support the costs the MWWD incurs to operate and maintain the Wastewater System. Each March, the MWWD submits its budget for the following fiscal year to the City Council for approval. Budget estimates for the Wastewater System CIP are prepared based upon the needs of the Metropolitan Sub-System and the Municipal Sub-System. Cost information and schedules provided by the design and operations staff are used to prepare the capital budget for the Wastewater System. The MWWD prepares an 11-year Wastewater System CIP each year as part of its budget process. See "WASTEWATER SYSTEM CAPITAL IMPROVEMENT PROGRAM – Background" herein. The Wastewater System CIP consists of anticipated costs and a schedule for projects planned for completion and is based on planning information from prior years, progress toward stated goals and objectives, future and long-term needs and planning information developed during the Wastewater System CIP planning cycle. The Wastewater System CIP provides the basis for review of the annual budget for the Wastewater System CIP and near-term projects and is divided into projects for each of the Municipal Sub-System and the Metropolitan Sub-System to address their respective requirements.

The City commissions a wastewater cost of service, rate design and capacity fee study periodically. The goal of each study is to develop recommendations for the establishment of fair and equitable sewer rates for the City's users and a revenue program that will be acceptable to the State Water Board. Each study includes a review of the City's financial plan or rate case, usage characteristics, and rate structure. The City expects to commission the next wastewater cost of service study in calendar year 2011. See "WASTEWATER SYSTEM FINANCIAL OPERATIONS – Calculation and Collection of Capacity Charges" herein.

Establishment, Calculation and Collection of Sewer Service Charge Revenue and Treatment Plant Services Revenue

Sewer Service Charge Revenue. The City deposits sewer service charge revenues, which are primarily derived from sewer service charges to City residents and commercial enterprises into the Sewer Revenue Fund. Sewer service charges to City utility customers are collected on a municipal bill, which also includes water charges and storm drain fees. Bills are rendered on a bi-monthly basis for single family and most multifamily dwellings and on a monthly basis for industrial, commercial, and large multifamily dwellings. In accordance with the provisions of the City Municipal Code, these funds are administered in an enterprise account separate from the City's General Fund.

The City establishes fees based upon the costs incurred by the City to collect, treat and discharge wastewater and pay for required capital improvements. Staff within the MWWD and senior management within the City analyze rates and charges to determine the amounts necessary to support the Wastewater System based upon revenue and expenditure data from the various divisions of the MWWD. Staff evaluates the adequacy of revenues and recommends rate adjustments to correspond with projected changes in maintenance and operations costs and the timing and magnitude of capital expenditures. This rate and charge analysis is conducted annually for management purposes and whenever it is required to assist planned financings and proposed rate adjustments. See "WASTEWATER SYSTEM FINANCIAL OPERATIONS – City Council Actions Relating to Rate Changes" herein.

Sewer service charges are based on the characteristics of the wastewater discharged by each sewer user. All sewer users are charged based upon the amount of flow, solids and organic material which they discharge into the Wastewater System. As sewage discharge is not metered, water sales are used to approximate each customer's sewage flow. TSS and organics are based upon the standard industrial classification code or determined by site inspections and/or analyses as required or requested.

Each single family residential wastewater account is billed an account-specific fixed daily charge based on 95% of the prior winter's lowest daily average water consumption, based on usage for the months of December through March. The fixed charge for each account is adjusted annually on July 1st. Multifamily flow charge is based on 95% of actual water use on a month-to-month basis. Chemical Oxygen Demand ("COD") and TSS loadings components of the charge are the same for both single family residential and multifamily accounts and do not vary from month-to-month. These fixed strength loadings are incorporated into the class-specific fixed charges for commercial and industrial accounts and based on actual monthly water use and the percentage return COD loading and TSS loading which varies between industries.

Treatment Plant Services Revenue. Pursuant to the terms of the Regional Wastewater Disposal Agreement, the City bills each Participating Agency based on its use of the Wastewater System and its capacity rights. See "THE WASTEWATER SYSTEM – Participating Agencies; Regional Wastewater Disposal Agreement; Transportation Agreements" herein. The City bills the Participating Agencies on a quarterly basis in arrears based on the budget for the corresponding Fiscal Year. An audit is performed at the end of each Fiscal Year to confirm the amount of Metropolitan Sub-System expenditures. Actual expenditures are compared to the budget used to bill each Participating Agency and each Participating Agency is then given either a credit on a future bill or invoiced for any underpayment. The adjustments, which have ranged from \$1 million to \$10 million, reflect a reconciliation of amounts charged by the MWWD with actual expenditures of the MWWD and have historically been revenue-neutral to the Wastewater System. The Participating Agencies set the sewer service charges and capacity charges that they charge their respective customers in order to meet their own wastewater needs and their share of the Metropolitan Sub-System costs. The sewer service charges currently in effect for the various Participating Agencies are varied and are not controlled by the City. Any failure by a Participating Agency to generate

sufficient capacity charges does not affect the obligation of such Participating Agency to pay amounts owed to the City under the Regional Wastewater Disposal Agreement.

Table 7 below sets forth the sources of sewer service charge revenues of the Sewer Revenue Fund for the Fiscal Years 2004 through 2008.

TABLE 7
WASTEWATER SYSTEM
HISTORICAL SOURCES OF SEWER SERVICE CHARGE REVENUES⁽¹⁾
Fiscal Year 2004 to 2008
(\$ In Thousands)
(Unaudited)

<u>Source</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Single Family Domestic	\$ 93,061	\$ 90,708	\$ 94,086	\$ 95,757	\$104,565
Multifamily (Other Domestic)	58,277	65,788	70,578	74,851	77,921
Commercial	53,537	59,424	61,501	65,245	71,376
Industrial	4,743	6,774	6,991	4,840	6,171
Outside City	12	3	0	0	0
Treatment Plant Service for Others ⁽²⁾	<u>53,043</u>	<u>60,726</u>	<u>53,260</u>	<u>59,043</u>	<u>65,015</u>
Total ⁽³⁾	<u>\$262,673</u>	<u>\$283,423</u>	<u>\$286,416</u>	<u>\$299,736</u>	<u>\$325,048</u>

Source: Comprehensive Annual Financial Report for Fiscal Years 2004 through 2008 for Total; Comptroller's Office, City of San Diego for all other line items.

⁽¹⁾ Constitutes a component of System Revenues; does not include capacity charges or other operating revenues which are included in calculating Net System Revenues.

⁽²⁾ Includes sewer service charge revenues from Participating Agencies, the United States Navy and other agencies.

⁽³⁾ Audited.

Table 8 sets forth the ten largest customers of the Municipal Sub-System. The ten largest customers of the Municipal Sub-System in terms of billings in Fiscal Year 2008 account for approximately 7.49% of the Sewer Revenue Fund's total operating revenues for such Fiscal Year. The largest customer of the Municipal Sub-System is the United States Navy, which accounted for 2.85% of the Sewer Revenue Fund's total operating revenues for the Fiscal Year 2008. CP Kelco, the second largest customer of the Municipal Sub-System, contributed 1.29% of the Sewer Revenue Fund's total operating revenues for Fiscal Year 2008. No other customer accounted for more than 1% of the Sewer Revenue Fund's total operating revenues for such Fiscal Year.

TABLE 8
MUNICIPAL SUB-SYSTEM
TEN LARGEST CUSTOMERS
Fiscal Year 2008⁽¹⁾
(Unaudited)

	<u>Sewer Billings</u>	<u>Percent of Total Operating Revenue⁽²⁾</u>
United States Navy	\$ 9,360,169	2.85%
CP Kelco	4,221,056	1.29
University of California, San Diego	2,962,249	0.90
Federal Government ⁽³⁾	1,650,471	0.50
R.J. Donovan Correctional Facility	1,564,282	0.48
City of San Diego	1,316,830	0.40
San Diego State University	950,799	0.29
San Diego Unified School	908,844	0.28
Marine Park Corp	888,075	0.27
County of San Diego	<u>745,401</u>	<u>0.23</u>
TOTAL	<u>\$ 24,568,177</u>	<u>7.49%</u>

Sources: Metropolitan Wastewater Department, Water Department and Comptroller's Office, City of San Diego.

⁽¹⁾ Does not include Participating Agencies or customers served by Participating Agencies.

⁽²⁾ Reflects percentage of total operating revenues of the Municipal Sub-System; includes revenues from Participating Agencies. See the line item entitled "Total Operating Revenues" in Table 14 – "Statements of Revenues, Expenses and Changes In Fund Net Assets" herein.

⁽³⁾ Excludes the United States Navy.

City Council Actions Relating to Sewer Rate Changes

The Wastewater System's overall rate structure was revised in 2004 and in 2007 to provide a more equitable distribution of costs among the various classifications of sewer customers. The sewer billing rate under the existing rate structure is determined separately for each meter based upon three factors: (1) "The Percent Return to Sewer", calculated as the water delivered to the facility through the water meter less any water lost from the facility as evaporation, irrigation, or in products leaving the site divided by the water delivered to the facility; (2) "Total Suspended Solids" in the wastewater; and (3) effective October 1, 2004, COD of the wastewater. Incorporation of COD into the rate structure was designed to help the City meet requirements of certain grants issued pursuant to the Clean Water Act and loans granted pursuant to the State Water Board's SRF Loan Program. Under this rate structure, revenues derived from sewer fees and charges are used solely for the purpose of defraying costs incurred to provide sewer collection and transportation, treatment and disposal services; facilities and equipment maintenance, and capital projects. On February 26, 2007, the Mayor and the City Council approved sewer rate increases of 8.75%, 8.75%, 7.00% and 7.00% effective on May 1, 2007, May 1, 2008, May 1, 2009 and May 1, 2010, respectively. Through Fiscal Year 2008, the City received approximately \$20 million in service charge revenues in connection with such rate increases. The City expects to receive from Fiscal Year 2009 through Fiscal Year 2011 an aggregate amount of approximately \$217 million in additional service charge revenues to fund regulatory orders, replace infrastructure and meet operating and maintenance needs of the City's Wastewater System.

In addition to the rate increases set forth above, the City Council has temporarily adjusted rates for all City sewer customers in connection with settlement of *Shames v. City of San Diego*, a class action

lawsuit filed on June 16, 2004 on behalf of all single family residential account holders in the City's Municipal Sub-System who held sewer accounts during any period between May 23, 1994 through September 30, 2004. The lawsuit alleged the City failed to include a COD cost component in the rate structure during the aforementioned period, which led to overcharges on residential sewer fees that were disproportionate to the cost of service attributable to the parcel or land on which service was provided, as required by Article XIID, Section 6(b)(3) of the California State Constitution. See "CONSTITUTIONAL LIMITATIONS ON TAXES AND WASTEWATER RATES AND CHARGES—California Constitution Articles XIIC and XIID" herein. The lawsuit also included a claim for breach of contract based on the receipt of Federal and State grants requiring a strength based revenue structure.

In 2007, the City settled the *Shames v. City of San Diego* case (the "Shames Settlement") and agreed to reimburse certain "eligible" single family residential customers in the aggregate amount of \$35 million and to pay attorney's fees to the plaintiffs' counsel in the amount of \$5 million. The City adopted a COD cost component in its rate structure on June 8, 2004, pursuant to City Council Resolution R-299322, which was implemented on October 1, 2004. As part of the *Shames* Settlement, the City also agreed to permit an independent and qualified 501(c)(3) non-profit organization to place a solicitation insert into billing statements for single family residential account holders up to three times a year for five years. The billing inserts are designed to allow the organization to raise funds for the hiring and payment of experts who will review and evaluate the City's future sewer rate setting activities. To satisfy the terms of the *Shames* Settlement, the City temporarily increased existing sewer rates for all City sewer customers by 3.05% on November 1, 2007 and increased existing sewer rates by an additional 3.05% on May 1, 2008. For "eligible" single family residential sewer customers, the City will reverse the two 3.05% rate increases applicable to all City sewer customers and pay the settlement obligation in the form of a monthly credit which is estimated to be \$3.25 per month. Per the *Shames* Settlement, "eligible" single family residential customers are those who received sewer service to their property in the ten-year period prior to October 1, 2004. The rate reversal and monthly credit for single family residential customers will end and the City will terminate the two 3.05% rate increases attributable to the *Shames* Settlement when the \$40 million settlement amount has been raised and distributed according to the *Shames* Settlement. The City expects this to occur for all single family residential customers in the fall of 2011. See "LITIGATION" herein for a description of ongoing litigation regarding multifamily customers and the California Restaurant Management System that may impact City Council actions relating to sewer service rates.

Table 9 sets forth the sewage service charges approved by the City Council in the last five fiscal years including sewer service charges that are currently in effect and those that have been approved and will be effective on May 1, 2009 and May 1, 2010.

TABLE 9
WASTEWATER SYSTEM
APPROVED RATE INCREASES FOR SINGLE FAMILY RESIDENTIAL,
MULTIFAMILY AND COMMERCIAL AND INDUSTRIAL CUSTOMERS
Fiscal Years 2005 through 2010⁽¹⁾
(Unaudited)

Effective Date	Single Family Domestic ⁽²⁾	All Classes % Rate Increase	Uniform Base Fee	Single Family Residential \$/HCF water	Multifamily ⁽²⁾ (Other Domestic) Usage Fee \$/HCF water	Commercial & Industrial Customers ⁽³⁾		
						\$/HCF Monthly Wastewater Flow	\$/LB Total Suspended Solids	\$/LB Chemical Oxygen Demand
Oct. 1, 2004 ⁽⁴⁾	\$32.72	N/A	\$10.53	\$2.563	\$3.461	\$2.5613	\$0.3994	\$0.1436
March 1, 2005	35.17	7.50%	11.32	2.755	3.721	2.7534	0.4294	0.1544
May 1, 2007	38.32	8.75	12.31	2.890	4.038	3.0257	0.4431	0.1801
Nov. 1, 2007 ⁽⁵⁾	39.49	3.05	12.69	2.978	4.161	3.1180	0.4566	0.1856
May 1, 2008	42.94	8.75	13.80	3.239	4.525	3.3908	0.4966	0.2018
May 1, 2008 ⁽⁵⁾	44.25	3.05	14.22	3.338	4.663	3.4942	0.5117	0.2080
May 1, 2009	47.35	7.00	15.21	3.571	4.990	3.7388	0.5475	0.2225
May 1, 2010	50.67	7.00	16.28	3.821	5.339	4.0005	0.5859	0.2381

Source: Metropolitan Wastewater Department, City of San Diego.

⁽¹⁾ Includes sewer service charges that are currently in effect and those that have been approved by the City Council and will be effective on May 1, 2009 and May 1, 2010.

⁽²⁾ Represents the average monthly amount and new customer amount.

⁽³⁾ Commercial and Industrial Customers' monthly charges are based upon volume of flow, TSS, and COD included effective October 1, 2004.

⁽⁴⁾ Reflects restructuring of sewer service charges which adds COD as a cost parameter and a uniform base fee for all single family residential customers, multifamily residential customers and commercial and industrial customers.

⁽⁵⁾ On June 16, 2004, a class action lawsuit, *Shames v. City of San Diego*, was filed against the City alleging that until October 2004 (when the City revised its sewer rate structure – See footnote (4)), single family residential customers were overcharged for sewer service, while other customers were undercharged. On May 18, 2007, the Superior Court for the County of San Diego approved an agreement to settle the lawsuit. This requires the City to reimburse “eligible” single family residential customers a total of \$40 million (less \$5 million for attorney’s fees and other costs) over the next four years.

Accounts Receivable

Typically, the City seeks to collect unpaid bills by: (i) issuing an initial shut-off notice 25 days after a bill is issued; (ii) issuing a final shut-off notice 38 days after a bill is issued; and (iii) shutting off the customer’s water service 45-51 days after a bill is issued. This procedure results in almost all past due bills being paid. If necessary, the City establishes time payments for customers who are unable to pay a past due amount. Accounts closed with an amount due and unpaid are referred to the City Treasurer for collection activities 75 days after the bill is issued but unpaid. An allowance is taken each Fiscal Year for accounts receivable that are not expected to be paid. During the Fiscal Years 2004 through 2008, accounts receivable amounts outstanding for more than 120 days ranged from \$1.69 million to \$2.6 million. Sewer service charges to City utility customers are collected on the municipal sewer bill, which also includes water charges and storm drain fees. Bills are currently invoiced every two months for single family dwellings and most multifamily dwellings and on a monthly basis for all other customers.

Table 10 below sets forth information related to accounts receivable and number of shut-offs.

TABLE 10
SEWER CUSTOMER ACCOUNTS RECEIVABLE AND SHUT-OFFS
(\$ In Thousands)
For Fiscal Years 2004 to 2008
(Unaudited)

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Sewer Service Revenue	\$ 262,673	\$ 283,423	\$ 286,416	\$ 299,736	\$ 325,048
Accounts Receivable ⁽¹⁾	\$ 17,071	\$ 21,157	\$ 18,881	\$ 21,541	\$ 21,101
Accounts Receivable Over 120 Days ⁽¹⁾⁽²⁾	\$ 1,685	\$ 1,639	\$ 2,557	\$ 2,485	\$ 2,193
Number of Shut-Offs ⁽³⁾	21,689	24,459	21,230	20,451	22,420

Sources: Comprehensive Annual Financial Reports for the indicated years for Sewer Service Revenue; Metropolitan Wastewater Department and the Water Department, City of San Diego, for all other line items.

⁽¹⁾ Excludes amounts payable by Participating Agencies.

⁽²⁾ Estimated.

⁽³⁾ Information provided by the Customer Information System does not differentiate between water and sewer shut-offs. Therefore, such numbers may not reflect the actual number for sewer shut-offs.

Calculation and Collection of Capacity Charges

A capacity charge is a one-time fee based on equivalent dwelling units (“EDUs”) for a new, additional or larger connection to the Municipal Sub-System within the City. Capacity fees are not treated as operating income for financial reporting purposes but are considered System Revenues, deposited in the Sewer Revenue Fund, and included in the calculation of debt service coverage. Pursuant to State law, capacity fees are applied only to capital expansion, bonds, contracts, or other indebtedness of the Wastewater System related to expansion. Capacity fees are primarily collected on new construction within the City and revenues therefrom vary based upon construction activity. See “WASTEWATER SYSTEM FINANCIAL OPERATIONS – Financial Projections” below for a schedule of projected capacity charges for the Municipal Sub-System.

Table 11 below sets forth the Sewer Revenue Fund's EDUs and Capacity Charge Revenues for Fiscal Years 2004 through 2008.

TABLE 11
MUNICIPAL SUB-SYSTEM
SEWER REVENUE FUND
HISTORICAL CAPACITY CHARGE REVENUES
Fiscal Years 2004 through 2008
(\$ In Thousands)

<u>Fiscal Year</u>	<u>Equivalent Dwelling Units⁽¹⁾</u>	<u>Capacity Charge Revenues⁽²⁾</u>
2004	6,508	\$14,684
2005	4,772	14,665
2006	5,150	16,565
2007 ⁽³⁾	4,966	16,610
2008	3,492	11,851

Source: Metropolitan Wastewater Department, Water Department and the Comptroller's Office, City of San Diego.

⁽¹⁾ Unaudited. Declining number of EDUs reflects a decline in new construction.

⁽²⁾ Unaudited supplemental information provided by the Comptroller's Office, City of San Diego.

⁽³⁾ From Fiscal Year 2006 to Fiscal Year 2007, the EDUs decreased while the capacity charge revenues increased due to the increase in capacity charge from \$3,710 to \$4,124 in Fiscal Year 2007 pursuant to City Council Resolution No. R-302378.

The City Council reviews capacity charges on a periodic basis. In June 1996, in response to a request by the City Manager to reduce sewer capacity charges in order to stimulate economic development and affordable housing, the City Council approved, retroactive to April 22, 1996, a 64% reduction of sewer capacity charges. On June 8, 2004, the City Council adopted a revised rate structure based on a full cost recovery analysis which increased the sewer capacity charge effective July 1, 2004 to \$3,710 per unit, which was a 48% increase from the then existing sewer capacity charge.

Pursuant to State Water Board guidelines and City policy, the City must use a fair and equitable apportioning of costs based on each user class' contributions of flow and strength of wastewater pollutants discharged. The Participating Agencies are billed based on their contribution of flow, TSS and COD per the terms outlined in the respective service contracts, which were reviewed and approved by the State Water Board in 1998. In calendar year 2003, the City commissioned a cost of service study to design a system of user charges for the City's wastewater service consistent with the State Water Board's revenue guidelines and City policies. This study indicated that changes to the City's existing sewer capacity charge for single family residential customers and multifamily customers in the magnitude of the July 1, 2004 sewer capacity charge increase referenced above would be required to fully recover the costs associated with providing additional facility capacity to new users and existing users requiring additional capacity. In October 2006, the City commissioned an additional utility cost of service study and rate design study for the MWWD in order to review revenue requirements and cost of service allocations, and to confirm that the City's system of user charges for the City's wastewater service remained consistent with the State Water Board's revenue guidelines and City policies. The resulting report estimated a full cost-recovery capacity fee of \$4,124 per EDU. On February 26, 2007, the City Council adopted a revised rate structure based on a full cost recovery analysis which increased the sewer capacity charge effective May 1, 2007 to \$4,124, which is an 11% increase from the prior sewer capacity charge.

Table 12 below summarizes the rate history of sewer capacity charges since July 1, 1991.

**TABLE 12
RATE HISTORY FOR SEWER CAPACITY CHARGES**

<u>Effective Date</u>	<u>Sewer Capacity Charges (Per Unit)</u>	<u>% Change</u>
July 1, 1991	\$4,484	--
July 1, 1992	5,201	16
July 1, 1993	6,033	16
July 1, 1994	6,998	16
April 22, 1996 ⁽¹⁾	2,500	(64)
July 1, 2004 ⁽²⁾	3,710	48
May 1, 2007 ⁽³⁾	4,124	11

Source: Metropolitan Wastewater Department, City of San Diego.

⁽¹⁾ Capacity charge decreases to \$2,500 pursuant to City Council Resolution No. R-287543 to encourage building activity.

⁽²⁾ Capacity charge increases to \$3,710 pursuant to City Council Resolution No. R-299321 based on results of the Cost of Service Study.

⁽³⁾ Capacity charge increases to \$4,124 pursuant to City Council Resolution No. R-302378 dated February 26, 2007 based on results of the Cost of Service Study.

Table 13 below sets forth the projected capacity charges for the Fiscal Years 2009 through 2013. Capacity Charges are based on projected EDUs for the corresponding period, as set forth in Feasibility Study for the ten-year period from Fiscal Year 2009 to Fiscal Year 2018. New system hook-ups (measured in EDUs) are projected, on a conservative basis, based on the historically low EDUs of the last year, increased at the estimated rate of population growth. See “– Calculation and Collection of Capacity Charges” herein for a schedule of historical capacity charge revenues.

**TABLE 13
PROJECTED CAPACITY CHARGES
Fiscal Year 2009 through 2013**

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Single Family Monthly Service Charge (Average)	\$ 44.19	\$ 47.28	\$ 49.17	\$ 51.14	\$ 53.19
Single Family Residential Accounts	226,957	227,774	228,594	229,634	230,897
Total Service Charge Revenues ⁽¹⁾	\$288,527	\$311,186	\$334,653	\$351,005	\$368,307
Capacity Charge (Per EDU)	\$ 4,124	\$ 4,124	\$ 4,124	\$ 4,124	\$ 4,124
Annual Increase in EDUs	1,242	1,256	1,268	1,282	1,293
Total Capacity Charge Revenue ⁽¹⁾⁽²⁾⁽³⁾	\$ 11,022	\$ 5,180	\$ 5,228	\$ 5,286	\$ 5,334

Source: The Metropolitan Wastewater Department, City of San Diego, Rate Model as of March 14, 2009.

⁽¹⁾ In thousands.

⁽²⁾ Amount for Fiscal Year 2009 includes a one-time \$5.9 million capacity charge payment receivable from the City’s General Fund in connection with the City’s Convention Center dewatering project.

⁽³⁾ Totals may not reflect sum of line items due to independent rounding.

Historical Revenues and Expenses

Table 14 below sets forth the Statements of Revenues, Expenses and Changes in Fund Net Assets for Fiscal Years 2004 through 2008. See also Appendix A-1 – “BASIC FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY INFORMATION FROM THE COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY OF SAN DIEGO FOR FISCAL YEAR 2008” attached hereto. For purposes of calculating the Net System Revenues available to pay the City’s Obligations under the Installment Purchase Agreement, including the 2009A Installment Payments securing the Series 2009A Bonds, the following are not taken into account: amounts set forth in the line item “Depreciation”, interest earnings with respect to the Acquisition Fund set forth in the line item “Earnings on Investments”, amounts set forth in the line item “Gain (Loss) on Sale/Retirement of Capital Assets”, amounts set forth in the line item “Interest Expenses” and amounts relating to assets contributed by developers (which constitute a portion of the amount set forth in the line item “Capital Contributions”). For Net System Revenues available to pay the City’s Obligations under the Installment Purchase Agreement for Fiscal Years 2004 through 2008, see Table 16 – “CALCULATION OF HISTORIC SENIOR AND AGGREGATE DEBT SERVICE COVERAGE” herein.

TABLE 14
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS⁽¹⁾⁽²⁾
(\$ In Thousands)
Fiscal Years 2004 through 2008

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
OPERATING REVENUES					
Sewer Service Charges					
Inside City:					
Domestic ⁽²⁾	\$ 151,338	\$ 156,496	\$ 164,664	\$ 170,608	\$ 182,486
Commercial and Industrial ⁽²⁾	58,280	66,198	68,492	70,085	77,547
Outside City:					
Domestic, Commercial and Industrial ⁽²⁾	12	3	--	--	--
Treatment Plant Service for Others ⁽²⁾	<u>53,043</u>	<u>60,726</u>	<u>53,260</u>	<u>59,044</u>	<u>65,015</u>
Total Sewer Service Charges	262,673	283,423	286,416	299,736	325,048
Other Operating Revenues, Net	<u>4,621</u>	<u>5,549</u>	<u>4,152</u>	<u>5,014</u>	<u>3,071</u>
TOTAL OPERATING REVENUES	<u>267,294</u>	<u>288,972</u>	<u>290,568</u>	<u>304,750</u>	<u>328,119</u>
OPERATING EXPENSES					
Maintenance and Operations	110,024	112,548	109,257	111,086	110,492
Administration	84,785	89,634	90,749	79,164	91,158
Depreciation	<u>62,162</u>	<u>74,863</u>	<u>64,922</u>	<u>69,696</u>	<u>71,138</u>
TOTAL OPERATING EXPENSES	<u>256,971</u>	<u>277,045</u>	<u>264,928</u>	<u>259,946</u>	<u>272,788</u>
OPERATING INCOME	<u>10,323</u>	<u>11,927</u>	<u>25,640</u>	<u>44,803</u>	<u>55,331</u>
NONOPERATING REVENUES (EXPENSES)					
Earnings on Investments	2,291	7,015	6,578	12,505	17,757
Federal Grant Assistance	45	3	325	65	134
Other Agency Grant Assistance	642	--	136	--	--
Gain (Loss) on Sale / Retirement of Capital Assets	(2,692)	(13,297)	(443)	(9,004)	(2,057)
Interest Expense	(51,322)	(57,668)	(54,132)	(44,735)	(48,571)
Other	<u>2,885</u>	<u>7,394</u>	<u>4,313</u>	<u>3,093</u>	<u>4,524</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(48,151)</u>	<u>(56,553)</u>	<u>(43,223)</u>	<u>(38,076)</u>	<u>(28,213)</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	<u>(37,828)</u>	<u>(44,626)</u>	<u>(17,583)</u>	<u>6,727</u>	<u>27,118</u>
Capital Contributions	60,759	21,246	31,976	59,784	25,359
Transfers from Other Funds	285	504	481	7,738	714
Transfers from Governmental Funds	-	-	-	80	9
Transfers to Other Funds	(439)	(598)	(147)	(220)	(1,214)
Transfers to Governmental Funds	(1,574)	(1,383)	(1,958)	(2,162)	(5,585)
CHANGE IN NET ASSETS	21,203	(24,677)	12,769	71,948	46,401
Net Assets at Beginning of Year	<u>1,812,335</u>	<u>1,833,538</u>	<u>1,808,861</u>	<u>1,821,630</u>	<u>1,893,578</u>
NET ASSETS AT END OF YEAR	<u>\$1,833,538</u>	<u>\$1,808,861</u>	<u>\$1,821,630</u>	<u>\$1,893,578</u>	<u>\$1,939,979</u>

Source: Audited data from Comprehensive Annual Financial Reports for Fiscal Years 2004 through 2008. Unaudited data from the Comptroller's Office, City of San Diego.

- (1) Terms used in this Table 14 are derived from the City's Comprehensive Annual Financial Report for the indicated year. Certain terms included in this Table 14 do not have the meanings ascribed to them in the Installment Purchase Agreement. Also, amounts included in Table 14 reflect the application of generally accepted accounting principles ("GAAP") and, as such, do not match tables in this Official Statement that were not prepared in accordance with GAAP.
- (2) Unaudited.

Management's Discussion and Analysis

The following discussion relates to certain items set forth in Table 14. Certain of the following information in connection with the financial condition and results of operations of the City Sewer Revenue Fund for Fiscal Year 2008 is unaudited and should be read in conjunction with certain of the information contained in Appendix A-1 – BASIC FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY INFORMATION FROM THE COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY OF SAN DIEGO FOR FISCAL YEAR 2008” attached hereto and specifically the portion of the basic financial statements relating to the operation of the Sewer Revenue Fund.

Operating Revenues. Total operating revenues for Fiscal Year 2008 were \$328.1 million, which represented an increase of \$23.4 million from total operating revenues in Fiscal Year 2007. The increase was primarily due to a rate increase of 8.75%.

Operating Expenses. Total operating expenses for Fiscal Year 2008 were \$272.8 million, an increase of \$12.8 million from Fiscal Year 2007. Such increase was primarily the result of an increase in administrative expenses of \$12.0 million. Administrative expenses during Fiscal Year 2008 include long-range strategic planning, policy, information systems, and general and administrative expenses. Such expenses represented 33% of total operating expenses.

Maintenance and Operations expenses include expenses for three treatment plants, two of which are water reclamation plants, and a biosolids center. Operation and Maintenance costs were 41% of Operating Expenses and totaled \$110.5 million for Fiscal Year 2008. This decrease of \$0.6 million was 0.5% less than the corresponding amount for Fiscal Year 2007.

Non-operating Revenues. Non-operating revenues for Fiscal Year 2008 increased by \$6.8 million from non-operating revenues received in Fiscal Year 2007. This increase was primarily due to higher average cash and investments earnings during Fiscal Year 2008 which contributed to an increase in interest earnings of \$5.3 million.

Non-operating Expenses. Non-operating expenses decreased by \$3.1 million to \$50.6 million during Fiscal Year 2008. The decrease was due to a \$6.9 million decrease in losses attributable to the sale or retirement of capital assets and an increase in debt service interest expense of \$3.8 million.

Reserves. As of June 30, 2008, the MWWD had total reserves of \$69.2 million, which amount included the amounts in the Rate Stabilization Fund, Operating Reserve, Appropriated Reserve, Dedicated Reserve for Efficiency and Savings (the “DRES”) and Wastewater System Capital Improvement Program Reserve. As of May 1, 2009, the MWWD had total reserves of \$81.2 million. See “– Rate Stabilization Fund and Other Reserves” herein.

Outstanding Obligations. As of June 30, 2008, the MWWD had outstanding Obligations in the principal amount of approximately \$1.194 billion. As of May 1, 2009, the MWWD had outstanding Obligations in the principal amount of approximately \$1.191 billion. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2009A BONDS – Outstanding Parity Obligations and Outstanding Subordinated Obligations” herein and Appendix A-1 – “BASIC FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY INFORMATION FROM THE COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY OF SAN DIEGO FOR FISCAL YEAR 2008”, including certain information regarding the MWWD’s debt service coverage ratio requirements.

Rate Stabilization Fund and Other Reserves

The City has established accounts within the Sewer Revenue Fund for five reserve funds: the Rate Stabilization Fund (“Rate Stabilization Fund”), the Operating Reserve (“Operating Reserve”), the Wastewater System Capital Improvement Program Reserve (“Capital Improvement Reserve”), the Appropriated Reserve (“Appropriated Reserve”) and the DRES. The MWWD operates these reserve funds within the Sewer Revenue Fund in accordance with City’s fiscal reserve policy (the “Fiscal Reserve Policy”). The City’s goals with respect to the Fiscal Reserve Policy are to provide adequate cash balances to ensure that the City meets its cash flow obligations, maximizes earnings on investments, minimizes borrowing costs and maintains the highest credit on its bonds and financial obligations. In the event amounts contained in a particular reserve are below the anticipated reserve level as stated in the Reserve Policy, the Mayor is to propose a plan as part of the budget for the subsequent fiscal year to replenish such reserve in a reasonable timeframe. As of the Fiscal Year 2008, the MWWD had total reserves of \$69.2 million. As of May 1, 2009, the MWWD had total reserves of \$81.2 million.

The Rate Stabilization Fund is funded from operating revenues and serves as a source of funds used to mitigate future rate increases. The MWWD expects the Rate Stabilization Fund to be maintained at a level equal to 20% of Net System Revenues less operating and non-operating expenses or \$21.3 million. As of May 1, 2009, the Fiscal Year 2009 balance was \$19.3 million, which meets the incremental target balance for Fiscal Year 2009. The MWWD expects to attain the targeted \$21.3 million by Fiscal Year 2010. The use of amounts in the Rate Stabilization Fund does not require City Council action. However, the Rate Stabilization Fund may only be used upon the recommendation of the MWWD and approval of the Chief Financial Officer and must be used in a manner consistent with the Installment Purchase Agreement.

The Operating Reserve, which is a subset of cash on hand, is restricted for use in the event an emergency situation resulting in a loss of revenue occurs and prevents the Wastewater System from operating in its normal course of business. Amounts so used from the Operating Reserve must be replenished no later than the subsequent fiscal year. The Operating Reserve is calculated based on the annual operating budget for the fiscal year. The current Operating Reserve for Fiscal Year 2009 is 50 days of the budget for Maintenance and Operations costs, which is \$32.3 million. As of May 1, 2009, there was approximately \$32.3 million in the Operating Reserve. The Operating Reserve is expected to increase to 70 days of the budget for Maintenance and Operation costs by Fiscal Year 2013, which is projected to be approximately \$48.9 million.

The MWWD funded the Capital Improvement Reserve, which may only be used for costs of the Wastewater System CIP, in the amount of \$5.0 million for Fiscal Year 2009. City Council action is required for any withdrawal from the Capital Improvement Reserve. As of May 1, 2009, there was approximately \$5.0 million in the Capital Improvement Reserve.

The Appropriated Reserve is budgeted annually for unanticipated expenditures. It may be used to fund operating or capital requirements. If the Appropriated Reserve is used to fund unanticipated operating expenses, the approval of the Director of the MWWD is required and, if the Appropriated Reserve is to be used for unanticipated capital needs, City Council action in the form of an ordinance is required. The Appropriated Reserve is projected to increase from \$3.3 million in Fiscal Year 2008 to \$3.4 million in Fiscal Year 2009. As of May 1, 2009, there was approximately \$3.4 million in the Appropriated Reserve.

In Fiscal Year 2008, the City established the DRES to save funds obtained by increasing efficiencies, changing priorities or other actions related to reducing costs of the Wastewater System CIP or operations and maintenance of the Wastewater System. The 2008 IROC Report recommended that

savings from the Wastewater System be transferred into the DRES in order to improve accountability with respect to such savings and to provide funding of the Wastewater System in future years in lieu of rate increases. The funds in the DRES may be used for accelerating Wastewater System CIP project schedules and reducing the need for future rate increases. At the end of each fiscal year, any savings not required for compliance with established reserve policies will be transferred into the DRES. At the end of four years, any funds transferred into the DRES and not used for capital improvements will be used to lower future rates for the Wastewater System. As of May 1, 2009, approximately \$21.2 million was on deposit in the DRES.

Table 15 below sets forth the amounts in the several reserves in the Sewer Revenue Fund as of May 1, 2009.

TABLE 15
SEWER REVENUE FUND RESERVES
(as of May 1, 2009)
(\$ In Thousands)
(Unaudited)

<u>Fund</u>	<u>Reserve Amount</u>
Rate Stabilization Fund	\$19,300
Operating Reserve	32,320
Capital Improvement Reserve	5,000
Appropriated Reserve	3,394
Dedicated Reserve for Efficiencies and Savings	<u>21,185</u>
Total	<u>\$81,199</u>

Source: Metropolitan Wastewater Department, City of San Diego.

Surety Secured Bonds under the 1993 Indenture

Pursuant to the Indenture of Trust, by and between the Authority and State Street Bank and Trust Company of California, N.A., dated as of September 1 1993, as amended and supplemented (the “1993 Indenture”), a reserve fund (the “1993 Reserve Fund”) was established for bonds issued thereunder. The Authority issued under the 1993 Indenture its Sewer Revenue Bonds, Series 1993, Sewer Revenue Bonds, Series 1995, Series 1997A Bonds, Series 1997B Bonds, Sewer Revenue Bonds, Series 1999A and Sewer Revenue Bonds, Series 1999B (collectively, the “Surety Secured Bonds”). A Reserve Fund Credit Facility payable in the maximum amount of \$56,548,941.25 issued by Ambac Assurance Corporation (the “Surety Provider”) was deposited in the 1993 Reserve Fund in satisfaction of the reserve fund requirement relative to the Surety Secured Bonds. The City’s obligation to make Installment Payments with respect to the Surety Secured Bonds, including any payments required to supplement amounts in the 1993 Reserve Fund, are Parity Obligations under the Installment Purchase Agreement.

The 1993 Indenture provides that all money in the 1993 Reserve Fund shall be used and withdrawn to pay interest on, or principal of, or redemption premiums, if any, on the bonds issued under the 1993 Indenture in the event that no other money of the Authority is lawfully available therefor, or for the retirement of all bonds then outstanding under the 1993 Indenture. The 1993 Indenture also requires the City to deposit amounts into the 1993 Reserve Fund if it is determined in connection with any valuation of the 1993 Reserve Fund that amounts on deposit therein are insufficient. In the event of an insufficiency of moneys to pay the principal of and interest on the Surety Secured Bonds when due, moneys in the 1993 Reserve Fund will be used and withdrawn before amounts under the Reserve Fund Credit Facility are withdrawn. In the event the Surety Provider defaults on its obligations in whole or in

part under the Reserve Fund Credit Facility or amounts in the 1993 Reserve Fund are insufficient to pay principal of and interest on the Surety Secured Bonds, the City will be obligated to deposit additional amounts in the 1993 Reserve Fund and such obligation will be on parity with the pledge and assignment of and lien on the Net System Revenues securing the Series 2009A Bonds and any other Parity Obligations under the Installment Purchase Agreement.

The Reserve Fund Credit Facility does not secure payment of principal of or interest on any other Bonds of the Authority, including the Series 2009A Bonds. Amounts on deposit in the Reserve Fund under the Indenture for the Series 2009A Bonds are not available to pay the interest on, or principal or redemption premiums, if any, of the Surety Secured Bonds or any other Bonds issued under the 1993 Indenture.

Historical Debt Service Coverage

Table 16 below sets forth the total revenues of the Wastewater System, the maintenance and operation costs of the Wastewater System and the resulting debt service coverage for the Outstanding Parity Obligations for Fiscal Years 2004 through 2008.

TABLE 16
CALCULATION OF HISTORIC SENIOR AND AGGREGATE DEBT SERVICE COVERAGE
(\$ In Thousands)
Fiscal Years 2004 through 2008
(Unaudited)

Fiscal Year Ended June 30	System Revenues	Total Maintenance and Operations Costs of the Wastewater System	Net System Revenues	<u>Debt Service</u>			<u>All Obligations</u> ⁽¹⁾		
				<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Senior Debt Service Coverage</u>	<u>Total Debt Service</u>	<u>Aggregate Debt Service Coverage</u>
2004	\$296,169	\$196,823	\$ 99,346	\$25,030	\$52,020	\$77,050	1.29x	\$81,516	1.22x
2005	322,542	204,163	118,379	26,120	50,935	77,055	1.54	84,789	1.40
2006	320,288	202,111	118,177	27,390	49,662	77,052	1.53	86,802	1.36
2007 ⁽²⁾	343,921	202,632	141,289	28,760	48,291	77,051	1.83	96,408	1.47
2008	361,511	211,449	150,062	30,250	46,805	77,055	1.95	94,555	1.59

Source: Statistical section (unaudited) of the Fiscal Year 2008 Comprehensive Annual Financial Report.

⁽¹⁾ All Obligations include Outstanding Parity Obligations, Outstanding Subordinated Obligations and the Existing SRF Loans.

⁽²⁾ Amounts set forth under Principal, Interest and Total differ from the corresponding amounts set forth under Appendix A-2 – “ADDITIONAL EXCERPTS FROM THE COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY OF SAN DIEGO FOR FISCAL YEAR 2008 – Table 14” attached hereto. The amounts set forth in this Table 16 reflect actual debt service amounts for Fiscal Year 2007.

Financial Projections

Table 17 below sets forth the financial forecast for Fiscal Years 2009 through 2013. Table 17 incorporates certain assumptions, including assumed inflation and interest rates, rate increases and the amount of indebtedness to be issued during this period adopted by the MWWD and used by the Feasibility Consultant for purposes of the Feasibility Study attached as Appendix B hereto. Data for Fiscal Year 2009 reflects estimates of the MWWD based on six months of actual, unaudited results for the Fiscal Year and projections for the remainder of the fiscal year. Projections for the Fiscal Year 2010 represent the MWWD budget that will be submitted to the City Council as part of the annual budget process. Projections for Fiscal Years 2011 through 2013 reflect the assumptions described in Appendix B attached hereto, including the key assumptions set forth under Appendix B “FEASIBILITY STUDY FOR 2009 SERIES WASTEWATER REVENUES BONDS – Financial Feasibility – Conclusions on MWWD Financial Forecast” attached hereto. The Feasibility Consultant included the receipt of new money bonds in the principal amount of \$40 million to finance a portion of the Wastewater System CIP for Fiscal Years 2009 through 2013. However, the Feasibility Consultant did not include in its projections the potential \$40 million Additional SRF Loan, which remains subject to award by the State Water Board and approval by the City Council. In the event the City receives the Additional SRF Loan, the Authority will reduce the principal amount of bonds to be issued by the amount of such Additional SRF Loan.

The achievement of certain results or other expectations contained in Table 17 involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements reflected in Table 17 to be materially different from any future results, performance or achievements expressed or implied by such Table. Although, in the opinion of the MWWD, such projections are reasonable, there can be no assurance that any or all of such projections will be realized or predictive of future results.

TABLE 17
ESTIMATED NET SYSTEM REVENUES AND DEBT SERVICE COVERAGE
Fiscal Year 2009 through 2013
(\$ In Thousands)
(Unaudited)

DESCRIPTION	2009 Estimated	2010 Projected	2011 Projected	2012 Projected	2013 Projected
Net Revenues ⁽¹⁾	\$ 143,282	\$160,271	\$176,355	\$185,418	\$196,173
Interest Earnings ⁽²⁾	8,831	8,446	7,794	9,225	10,790
Capacity Charges ⁽³⁾⁽⁴⁾	11,022	5,180	5,228	5,286	5,334
Rate Stabilization Fund Transfer ⁽⁵⁾	<u>(3,000)</u>	<u>(2,000)</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Net System Revenues	<u>\$160,135</u>	<u>\$171,897</u>	<u>\$189,377</u>	<u>\$199,929</u>	<u>\$212,297</u>
Projected Senior Debt Service ⁽⁶⁾	\$ 77,056	\$106,256	\$106,258	\$120,077	\$133,022
Debt Service Coverage	2.08x	1.62x	1.78x	1.67x	1.60x
Projected Senior Debt Service	\$ 77,056	\$106,256	\$106,258	\$120,077	\$133,022
Projected Subordinate Debt Service ⁽⁷⁾	\$ 17,250	\$ 6,059	\$ 6,058	\$ 6,058	\$ 6,058
Aggregate Debt Service ⁽⁸⁾	\$ 94,306	\$112,315	\$112,316	\$126,135	\$139,080
Aggregate Debt Coverage ⁽⁹⁾	1.70x	1.53x	1.69x	1.59x	1.53x

Source: Feasibility Engineer.

- (1) Net Revenues consists of Revenues, less Maintenance and Operation Costs of the Wastewater System. Revenues consists of sewer service charges, sewer treatment plant services, services to others, sale of power from cogeneration and other miscellaneous sources and excludes interest earnings on amounts in the Acquisition Fund.
- (2) Excludes amounts in the Acquisition Fund.
- (3) Amount for Fiscal Year 2009 includes a one-time \$5.9 million capacity charge payment receivable from the City's General Fund in connection with the City's Convention Center dewatering project. Absent the City's one-time payment, the projected revenue for Fiscal Year 2009 reflects 1,242 EDUs connecting to the Wastewater System. The amounts for each at the Fiscal Years 2010 through 2013 assume an approximate average annual 1% EDU growth rate over each of the four fiscal years. See Table 13 and accompanying description of projected capacity charges.
- (4) See Table 13 herein for the components of the Capacity Charges.
- (5) Reflects transfer in Fiscal Years 2009 and 2010 to the Rate Stabilization Fund. Amounts transferred to the Rate Stabilization Fund are deducted from System Revenues pursuant to the Installment Purchase Agreement.
- (6) Does not reflect actual debt service on the Series 2009A Bonds. Includes projected debt service associated with the New Money Portion and 2007 Notes Repayment Portion of the Series 2009A Bonds beginning in Fiscal Year 2010 and the issuance of additional Parity Obligations in each of Fiscal Years 2011, 2012 and 2013, as set forth in the Feasibility Study. Excludes debt service for the Additional SRF Loan, which remains subject to review by the State Water Board and subject to approval by the City Council, and any debt service savings that may be realized in connection with any refunding of Outstanding Parity Bonds in connection with Series 2009A Bonds and the Series 2009B Bonds. The receipt of funds with respect to the Additional SRF Loan is not expected to affect the overall projections because the MWWD will reduce its aggregate borrowing by a like amount for the period set forth above.
- (7) Includes in Fiscal Year 2009 interest payments for the Series 2007 Notes, all of which will be paid with a portion of the proceeds of the Series 2009A Bonds.
- (8) Includes Parity Obligations, Subordinated Obligations and Existing SRF Loan debt service.
- (9) Ratio of Total Net System Revenues to Aggregate Debt Service.

Labor Relations

General. As of April 1, 2009, there were 840.5 regular full-time employees of the MWWD, of which 473 are represented by the Municipal Employees Association (“MEA”) and 330 are represented by American Federation of State, County and Municipal Employees, AFL-CIO, Local 127 (“AFSCME Local 127”). The remaining 37.5 employees are unrepresented. The two bargaining units represent approximately 96% of the MWWD’s employees.

Contracts for Fiscal Year 2009 through 2011. The City was not able to reach agreement on a Fiscal Year 2009 contract for employees represented by the MEA, AFSCME, AFSCME Local 127 and the Deputy City Attorneys’ Association (“DCAA”). The terms and conditions of prior agreements were carried forward with no salary increase. In addition, in Fiscal Year 2009, in accordance with the July 1, 2005 AFSCME Local 127 labor agreement, the 1.9% salary reduction applicable to employees represented by AFSCME Local 127 ended and their pre-reduction salaries were reinstated. Pursuant to settlements with the MEA and AFSCME Local 127 regarding the use of negotiated employee pension contribution increases, the MEA settlement was paid on November 14, 2008 in the amount of approximately \$6.1 million City-wide and AFSCME Local 127 settlement was paid on December 26, 2008 in the amount of approximately \$4.7 million City-wide. Contract negotiations with both bargaining units have concluded for Fiscal Year 2009. The negotiated salary and compensation amounts due under the MEA settlement and AFSCME Local 127 settlement have been paid by the MWWD and no additional amounts are expected to be paid from the Sewer Revenue Fund in connection therewith. Payments of amounts due under the MEA settlement and AFSCME Local 127 settlement did not have a material adverse impact on the Sewer Revenue Fund.

On April 14, 2009, the City Council unanimously approved the terms of the labor agreements for Fiscal Years 2010 and 2011 for the MEA, the International Association of Firefighters Local 145 (“IAFF Local 145”) and DCAA. Negotiations with the remaining two bargaining units, AFSCME Local 127 and the Police Officers Association (“POA”), did not end in agreement. The City Council imposed on both unions the terms and conditions of employment contained in the Mayor’s last, best and final offer for Fiscal Year 2010. Pursuant to the labor agreements for the bargaining units and the terms and conditions approved for AFSCME Local 127 and POA, all five bargaining units and the City’s unclassified and unrepresented employees will be held to a general salary freeze and subject to a 6 percent reduction in overall compensation, which may be effected through salary reductions, decreases in the City-paid allotment for employee health care, retirement and other employment benefits, fewer paid holidays, mandatory furloughs and elimination of the employer contribution to SDCERS employee pickup/offset and to the mandatory match of the supplemental pension savings plan. Each bargaining unit reached the 6 percent target through a different combination of the aforementioned measures. The compensation reductions also will apply to management and unrepresented City employees, including the Mayor, his staff, and City Council.

Pension Benefit Agreement. On July 28, 2008, the City Council ratified an agreement regarding the creation of new pension benefits for non-safety City employees with MEA, AFSCME Local 127 and DCAA (the “New Pension Plan”). The City expects to save on its pension costs over time as new hires are included under the New Pension Plan. The New Pension Plan becomes effective on July 1, 2009 and applies to non-safety employees hired on or after the effective date. The New Pension Plan lowers the defined benefit factor at age 55 and 60 from 2.50% to 1.00% and from 2.55% to 2.00%, respectively, and modifies the benefit formula (which currently permits retirees to receive up to 90.00% of their highest one year salary) by limiting compensation available under the pension plan to 80.00% of the highest three years average of compensation. In addition, the New Pension Plan establishes a retiree medical trust into which both the City and employees will equally contribute 0.25% of salary and establishes a new defined contribution component in addition to the defined benefit component. The New Pension Plan includes

mandatory employee contributions of 1.00% of salary, with a City match component. See Note 12 to the City’s Fiscal Year 2008 audited financial statements attached hereto as Appendix A-1 – “BASIC FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY INFORMATION FROM THE COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY OF SAN DIEGO FOR FISCAL YEAR 2008”.

Insurance and Liability Claims

The MWWD is self-insured for workers’ compensation and long-term disability and for public liability claims exposure up to \$5 million per occurrence. For liability between \$5 million and \$50 million, the MWWD is covered by the City, which purchases insurance in collaboration with the California State Association of Counties – Excess Insurance Authority, a statewide joint powers authority risk pool, in layers for its public liability exposure.

The City maintains commercial property insurance on all City-owned buildings of an insurable nature, and currently carries property and extended loss insurance coverage of \$25 million per occurrence with a \$25,000 deductible on all City buildings, with earthquake insurance coverage of up to \$25 million on all bond-financed buildings under its primary policy. Depending on availability and affordability of such earthquake insurance, the City may elect not to purchase such coverage in the future. The City does not maintain any casualty insurance on the pipelines of the Wastewater System because such insurance is not commercially available.

Table 18 below sets forth the accrued estimated liabilities and expenditures for liability claims of the Wastewater System for Fiscal Years 2004 through 2008.

TABLE 18
LIABILITY CLAIMS BUDGETED AND EXPENDITURES
Fiscal Years 2004 to 2008
(Unaudited)

<u>Fiscal Year</u>	<u>Budgeted Liabilities</u>	<u>Expenditures</u> ⁽¹⁾
2004	\$2,589,000	\$1,718,610
2005	2,589,000	1,814,378
2006	2,589,000	500,928
2007	2,589,000	1,052,219
2008	1,283,412	1,626,000

Source: Metropolitan Wastewater Department, Risk Management Department and Comptroller’s Office, City of San Diego.

⁽¹⁾ Over-budget expenditures are paid from Sewer Revenue Fund balance available for appropriation.

Investment of Funds

General. Amounts in the funds and accounts of the Sewer Revenue Fund are invested by the City Treasurer in the Treasurer’s Pooled Investment Fund (the “City Pool”) described below and the City accounts for such amounts separately from other funds of the City.

City Pool. In accordance with the Charter of the City and authority granted by the City Council, the City Treasurer is responsible for investing the unexpended cash in 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 and certain related entities are the only participants in the City Pool; there are no other City Pool

participants either voluntary or involuntary in the City Pool. 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 Chief Financial Officer, the City Comptroller and the City Council and annually presents the Investment Policy to the Chief Financial Officer, the Investment Advisory Committee and the City Council. The Investment Advisory Committee is comprised of two City employees, currently the Chief Financial Officer and the Director of Debt Management, and three investment professionals from the private sector and is charged with overseeing the review of the City's Investment Policy and practices of the City Treasurer and recommending changes thereto. Investments in the City Pool are audited annually by an independent firm of certified public accountants as part of the overall audit of the City's financial statements.

The City's investments division uses outside services to provide investment portfolio valuations and accounting and reporting services. These services provide monthly portfolio valuation, investment performance statistics, and other portfolio reports that are distributed to the Office of the City Treasurer accounting section and the Office of the Comptroller of the City for review and reconciliation. The Office of the City Treasurer's accounting section prepares a series of monthly reports, including the portfolio market valuation, and distributes these to the Mayor, City Council, Chief Financial Officer, and other officials.

Authorized Investments. Investments in the City Pool are governed by State law and further restricted by the City's Investment Policy. The Investment Policy is prepared with safety of principal being the foremost objective. Permitted investments include U.S. Treasury securities, U.S. Agency securities, U.S. Agency mortgage backed securities, corporate medium term notes, money market instruments, non-negotiable FDIC-insured certificates of deposit 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 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 one- to three-year U.S. Treasury Index. Safety of principal and liquidity are paramount considerations in the management of both portfolios.

Pool Liquidity and Other Characteristics. The City Pool (including both the "Liquidity" and the "Core" portfolios) is highly liquid. Based on preliminary and unaudited month-end data as of March 31, 2009, approximately 14% of the pool investments mature within 62 days, 17% within 92 days and 26% within 184 days, 39% within 1 year, 81% within 2 years, 98% within 3 years, and 100% within 5 years (on a cumulative basis). As of March 31, 2009, the Pool had a weighted average maturity of 1.31 years (477 days) and its weighted average yield was 1.718%. 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 0.33 years and the Core portfolio had a duration of 1.77 years as of March 31, 2009. 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 0.33% for every 1% increase in market interest rates while the Core portfolio should decrease in market value by 1.77% for every 1% increase in market interest rates. The City Pool's composition is designed with a goal of having sufficient liquid funds available to meet disbursement requirements. The composition and value of investments under management in the City

Pool will vary from time to time depending on cash flow needs of the City, maturity or sale of investments, purchase of new securities, and fluctuations in interest rates.

Table 19 below sets forth the City Pool results at March 31, 2009.

TABLE 19
CITY OF SAN DIEGO POOLED INVESTMENT FUND
at March 31, 2009
(\$ In Thousands)
(Preliminary Unaudited)

<u>Investment Instrument</u>	<u>Book Value</u>	<u>Fair Value</u>	<u>Percent of Total</u> ⁽¹⁾
U.S. Treasury Bills and Notes	\$ 1,026,800	\$ 1,038,618	50.08%
Federal Agency Securities ⁽²⁾	784,579	793,912	38.26
Medium Term Notes (Corporate) ⁽³⁾	111,056	111,676	5.42
Money Market Instruments ⁽⁴⁾	103,503	103,318	5.05
Local Agency Investment Fund	<u>24,551</u>	<u>24,551</u>	<u>1.19</u>
TOTAL INVESTMENTS	<u>\$2,050,489</u>	<u>\$2,072,075</u>	<u>100.00%</u>

Source: Office of the City Treasurer, City of San Diego.

⁽¹⁾ Based on book value.

⁽²⁾ Federal National Mortgage Association (“Fannie Mae”) securities and Federal Home Loan Mortgage Corporation (“Freddie Mac”) securities represent 31.12% and 33.58%, respectively, of total Federal Agency Securities, which is approximately 11.91% and 12.85%, respectively, of the City Pool.

⁽³⁾ These notes consist of both fixed and floating interest rate securities. The notes with floating interest rates are reset at intervals ranging from one day to three months. 69.27% of these notes were issued under the Temporary Liquidity Guarantee Program and are backed by the full faith and credit of the FDIC.

⁽⁴⁾ These securities consist of commercial paper, negotiable certificates of deposit, Certificate of Deposit Account Registry Service certificate of deposit, term and overnight repurchase agreements, banker’s acceptances, bank notes and/or thrift notes.

San Diego City Employees’ Retirement System

The City faces significant financial challenges in addressing an unfunded pension liability of approximately \$1.3 billion, as of June 30, 2008. This liability was the product of a number of factors, including (i) improvements in benefits to members without corresponding funding, (ii) the use of pension funds to pay non-pension benefits, including contingent benefits and certain healthcare costs, rather than retaining such earnings in the Pension System (herein described), (iii) funding by the City at lower than actuarially required levels, (iv) use of realized earnings in excess of the assumed actuarial rate of return to make supplemental or contingent payments, and (v) investment returns lower than the actuarially assumed rate of return. Factors (i) through (iv) were corrected over the last few years through changes to the City’s and SDCERS’ policies and practices; factor (v) is the result of market conditions and may recur in the future. The challenges posed by the unfunded pension liability are significant and, together with significant costs related to postemployment healthcare benefits, pose a threat to the future fiscal health of the City. However, as explained below under the caption, “Wastewater System Share of Contribution to Pension System and NPO,” the Wastewater System’s proportionate share of the City’s annual required contributions to the Pension System is approximately 5.75% (equal to approximately \$9.3 million, assuming a City pension payment of \$161.7 million) for Fiscal Year 2009. Estimates of the Wastewater System’s share of the City’s annual contributions of approximately \$14.4 million for each of Fiscal Years 2008 through 2011 were included in the 2007 Rate Case model that served as the basis for

the annual rate increases in effect through Fiscal Year 2011 that were approved by the City Council. For Fiscal Years 2008 and 2009, the actual contributions required from the Wastewater System were less than the amounts that were assumed in the 2007 Rate Case model. The City fully funded its annual required contribution to the Pension System in Fiscal Years 2006 through 2009.

The amounts and percentages set forth under this caption relating to the City's Pension System, including, for example, actuarial accrued liabilities and funded ratios, are based upon numerous demographic and economic assumptions, including investment return rates, inflation rates, salary increase rates, cost of living adjustments, postemployment mortality, active member mortality, and rates of retirement. The prospective purchasers of the Series 2009A Bonds are cautioned to review and carefully assess the reasonableness of the assumptions set forth in the documents that are cited as the sources for the information under this caption. In addition, the prospective purchasers of the Series 2009A Bonds are cautioned that such sources and the underlying assumptions speak as of their respective dates, and are subject to change, any one of which could cause a significant change in the UAAL (as defined below).

The City is authorized by the City Charter to establish a pension system for its employees, and the City did so by an ordinance adopted in 1926, which was replaced by a new ordinance in 1962 (the "Pension System"). City employees participate with the full-time employees of the San Diego County Regional Airport Authority ("Airport Authority") and the San Diego Unified Port District ("Port District") in the SDCERS. The information below relates solely to the City's participation in SDCERS and not to the participation of the Airport Authority or the Port District. The plan assets of the City, the Airport Authority and the Port District were previously commingled, but separate cost calculations and actuarial valuation reports were completed annually for each employer. Since Fiscal Year 2008, the respective pension plan assets of each of the City, the Airport Authority and the Port District have been administered by SDCERS as separate, independent, qualified single employer governmental defined benefit plans and trusts, the assets of which are pooled in a group trust.

SDCERS is considered part of the City's financial reporting entity and is included in the City's CAFR as a pension system trust fund. SDCERS does prepare its own CAFR, the most recent of which is for Fiscal Year 2008.

UAAL and its Calculation. According to the City's June 30, 2008 Annual Actuarial Valuation of SDCERS, prepared by Cheiron, Inc. ("Cheiron") dated as of December 2008, as adjusted in February 2009 to reflect the correct apportionment of asset balances among the City, the Airport Authority and the Port District (the "2008 Valuation"), the funded ratio (the actuarial value of assets available for benefits to total actuarial accrued liability) of the SDCERS fund as of June 30, 2008 was 78.15%, and the SDCERS fund had an unfunded actuarial accrued liability (the "UAAL") of \$1.303 billion as of June 30, 2008. Thus, for every dollar of benefits due (all vested liabilities), if all vested benefits were due on June 30, 2008, SDCERS had \$0.781 in assets available for payment. The UAAL is the difference between total actuarially accrued liabilities (the "AAL") (\$5.963 billion as of June 30, 2008) and actuarially calculated assets allocated to funding (\$4.660 billion as of June 30, 2008).

Global financial markets are experiencing significant volatility, with a significant decline in market value since September 2008. This volatility has had a negative impact on SDCERS' portfolio. Although the impact on the *actuarial* value of SDCERS' plan assets cannot be determined without an official actuarial valuation, which occurs as of June 30 each year, SDCERS will be providing to the City the unaudited *market* values of plan assets and the recalculated pro forma actuarial value of plan assets as of the end of each month. The market value represents, as of the date specified, the value of the plan assets if they were to be liquidated on that date. Unlike the market value, the actuarial value of plan assets is used to smooth the impact of annual investment return performance over multiple years, thereby

reducing the impact of annual investment volatility on the City's annual required contribution ("ARC"). Investment earnings are one component that impacts the ARC each year. Because the actuarial value as of June 30, 2009 will be used in determining the City's ARC for Fiscal Year 2011, the intervening market values are not determinative to that calculation. Nevertheless, the City believes that it may be useful to the investment community to be apprised of the monthly market values during this period of market instability. According to the City's June 30, 2007 Annual Actuarial Valuation (the "2007 Valuation") and the 2008 Valuation, the actuarial value of assets (City's portion) as of June 30, 2007 and June 30, 2008 were respectively \$4.413 billion and \$4.660 billion. Based on the market value of assets as of March 31, 2009, as set forth in the following sentence, the assumed actuarial value of assets as of March 31, 2009 was \$3.854 billion. The market value of assets (City's portion) as of June 30, 2007 and June 30, 2008, as reported in the 2007 Valuation and the 2008 Valuation, respectively, were \$4.641 billion and \$4.409 billion. According to SDCERS, the market value of assets (City's portion) as of March 31, 2009 was \$3.211 billion. A decline in the actuarial value of assets over time is expected to result in an increased ARC to the City from that estimated in the Five-Year Financial Outlook for Fiscal Years 2009-10 through 2013-14; however, the impact on the Sewer Revenue Fund would be expected to be minimal. See "– San Diego City Employees' Retirement System" and "– Wastewater System Share of Contributions to Pension System and NPO" below.

Actuarial Assumptions. The following are the principal actuarial assumptions used by SDCERS' actuary in preparing the valuation as of June 30, 2008 (as modified to reflect the adoption by the SDCERS Board of Administration (the "SDCERS Board of Administration") of new actuarial assumptions effective June 30, 2008 based upon recommendations set forth in the report by SDCERS' actuary dated July 18, 2008 entitled "Experience Study Results and Recommendations for the Period Covering July 1, 2004 – June 30, 2007"):

1. *Investment Return Rate:* 7.75% a year, net of administrative expenses, compounded annually.
2. *Inflation Rate:* 4.00% a year, compounded annually.
3. *Interest Credited to Member Contributions:* 7.75% compounded annually.
4. *Salary Increase Rates:* Comprised of a 4.00% inflation rate and 0.5% to 8.0% merit component.
5. *Annual Cost-of-Living Adjustments:* 2.00% per year, compounded annually.
6. *Additional Assumptions:* Additional assumptions were used regarding rates of separation from active membership, post-retirement mortality, active member mortality and rates of retirement.

"Smoothing" Methodology. In determining the actuarial value of its assets, SDCERS, as permitted by applicable actuarial guidelines, uses an expected value of assets "smoothing" methodology to reduce the impact of market volatility on plan assets. The market value of assets represents, as of the valuation date, the value of the assets as if they were liquidated on that date. The actuarial value of assets is a value that attempts to smooth annual investment return performance over multiple years to reduce annual investment volatility. The actuarial value of assets is what is used to determine SDCERS' contribution rates for the City. As of June 30, 2008, the market value of plan assets was \$4.409 billion, and the actuarial value was \$4.660 billion. By the smoothing method used in the 2008 Valuation, the calculation of the actuarial value of assets at June 30, 2008 started with the actuarial value of assets at June 30, 2007, added to that 100% of the actuarially assumed rate of return, plus the contribution towards plan assets, less payments out from plan assets, plus 25% of the difference between the expected actuarial value of assets at June 30, 2008 (using the above calculation) and the actual market value of assets at June 30, 2008. The impact of this smoothing methodology will vary each year depending upon the year's actual market value compared to the expected value of assets, either as a net gain or a net loss. The City

expects SDCERS to employ the smoothing method used in the 2008 Valuation to valuations for future fiscal years.

City Contributions to SDCERS. The City's ARC consists of: (i) the "normal cost," being the present value of the benefits that SDCERS expects to become payable in the future attributable to a current year's employment, and (ii) payments made to amortize the UAAL. SDCERS currently amortizes the UAAL over several different periods: the amortization of changes in the UAAL due to assumption changes is over 30 years, the amortization of changes in the UAAL due to benefit changes is over five years, annual experience gain or loss (beginning with the experience loss for Fiscal Year 2008) is amortized over 15 years, and the outstanding balance of the Fiscal Year 2007 UAAL is amortized over 20 years (such that, as of Fiscal Year 2008, 19 years of amortization remain), all as approved by the SDCERS Board of Administration in its administrative capacity pursuant to its plenary authority over the Pension System. There is also an additional UAAL cost component to ensure that there is no negative amortization in any year. See Note 12 to the City's audited financial statements attached hereto in Appendix A-1 for a description of the shorter amortization period prescribed by the City Charter. For several years, the City was paying less than the full ARC. The reasons for this are numerous, including prior agreements between the City and SDCERS, earnings on pension assets at greater than the actuarially assumed rate of 8% being credited against contributions, payments pursuant to litigation settlements that were mistakenly characterized as "contingent" and therefore not made in certain years, and other reasons explained in detail in Note 12 to the City's 2008 audited financial statements. See Appendix A-1 – "BASIC FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY INFORMATION FROM THE COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY OF SAN DIEGO FOR FISCAL YEAR 2008" attached hereto.

The City paid 67.4% of its ARC for Fiscal Year 2005 and 100% of its ARC for Fiscal Year 2006 and Fiscal Year 2007 based on the ARC as calculated by SDCERS. However, the calculation of the ARC by SDCERS prior to Fiscal Year 2006 did not include certain benefit payments that the SDCERS Board of Administration views as having been contingent. Subsequent to those payments, SDCERS and its actuary determined that the liabilities were not contingent and the ARC for financial reporting was restated from the original ARC. Accordingly, the City Net Pension Obligation ("NPO") has been increased by such amounts. NPO is the cumulative difference between the annual pension cost (the "Annual Pension Cost") of the City to the Pension System and the actual contribution in a particular year. Annual Pension Cost is equal to (i) the ARC, (ii) one year's interest on the NPO, and (iii) an adjustment to the ARC to offset, approximately, the amount included in item (i) for amortization of the past contribution deficiencies. The City has taken various actions to reduce the NPO and the related UAAL, including contributions of \$143.2 million in addition to the ARC through the securitization of future tobacco settlement revenue, transfers of actual tobacco settlement revenue receipts, and additional employee "pick up" savings.

In Fiscal Year 2008, the City's total pension payment, consisting of its ARC for pension and its contribution for the Preservation of Benefits Plan referenced in the CAFR for Fiscal Year 2008 (the "Preservation of Benefits Plan"), was \$166.6 million. The City's NPO at the end of Fiscal Year 2008 was \$173.9 million. The City's pension payment for the Fiscal Year 2009 is \$161.7 million and has been paid in full. The City anticipates contributing \$1.1 million for the Preservation of Benefits Plan for Fiscal Year 2009.

Table 20 below sets forth the City's portion of SDCERS historical funding progress for Fiscal Years 2004 through 2008.

TABLE 20
CITY OF SAN DIEGO
Schedule of Funding Progress
Fiscal Years 2004 through 2008
(\$ In Thousands)
(Unaudited)

Valuation Date (June 30)	Valuation Assets	AAL	Funded Ratio	UAAL⁽¹⁾
2004 ⁽¹⁾⁽²⁾	\$ 2,628,680	\$ 4,077,833	64.46%	\$ 1,449,153
2005 ⁽¹⁾⁽²⁾	2,983,080	4,436,017	67.25	1,452,937
2006 ⁽¹⁾	3,981,932	4,982,700	79.92	1,000,768
2007 ⁽³⁾	4,413,411	5,597,653	78.84	1,184,242
2008	4,660,346	5,963,550	78.15	1,303,204

Source: City of San Diego Comprehensive Annual Financial Report with respect to data for Fiscal Years 2004 through 2008

⁽¹⁾ Projected Unit Cost method used for determining actuarial accrued liability.

⁽²⁾ For Fiscal Year 2005, the actuarial accrued liability, the UAAL and the funded ratio have been adjusted to reflect the impact of the Corbett contingent benefit. The actuarial valuation provided by the actuary for Fiscal Year 2005 does not include this contingent benefit in the funded ratio. However, the valuations prepared by the actuary for Fiscal Years 2006 and Fiscal Year 2007 do include the impact of the Corbett contingent benefit.

⁽³⁾ Reflects revised actuarial methodologies. The actuarial accrued liability was calculated using the Entry Age Normal method beginning in Fiscal Year 2007. Prior to Fiscal Year 2007, the Projected Unit Cost method was used.

Wastewater System Share of Contribution to Pension System and NPO. For Fiscal Year 2008, the Sewer Revenue Fund's proportionate share to fully fund the City's contribution to the pension system was \$10.2 million, and for Fiscal Year 2009 such share is \$9.3 million. The Wastewater System's 2007 Rate Case projection, which was the basis for the sewage service charge increases set forth in Table 9 herein and approved by the City Council (see "WASTEWATER SYSTEM FINANCIAL OPERATIONS – Establishment, Calculation and Collection of Sewer Service Charges" and " – Calculation and Collection of Capacity Charges" herein), included \$14.4 million as the Sewer Revenue Fund's estimated annual proportionate share of the City's ARC for Fiscal Years 2008 through 2011. The City expects that the \$14.4 million estimate included in the Wastewater System's 2007 Rate Case projection for Fiscal Years 2008 through 2011 will be sufficient to pay the Sewer Revenue Fund's proportionate share to fully fund the City's contribution to the Pension System for such years. The Wastewater System's share of the NPO at June 30, 2008, is approximately \$10.6 million. See the City's Fiscal Year 2008 audited financial statements attached hereto, line item entitled "Non-Current Liabilities - Net Pension Obligation" under the table entitled "Proprietary Funds - Statement of Net Assets".

The following Table 21 sets forth, for Fiscal Years 2008 through 2011, the City's total pension payments (consisting of its ARC for pension and its contribution for the Preservation of Benefits Plan), the pension contributions included in the Wastewater System's 2007 Rate Case projection and the corresponding actual, budgeted or projected amounts, which have been lower than the projected amounts.

TABLE 21
CITY OF SAN DIEGO AND WASTEWATER SYSTEM
PENSION CONTRIBUTION
FISCAL YEARS 2008 THROUGH 2011
(\$ In Millions)

Fiscal Year ending June 30	City Pension Payment	MWWD	
		Rate Case Projection ⁽⁸⁾	Actual/Budgeted/Projected
2008	\$166.6 ⁽¹⁾	\$14.4	\$10.2 ⁽²⁾
2009	162.8 ⁽³⁾	14.4	9.3 ⁽²⁾
2010	155.4 ⁽⁴⁾	14.4	8.9 ⁽⁵⁾
2011	236.0 ⁽⁶⁾	14.4	13.6 ⁽⁷⁾

Source: The City of San Diego Comprehensive Annual Financial Statement for the Fiscal Year ended June 30, 2008; City of San Diego Financial Management Department and the MWWD.

(1) Audited.

(2) Actual. The MWWD's payment reflects the Sewer Revenue Fund's proportionate share to fully fund the City's pension payment (excluding payments for the Preservation of Benefits Plan), which was 6.16% for Fiscal Year 2008 and is approximately 5.75% for Fiscal Year 2009. The MWWD contributes to the Preservation of Benefits Plan only if its employees receive benefits thereunder. The MWWD was not required to contribute to the Preservation of Benefits Plan in Fiscal Year 2008. The MWWD's contribution to the Preservation of Benefits Plan, if any, for subsequent Fiscal Years remains to be determined. See footnote (5) below for a discussion of adjustments to the proportionate share.

(3) Reflects actual pension payment of \$161.7 million and an anticipated contribution of \$1.1 million for the Preservation of Benefits Plan.

(4) Reflects the projected City pension payment included in the City's proposed budget as of March 2009 and an anticipated contribution of \$1.2 million for the Preservation of Benefits Plan.

(5) Proposed budget amount, assuming the Sewer Revenue Fund's proportionate share to fully fund the City's pension payment (excluding payments for the Preservation of Benefits Plan) remains at 5.75%, which was the Sewer Revenue Fund's approximate proportionate share for Fiscal Year 2009. The Sewer Revenue Fund's proportionate share is established at the beginning of a Fiscal Year and may increase or decrease during the year and from year to year depending on a variety of factors, including the number of covered employees attributable to the Sewer Revenue Fund, the retirement benefits accruing to such employees and end-of-the-year payroll adjustments.

(6) Projected City pension payment based on Scenario Two set forth in the City's "Five-Year Financial Outlook for Fiscal Years 2009-10 through 2013-14 (November 2008)" (the "November 2008 Five-Year Financial Outlook"), which were based on market values as of October 31, 2008. Assumes an increase to the ARC of \$70 million in Fiscal Year 2011 with increases of an additional \$15 to \$20 million a year and a future return equal to the 7.75% assumed rate of return by SDCERS in Fiscal Years 2011 through 2014. Excludes any offsetting effects to mitigate current investment losses and any actuarial gains from lower than expected salary increases and a reduction in the number of City employees. Excludes any contribution for the Preservation of Benefits Plan, which cannot be reliably projected at this time, and the impact of market declines since October 31, 2008. See "– UAAL and its Calculation" herein.

(7) Projected MWWD pension payment calculated based on the Sewer Revenue Fund's proportionate share to fully fund the City's estimated pension payment of \$236 million for Fiscal Year 2011, as set forth under the Scenario Two of the November 2008 Five-Year Financial Outlook. See footnote (6) above for a description of the assumptions included in Scenario Two. See footnote (5) above for a description of the assumptions relating to the Sewer Revenue Fund's proportionate share.

(8) Reflects projections as of the date of the 2007 Rate Case.

Actual and budgeted amounts set forth above reflect amounts necessary for the City to satisfy its pension contribution requirement for each fiscal year and may be more or less than the amounts projected in the 2007 Rate Case. To date, amounts included in the Wastewater System's 2007 Rate Case projection have exceeded the amounts actually required to satisfy the MWWD's pension contribution requirement.

Postemployment Healthcare Benefits

The City is authorized pursuant to the City Municipal Code to provide certain healthcare benefits to certain retired employees through SDCERS. Expenses for postemployment healthcare benefits were paid for on a pay-as-you-go basis through Fiscal Year 2007 solely from City contributions, retiree contributions and amounts from the 401(k) Plan established by the City in 1985. In Fiscal Years 2006 and Fiscal Year 2007, the annualized cost of retiree health benefits was approximately \$24.1 million and \$27.1 million, respectively. The City's portion of such cost was approximately \$17.7 million and \$20.4 million, respectively, for such fiscal years. The remainder was paid from retiree contributions. The Sewer Revenue Fund's proportionate share of the City's portion of postemployment healthcare benefits was approximately \$1.6 million and \$2.3 million for Fiscal Year 2006 and Fiscal Year 2007, respectively. In Fiscal Year 2008, in addition to contributing \$23.4 million to the pay-as-you-go portion of postemployment healthcare benefits (approximately \$1.8 million of which was the Sewer Revenue Fund's proportionate share), the City began to pre-fund future expenses related to postemployment healthcare benefits through CERBT (defined herein), as further described below. The City has budgeted \$26.1 million as the pay-as-you-go portion of its postemployment healthcare benefits in Fiscal Year 2009. The Sewer Revenue Fund's proportionate share of the pay-as-you-go portion is \$1.8 million.

The City has entered into an agreement with California Public Employees' Retirement System ("CalPERS") on January 18, 2008 as a participating employer in the CalPERS Employers Retirement Benefits Trust ("CERBT") to pre-fund future expenses related to other postemployment benefits ("OPEB") and contributed approximately \$30.1 million to CERBT in connection therewith in Fiscal Year 2008. The Sewer Revenue Fund's proportionate share of the contribution to CERBT was approximately \$2.4 million. The City made a contribution in Fiscal Year 2009 of \$23.9 million for OPEB liabilities. The Sewer Revenue Fund's proportionate share of the City's contribution was \$1.9 million. As of the date of this Official Statement, the City has not fully funded its ARC with respect to OPEB liabilities. The City has not determined the amounts necessary to fully fund its ARC with respect to OPEB liabilities beyond the projected amounts set forth in its November 2008 Five-Year Financial Outlook. The City expects to evaluate its contributions towards its ARC for OPEB liabilities as outlined in the November 2008 Five-Year Financial Outlook. All future contributions for post employment healthcare benefits will be credited toward the City's ARC for retiree healthcare liabilities in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 43, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans" ("GASB 43"), and GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions" ("GASB 45"). See Note 13 to the Fiscal Year 2008 audited financial statements attached hereto in Appendix A-1.

In connection with compliance with GASB 43 and GASB 45, the City has calculated its net OPEB obligation ("NOPEBO") as of June 30, 2008 to be approximately \$37.8 million. The NOPEBO is the cumulative difference between the City's annual OPEB cost and City's contributions to OPEB in a particular year, including the OPEB liability or asset at transition, if any. Annual OPEB cost is equal to (i) the ARC for OPEB, (b) one year's interest on the NOPEBO from prior years (which the City determined to be zero at the beginning of Fiscal Year 2008, the transition year, in accordance with GASB 45), and (c) an adjustment to the ARC for OPEB to offset the effect of actuarial amortization of past under- or over-contributions. The Sewer Revenue Fund's proportionate share of the City's NOPEBO as of June 30, 2008 was \$3.0 million. The City intends to pre-fund the CERBT with approximately \$25 million on an annual basis, as described in Note 13 to the Fiscal Year 2008 audited financial statements attached hereto in Appendix A-1.

An actuarial valuation of the City's postemployment medical benefit program as of June 30, 2008 (the "2008 OPEB Valuation") was performed by Buck Consultants for the purpose of determining the City's annual cost in accordance with GASB 45. The valuation, dated December 10, 2008, reflected a

discount rate of 6.69% based on the City's actual and expected contributions to CERBT, inflation factors for increases in healthcare costs and premium costs, and a 30-year amortization period (open basis). According to the 2008 OPEB Valuation, using the assumptions described above and consistent with GASB 45, the UAAL for OPEB for all retirees, deferred retirement participants, vested terminated and active members as of June 30, 2008 was \$1.21 billion and the ARC for OPEB will be \$113.43 million for Fiscal Year 2010 (as reported in the actuarial valuation dated June 30, 2008).

Table 22 below sets forth the retiree health contributions included in the Wastewater System's 2007 Rate Case projection for Fiscal Years 2008 through 2011 and the corresponding actual, budgeted or projected amounts, which have been lower than the projected amounts set forth in the 2007 Rate Case. Amounts budgeted for future years may be lower than amounts set forth in the 2007 Rate Case projection. The City expects that such amount will be sufficient to pay the Sewer Revenue Fund's proportionate share to fund the City's contribution to OPEB for such years. Projections sets forth in the Wastewater System's 2007 Rate Case include amounts through Fiscal Year 2011, years through which wastewater rates were approved by the City Council.

TABLE 22
METROPOLITAN WASTEWATER DEPARTMENT
RETIREE HEALTH CONTRIBUTION
FISCAL YEARS 2008 THROUGH 2011
(\$ In Millions)

Fiscal Year ending June 30	Rate Case Projection	Actual/Budgeted/Projected ⁽¹⁾
2008	\$4.4	\$4.2 ⁽²⁾
2009	6.7	3.9 ⁽³⁾
2010	9.1	4.5 ⁽⁴⁾
2011	9.1	5.1 ⁽⁵⁾

Source: Metropolitan Wastewater Department and Financial Management Department, City of San Diego.

(1) Consists of the Sewer Revenue Fund's proportionate share of pay-as-you-go postemployment healthcare benefits and its proportionate share of contributions to CalPERS for OPEB. The Sewer Revenue Fund's proportionate share of OPEB for Fiscal Year 2008 was 7.85%. Budgeted, proposed and projected amounts reflect an assumed Sewer Revenue Fund proportionate share of 7.86% for Fiscal Years 2009 through 2011. The Sewer Revenue Fund's proportionate share may increase or decrease from year to year depending on a variety of factors, including the number of covered employees attributable to the Sewer Revenue Fund and the retirement benefits accruing to such employees.

(2) Unaudited actual.

(3) Budgeted.

(4) Proposed Budget.

(5) Projected MWWD contribution based on the Sewer Revenue Fund's proportionate share (see footnote (1) above) of the City's aggregate pay-as-you-go postemployment healthcare contributions and OPEB contributions through CalPERS, as set forth in the City's November 2008 Five-Year Financial Outlook.

RISK FACTORS

The ability of the City to pay principal of and interest on the Series 2009A Bonds depends primarily upon the receipt by the City of Net System Revenues. Some of the events which could prevent the City from receiving a sufficient amount of Net System Revenues to enable it to pay the principal of and interest on the Series 2009A Bonds are summarized below. The following description of risks is not intended to be an exhaustive list of the risks associated with the purchase of the Series 2009A Bonds and the order of the risks set forth below does not necessarily reflect the relative importance of the various risks.

Limited Obligations

The obligation of the City to pay the 2009A Installment Payments securing the Series 2009A Bonds is a limited obligation of the City and is not secured by a legal or equitable pledge or charge or lien upon any property of the City or any of its income or receipts, except the Net System Revenues. The obligation of the City to make the 2009A Installment Payments does not constitute an obligation of the City to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation. The City is obligated under the Installment Purchase Agreement to make the Installment Payments solely from Net System Revenues.

No assurance can be made that Net System Revenues, estimated or otherwise, will be realized by the City in amounts sufficient to pay the 2009A Installment Payments. Among other matters, drought, general and local economic conditions and changes in law and government regulations (including initiatives and moratoriums on growth) could adversely affect the amount of Net System Revenues realized by the City. In addition, the realization of future Net System Revenues is subject to, among other things, the capabilities of management of the City, the ability of the City to provide wastewater service to its retail customers and the Participating Agencies, the ability of the City to establish, maintain and collect charges for the Wastewater Service to its retail customers and the Participating Agencies and the ability of the City to establish, maintain and collect rates and charges sufficient to pay for Operation and Maintenance costs and the 2009A Installment Payments. See “WASTEWATER SYSTEM FINANCIAL OPERATIONS – Historical Revenues and Expenses” herein.

Wastewater System Expenses and Collections

The Operation and Maintenance costs of the Wastewater System are expected to increase in the next five years. See “WASTEWATER SYSTEM FINANCIAL OPERATIONS – Financial Projections” herein. However, there can be no assurance that the City’s projected future Maintenance and Operation costs for the Wastewater System will actually be as projected by the MWW and described in this Official Statement. In addition, demands on the Wastewater System will increase due to population growth and regulatory requirements in the future. Further, although the City has covenanted to prescribe, revise and collect rates and charges for Wastewater Service in amounts necessary to pay the 2009A Installment Payments, there can be no assurance that such amounts will be collected in the amounts and at the times necessary to pay the 2009A Installment Payments sufficient to provide for the payment of the Series 2009A Bonds.

Rate-Setting Process Under Proposition 218

Proposition 218, which added Articles XIIC and XIID to the California Constitution, affects the City’s ability to impose future rate increases, and no assurance can be given that future rate increases will not encounter majority protest opposition or be challenged by initiative action authorized under Proposition 218. During the last two Proposition 218 rate increase hearings with respect to the Wastewater System, the Office of the City Clerk received approximately 6% of the aggregate protests required to prevent the increase. In the event that future proposed rate increases cannot be imposed as a result of majority protest or initiative, the City might thereafter be unable to generate Net System Revenues in the amounts required by the Installment Purchase Agreement to pay 2009A Installment Payments. Proposition 218 also affects the Participating Agencies’ ability to collect sewer service charges and impose future rate increases in amounts sufficient to make payments under the Regional Wastewater Disposal Agreement and the Transportation Agreements. There can be no assurance that the Participating Agencies have complied or will comply with the provisions of Proposition 218 or that the Participating Agencies’ ability to impose future rate increases will not be adversely affected by majority protests or initiatives. The Participating Agencies are required to pay the amounts due under the Regional

Wastewater Disposal Agreement regardless of the source of payment. However, if the Participating Agencies are unable to pay amounts due and payable for any reason, the City's ability to generate Net System Revenues in the amounts required by the Installment Purchase Agreement to pay 2009A Installment Payments could be adversely affected. See "CONSTITUTIONAL LIMITATIONS ON TAXES AND WASTEWATER RATES AND CHARGES—Articles XIIC and XIID" herein.

Notwithstanding the foregoing, the City has covenanted to fix, prescribe and collect rates and charges for Wastewater Service at a level at least sufficient to meet its debt requirements, as set forth under "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2009A BONDS – Rate Covenant" herein. The current wastewater rates for customers within the City have been approved by the Mayor and the City Council and have been imposed in compliance with Proposition 218. See "CONSTITUTIONAL LIMITATIONS ON TAXES AND WASTEWATER RATES AND CHARGES—Articles XIIC and XIID" herein.

Statutory and Regulatory Compliance

Claims against the Wastewater System for failure to comply with applicable laws and regulations could be significant. Such claims are payable from assets of the Wastewater System or from other legally available sources. In addition to claims by private parties, changes in the scope and standards for public agency Wastewater Systems such as that operated by the MWWD may also lead to administrative orders issued by Federal or State regulators. Future compliance with such orders can also impose substantial additional costs on the Sewer Revenue Fund. See "WASTEWATER SYSTEM REGULATORY REQUIREMENTS" herein. No assurance can be given that the cost of compliance with such laws, regulations and orders would not adversely affect the ability of the Wastewater System to generate Net System Revenues sufficient to pay the 2009A Installment Payments. See "WASTEWATER SYSTEM REGULATORY REQUIREMENTS – Collection of Sewage", "– Treatment of Sewage" and "– Discharge and Disposal of Sewage" herein. However, the City has covenanted in the Installment Purchase Agreement to fix, prescribe and collect rates and charges for the Wastewater System which will yield Net System Revenues for each fiscal year sufficient to pay debt service on the Parity Obligations, including the 2009A Installment Payments securing the Series 2009A Bonds. All proposed increases for such rates and charges for the Wastewater System are subject to the restrictions and requirements of Articles XIIC and XIID of the California Constitution.

Earthquakes, Wildfires and Other Natural Disasters

Although the City has not experienced any significant damage from seismic activities, the geographic area in which the City is located is subject to unpredictable seismic activity. Southern California is characterized by a number of geotechnical conditions which represent potential safety hazards, including expansive soils and areas of potential liquefaction and landslide. Earthquakes or other natural disasters could interrupt operation of the Wastewater System and thereby interrupt the ability of the City to realize Net System Revenues sufficient to pay the 2009A Installment Payments securing the payment of the Series 2009A Bonds. The San Andreas, Rose Canyon, Elsinore and San Jacinto fault zones are all capable of producing earthquakes in the San Diego area. In anticipation of such potential disasters, the City designs and constructs all facilities of the Wastewater System to the seismic codes in effect at the time of design of the project. The Wastewater System has not experienced any significant losses of facilities or services as a result of earthquakes. Facilities within the Wastewater System generally consist of pipelines and connections, flow control facilities, and pumping stations, which are not typically vulnerable to damage by wildfires. All treatment facilities, pumping stations and piping structures are designed in accordance with appropriate seismic design requirements.

The above ground facilities within the Wastewater System are designed to be tolerant to damage by wildfires through the use of fire resistant material where possible, such as concrete and masonry blocks. In addition, the MWWD works closely with the City's fire department to ensure that proper vegetative clearances are maintained in and around the properties and facilities of the Wastewater System. The MWWD watches for wildfires that may threaten the facilities of the Wastewater System and operations and maintenance crews are dispatched to ensure that all above-ground facilities remain safe and operational. Further, during fires, the MWWD works closely with the City's fire department and law enforcement officers to monitor and protect facilities of the Wastewater System to ensure continuous operation. One pump station sustained minor damage from the October 2007 wildfires in San Diego County.

Although the City has implemented disaster preparedness plans and made improvements to Wastewater System facilities in connection with such natural disasters, there can be no assurance that these or any additional measures will be adequate in the event that a natural disaster occurs, nor that costs of preparedness measures will be as currently anticipated. Further, damage to components of the Wastewater System could cause a material increase in costs for repairs or a corresponding material adverse impact on Net System Revenues. The City is not obligated under the Installment Purchase Agreement to procure and maintain, or cause to be procured and maintained, nor does the City plan to procure and maintain, earthquake insurance on the Wastewater System.

Risks Relating to the Water Supply

The ability of the Wastewater System to operate effectively can be affected by the water supply available to the City, which is situated in an arid and semi-desert environment that is currently subject to drought conditions. If the water supply decreases significantly, whether by operation of mandatory supply restrictions, prohibitively high water costs or otherwise, flow within the Wastewater System will diminish and Net System Revenues available to pay the 2009A Installment Payments may be adversely affected. Under current estimates, Wastewater System operations and Net System Revenues are not expected to be materially adversely affected if the MWWD is ordered to conserve up to 20% of its annual water supply, receives an unexpectedly low water allocation, or becomes subject to penalties or additional expenses because of an inability to meet the conservation goal. Further, the MWWD anticipates that any such reduction in Net System Revenues would be offset in part by reductions in the amount of sewage collected and treated by the MWWD, which would reduce operational expenses.

Security of the Wastewater System

The safety of the Wastewater System within the operational areas of the MWWD is maintained via a combination of regular inspections by the MWWD employees, electronic monitoring, and analysis of unusual incident reports. All above-ground facilities, operated and maintained by WWTDD, including the Point Loma Plant, the Metropolitan Biosolids Center, the North City Plant and South Bay Plant and pumping stations within the Wastewater System, are controlled access facilities with fencing, gates, closed circuit television systems and security officers at appropriate points. Smaller, above-ground and subterranean pumping stations, operated and maintained by WWC, are locked with padlock or internal locking mechanisms and most are monitored via access/intrusion alarms. Security improvements are evaluated on an ongoing basis. The electronic operations and controls have been evaluated and exposure reduced through a series of technology systems enhancements and integration.

Military conflicts and terrorist activities may adversely impact the operations and finances of the Wastewater System. The MWWD continually plans and prepares for emergency situations and immediately responds to ensure sewer services are maintained. However, there can be no assurance that any existing or additional safety and security measures will prove adequate in the event that terrorist

activities are directed against the Wastewater System or that costs of security measures will not be greater than presently anticipated. Further, damage to certain components of the Wastewater System could require the City to increase expenditures for repairs to the Wastewater System significantly enough to adversely impact the City's ability to pay debt service on the Series 2009A. The City has established within the Sewer Revenue the Operating Reserve, which is currently funded at a minimum of 50 days' operating costs (to be gradually increased to 70 days of operating costs in Fiscal Years 2010 to Fiscal Year 2013 which may be used under certain circumstances for repairs to the Wastewater System. See "WASTEWATER SYSTEM FINANCIAL OPERATIONS – Rate Stabilization Fund and Other Funds and Accounts" herein.

Utility Costs

No assurance can be given that any future significant reduction or loss of power would not materially adversely affect the operations of the Wastewater System. The volume of wastewater conveyed and treated in the Wastewater System on a daily basis requires a significant amount of electrical and thermal power. Electricity is needed to run several assets including, among other things, pumps, lights, computers, mechanical valves and machinery. Thermal energy, usually generated by electrical power or by burning natural gas, provides heat and cooling necessary for both buildings and the wastewater treatment process. Energy in excess of the amount necessary to power the Metropolitan Biosolids Center reduces the amount of energy purchased by the MWWD from the local power grid for use at facilities in the Wastewater System. The MWWD cannot guarantee that prices for electricity or gas will not increase, which could adversely affect the Wastewater System's financial condition. Such increases in wastewater rates and such other charges as well as increases in electricity and gas costs are eligible to be "passed through" to the City's wastewater customers as increased wastewater rates in accordance with the City Municipal Code. Such "pass through" rate increases are subject to Proposition 218 notice requirements. See "CONSTITUTIONAL LIMITATIONS ON TAXES AND WASTEWATER RATES AND CHARGES – Articles XIIC and XIID" herein.

The MWWD operates an energy efficiency program at its facilities as a component of its ongoing commitment to protect the environment by preserving our natural resources, reducing power consumption, using renewable energy sources, seeking cheaper sources of power and serving the needs of all our customers. Energy savings, if any, directly benefit the residents of the City by helping to maintain lower sewer rates while providing renewable electric energy to the region.

Impact of Current Fiscal Crisis on Wastewater System Revenues

The United States financial market is presently experiencing extreme volatility precipitated by major economic disruptions, indications of a severe economic recession and significant credit and liquidity problems. The City cannot predict the extent of the fiscal problems that will be encountered in this or in any future Fiscal Years, and, it is not clear what measures will be taken by the State or Federal government to address the current fiscal crisis. Accordingly, the City cannot predict the final outcome of future State or Federal actions or the impact that such actions will have on the Wastewater System's finances and operations.

Pursuant to the Installment Purchase Agreement, the City is obligated to fix, prescribe and collect rates and charges for Wastewater Service that will be at least sufficient to pay during each Fiscal Year all Obligations (other than Parity Obligations) payable in such Fiscal Year, and to yield during each Fiscal Year Net System Revenues equal to 120% of Debt Service (defined generally to mean the aggregate amount of principal, sinking fund payments and interest payable in respect of all Parity Obligations for such Fiscal Year). The Installment Purchase Agreement also prohibits the City from reducing the rates and charges then in effect unless the Net System Revenues from such reduced rates and charges will at all

times be sufficient to meet the requirements of the Installment Purchase Agreement. Further, the Indenture provides that upon the occurrence and continuance of any Event of Default (as defined in the Indenture), including nonpayment of principal of or interest on the Series 2009A Bonds, the holders of the Series 2009A Bonds may proceed to enforce their beneficial rights by mandamus, or other suit, action or proceeding at law or in equity, which includes an action for specific performance by the City with respect to its rate covenant and any other agreement contained in the Installment Purchase Agreement. See also “RISK FACTORS – Rate-Setting Process Under Proposition 218” and “CONSTITUTIONAL LIMITATIONS ON TAXES AND WASTEWATER RATES AND CHARGES – Articles XIIC and XIID” for a description of limitations on the rate-setting process under the California Constitution.

The MWWD has taken the current fiscal crisis into consideration in its projections of capacity charges for the current and subsequent fiscal years. In Fiscal Year 2008, approximately \$11.8 million was generated from Capacity Charges. The MWWD projects that \$11.0 million, including a one-time Capacity Charge from a dewatering project at the San Diego Convention Center, will be generated in Fiscal Year 2009. The Capacity Charge revenue projections for Fiscal Years 2010 and through Fiscal Year 2013 assume an average annual growth rate of approximately 1% in EDUs.

The MWWD has also considered the effects of the housing market on the other components of System Revenues, including revenues generated from sewer service charges. Notwithstanding housing foreclosures and related account closings, usage of the Wastewater System has remained stable. Accordingly, the MWWD expects that the current housing conditions will not adversely affect the ability of the Wastewater System to generate Net System Revenues sufficient to pay the 2009A Installment Payments. However, the City cannot predict the extent to which the current or any future financial crisis will impact its ability to generate Net System Revenues in the amounts required by the Installment Purchase Agreement to pay 2009A Installment Payments. In particular, the City cannot predict the extent to which an economic recession and credit crisis will affect future wastewater flow, the impact of any reduced demand on the Wastewater System’s finances and operations or whether a sustained fiscal crisis would create sufficient pressure on the City to effect a reduction in wastewater fees.

Acceleration; Limitations on Remedies

The Indenture provides that, upon and during the continuance of an Event of Default thereunder, the Trustee may, subject to certain conditions, declare the principal of all Bonds, including the Series 2009A Bonds, then Outstanding and the interest accrued thereon to be due and payable immediately. The foregoing notwithstanding, the remedy of acceleration is subject to the limitations on legal remedies against public entities in the State, including a limitation on enforcement obligations against funds needed to serve the public welfare and interest. Also, any remedies available to the Owners of the Series 2009A Bonds upon the occurrence of an Event of Default under the Indenture are in many respects dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time consuming to obtain.

Further, enforceability of the rights and remedies of the Owners of the Series 2009A Bonds, and the obligations incurred by the City, may become subject to the Federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditor’s 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 Constitution, the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose, and the limitations on remedies against counties in the State. Bankruptcy proceedings, or the exercise of powers by the Federal or State government, if initiated, could subject the Owners of the Series 2009A Bonds to

judicial discretion and interpretation of their rights in bankruptcy or otherwise and consequently may entail risks of delay, limitation, or modification of their rights.

CONSTITUTIONAL LIMITATIONS ON TAXES AND WASTEWATER RATES AND CHARGES

Article XIII A

Article XIII A of the State Constitution provides that the maximum ad valorem tax on real property cannot exceed 1% of the “full cash value,” which is defined as “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”, subject to exceptions for certain circumstances of transfer or reconstruction and except with respect to certain voter approved debt. The “full cash value” is subject to annual adjustment to reflect increases, not to exceed 2% per year, or decreases in the consumer price index or comparable local data, or to reflect reduction in property value caused by damage, destruction or other factors.

Article XIII A requires a vote of two-thirds of the qualified electorate to impose special taxes, while generally precluding the imposition of any additional ad valorem, sales or transaction tax on real property. As amended, Article XIII A exempts from the 1% tax limitation any taxes above that level required to pay debt service on certain voter-approved general obligation bonds for the acquisition or improvement of real property. In addition, Article XIII A requires the approval of two-thirds of all members of the State Legislature to change any State laws resulting in increased tax revenues.

Under California law, any fee which exceeds the reasonable cost of providing the service for which the fee is charged is a “special tax,” which under Article XIII A must be authorized by a two-thirds vote of the electorate. Accordingly, if a portion of the City’s water or wastewater user rates or Capacity Fees were determined by a court to exceed the reasonable cost of providing service, the City would not be permitted to continue to collect that portion unless it were authorized to do so by a two-thirds majority of the votes cast in an election to authorize the collection of that portion of the rates or fees. The reasonable cost of providing wastewater services has been determined by the State Controller to include depreciation and allowance for the cost of capital improvements. In addition, the California courts have determined that fees such as capacity fees will not be special taxes if they approximate the reasonable cost of constructing the water or wastewater capital improvements contemplated by the local agency imposing the fee. See “WASTEWATER SYSTEM FINANCIAL OPERATIONS – Historical Revenues and Expenses” herein.

Article XIII B

Article XIII B of the California Constitution limits the annual appropriations of proceeds of taxes by State and local government entities to the amount of appropriations of the entity for the prior fiscal year, as adjusted for changes in the cost of living, changes in population and changes in services rendered by the entity. User fees and charges are considered proceeds of taxes only to the extent they exceed the reasonable costs incurred by a governmental entity in supplying the goods and services for which such fees and charges are imposed.

To the extent that assessments, fee and charges collected by the City are used to pay the costs of maintaining and operating the Wastewater System and payments due on the Series 2009A Bonds (including the funding of the Reserve Fund), the City believes that such moneys are not subject to the annual appropriations limit of Article XIII B.

Articles XIIC and XIID

On November 5, 1996, the voters of the State approved Proposition 218, a constitutional initiative, entitled the “Right to Vote on Taxes Act” (“Proposition 218”). Proposition 218 added Articles XIIC and XIID to the California Constitution and contained a number of interrelated provisions affecting the ability of local governments, including the City, to levy and collect both existing and future taxes, assessments, fees and charges.

Section 1 of Article XIIC requires majority voter approval for the imposition, extension or increase of general taxes and Section 2 thereof requires two-thirds voter approval for the imposition, extension or increase of special taxes. These voter approval requirements of Article XIIC reduce the flexibility of the City to raise revenues by the levy of general or special taxes and, given such voter approval requirements, no assurance can be given that the City will be able to enact, impose, extend or increase any such taxes in the future to meet increased expenditure requirements. The City has not enacted, imposed, extended or increased any tax since the effective date of Proposition 218.

Section 3 of Article XIIC 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 or charges were imposed. Section 3 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 XIIC to fees imposed after November 6, 1996, the effective date of Proposition 218, and absent other legal authority could result in the reduction in any existing taxes, assessments or fees and charges imposed prior to November 6, 1996.

“Fees” and “charges” are not expressly defined in Article XIIC or in SB 919, the Proposition 218 Omnibus Implementation Act enacted in 1997 to prescribe specific procedures and parameters for local jurisdictions in complying with Article XIIC and Article XIID (“SB 919”). However, on July 24, 2006, the California Supreme Court ruled in *Bighorn-Desert View Water Agency v. Virgil (Kelley)* (the “*Bighorn Decision*”) that charges for ongoing water delivery are property-related fees and charges within the meaning of Article XIID and are also fees or charges within the meaning of Section 3 of Article XIIC. The California Supreme Court held that such water service charges may, therefore, be reduced or repealed through a local voter initiative pursuant to Section 3 of Article XIIC.

In the *Bighorn Decision*, the Supreme Court did state that nothing in Section 3 of Article XIIC authorizes initiative measures that impose voter-approval requirements for future increases in fees or charges for water delivery. The Supreme Court stated that water providers may determine rates and charges upon proper action of the governing body and that the governing body may increase a charge which was not affected by a prior initiative or impose an entirely new charge.

The Supreme Court further stated in the *Bighorn Decision* that it was not holding that the initiative power is free of all limitations and was not determining whether the initiative power is subject to the statutory provision requiring that water and wastewater service charges be set at a level that will pay debt service on bonded debt and operating expenses. Such initiative power could be subject to the limitations imposed on the impairment of contracts under the contract clause of the United States Constitution. Additionally, SB 919 provides that the initiative power provided for in Proposition 218 “shall not be construed to mean that any owner or beneficial owner of a municipal security, purchased before or after (the effective date of Proposition 218) assumes the risk of, or in any way consents to, any action by initiative measure that constitutes an impairment of contractual rights” protected by the United States Constitution. No assurance can be given that the voters of the City will not, in the future, approve initiatives which repeal, reduce or prohibit the future imposition or increase of assessments, fees or

charges, including the City's wastewater service fees and charges, which are the source of Net System Revenues pledged to the payment of debt service on Series 2008 Bonds and other Outstanding Obligations.

Notwithstanding the fact that sewer service charges may be subject to reduction or repeal by voter initiative undertaken pursuant to Section 3 of Article XIIC, the City has covenanted to levy and charge rates which meet the requirements of the Installment Purchase Agreement in accordance with applicable law.

Article XIID defines a "fee" or "charge" as any levy other than an *ad valorem* tax, special tax, or assessment imposed upon a parcel or upon a person as an incident of property ownership, including a user fee or charge for a property-related service. A "property-related service" is defined as "a public service having a direct relationship to a property ownership" herein. In the *Bighorn Decision*, the California Supreme Court held that a public water agency's charges for ongoing water delivery are fees and charges within the meaning of Article XIID. Article XIID requires that any agency imposing or increasing any property-related fee or charge must provide written notice thereof to the record owner of each identified parcel upon which such fee or charge is to be imposed and must conduct a public hearing with respect thereto. The proposed fee or charge may not be imposed or increased if a majority of owners of the identified parcels file written protests against it. As a result, the local government's ability to increase such fee or charge may be limited by a majority protest.

In addition, Article XIID also includes a number of limitations applicable to existing fees and charges including provisions to the effect that (i) revenues derived from the fee or charge shall not exceed the funds required to provide the property-related service; (ii) such revenues shall not be used for any purpose other than that for which the fee or charge was imposed; (iii) the amount of a fee or charge imposed upon any parcel or person as an incident of property ownership shall not exceed the proportional cost of the service attributable to the parcel; and (iv) no such fee or charge may be imposed for a service unless that service is actually used by, or immediately available to, the owner of the property in question. Property-related fees or charges based on potential or future use of a service are not permitted.

The City's current wastewater rates comply with the notice and substantive provisions of Article XIID. Three lawsuits filed against the City challenging the wastewater rates as they were structured prior to October 2004, before the City incorporated a COD component. The *Shames* Settlement resulted in a \$35 million rebate to eligible single family residential customers and \$5 million in attorneys' fees, as discussed previously under Wastewater System Financial Operations. The two other lawsuits were filed on behalf of local restaurants and multifamily residential customers are still pending. See "LITIGATION" herein for a description of the two lawsuits.

Article XIID establishes procedural requirements for the imposition of assessments, which are defined as any charge upon real property for a special benefit conferred upon the real property. Standby charges are classified as assessments. Procedural requirements for assessments under Article XIID include conducting a public hearing and mailed protest procedure, with notice to the record owner of each parcel subject to the assessment. The assessment may not be imposed if a majority of the ballots returned oppose the assessment, with each ballot weighted according to the proportional financial obligation of the affected parcel. To provide guidance to City staff regarding the conduct of Proposition 218 "property-related fee" protest proceedings, the City Council adopted Resolution R-302245 in January 2007 establishing additional procedures for submitting protests against proposed increases to sewer rates, including the provision of notice of a proposed change in wastewater fees to all owners of record on each identified parcel and all wastewater customers of the City as reflected in the billing records of the City at the time the notice is given, and additional procedures for the tabulation of protests against proposed

increases to sewer service charges, including guidelines for determining when a valid protest has been submitted.

The City and the City Attorney are of the opinion that current wastewater fees and charges that are subject to Proposition 218 comply with the provisions thereof and that the City will continue to comply with the rate covenant set forth in the Installment Purchase Agreement in conformity with the provisions of Article XIII D of the California State Constitution. Should it become necessary to increase the wastewater fees and charges above current levels, the City would be required to comply with the requirements of Article XIII D in connection with such proposed increase. Under existing standards, the City and the City Attorney are of the opinion that rates and charges may be established at levels which would permit deposits to a Rate Stabilization Fund or maintenance of uncommitted cash reserves. See “WASTEWATER SYSTEM FINANCIAL OPERATIONS – Financial Projections” herein.

The interpretation and application of Proposition 218 will ultimately be determined by the courts or through implementing legislation with respect to a number of the matters described above, and it is not possible at this time to predict with certainty the outcome of such determination or the nature or scope of any such legislation.

TAX MATTERS

Federal Income Taxes

The Internal Revenue Code of 1986, as amended (the “Code”), imposes certain requirements that must be met subsequent to the issuance and delivery of the Series 2009A Bonds for interest thereon to be and remain excluded from gross income for Federal income tax purposes. Noncompliance with such requirements could cause the interest on the Series 2009A Bonds to be included in gross income for Federal income tax purposes retroactive to the date of issue of the Series 2009A Bonds. Pursuant to the Indenture and the Tax and Nonarbitrage Certificate the City and the Authority have covenanted to comply with the applicable requirements of the Code in order to maintain the exclusion of the interest on the Series 2009A Bonds from gross income for Federal income tax purposes pursuant to Section 103 of the Code. In addition, the City and the Authority have made certain representations and certifications in the Indenture and the Tax and Nonarbitrage Certificate. Bond Counsel will not independently verify the accuracy of those representations and certifications.

In the opinion of Nixon Peabody LLP, Bond Counsel, under existing law and assuming compliance with the aforementioned covenants, and the accuracy of certain representations and certifications made by the City and the Authority described above, interest on the Series 2009A Bonds is excluded from gross income for Federal income tax purposes under Section 103 of the Code. Bond Counsel is also of the opinion that such interest is not treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations. No opinion is expressed as to whether interest on any portion of the Bonds is excluded from the adjusted current earnings of corporations for purposes of computing the alternative minimum tax imposed on corporations.

State Taxes

Bond Counsel is also of the opinion that interest on the Series 2009A Bonds is exempt from State of California personal income taxes. Bond counsel expresses no opinion as to other state or local tax consequences arising with respect to the Series 2009A Bonds nor as to the taxability of the Series 2009A Bonds or the income therefrom under the laws of any state other than California.

Original Issue Discount

Bond Counsel is further of the opinion that the difference between the principal amount of the Series 2009A Bonds maturing on May 15, 2020, the Series 2009A Bonds maturing on May 15, 2026 through May 15, 2029, inclusive, the 2034 5.250% Series 2009A Term Bonds and the 2039 Series 2009A Term Bonds (collectively the “Discount Bonds”) and the initial offering price to the public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers) at which price a substantial amount of such Discount Bonds of the same maturity was sold constitutes original issue discount which is excluded from gross income for Federal income tax purposes to the same extent as interest on the Series 2009A Bonds. Further, such original issue discount accrues actuarially on a constant interest rate basis over the term of each Discount Bond and the basis of each Discount Bond acquired at such initial offering price by an initial purchaser thereof will be increased by the amount of such accrued original issue discount. The accrual of original issue discount may be taken into account as an increase in the amount of tax-exempt income for purposes of determining various other tax consequences of owning the Discount Bonds, even though there will not be a corresponding cash payment. Owners of the Discount Bonds are advised that they should consult with their own advisors with respect to the state and local tax consequences of owning such Discount Bonds.

Original Issue Premium

The Series 2009A Bonds maturing on May 15, 2010 through May 15, 2019, inclusive, the Series 2009A Bonds maturing on May 15, 2021 through May 15, 2025, inclusive, and the 2034 5.375% Series 2009A Term Bonds (collectively, the “Premium Bonds”) are being offered at prices in excess of their principal amounts. An initial purchaser with an initial adjusted basis in a Premium Bond in excess of its principal amount will have amortizable bond premium which is not deductible from gross income for Federal income tax purposes. The amount of amortizable bond premium for a taxable year is determined actuarially on a constant interest rate basis over the term of each Premium Bond based on the purchaser’s yield to maturity (or, in the case of Premium Bonds callable prior to their maturity, over the period to the call date, based on the purchaser’s yield to the call date and giving effect to any call premium). For purposes of determining gain or loss on the sale or other disposition of a Premium Bond, an initial purchaser who acquires such obligation with an amortizable bond premium is required to decrease such purchaser’s adjusted basis in such Premium Bond annually by the amount of amortizable bond premium for the taxable year. The amortization of bond premium may be taken into account as a reduction in the amount of tax-exempt income for purposes of determining various other tax consequences of owning such Series 2009A Bonds. Owners of the Premium Bonds are advised that they should consult with their own advisors with respect to the state and local tax consequences of owning such Premium Bonds.

Ancillary Tax Matters

Ownership of the Series 2009A Bonds may result in other Federal tax consequences to certain taxpayers, including, without limitation, certain S corporations, foreign corporations with branches in the United States, property and casualty insurance companies, individuals receiving Social Security or Railroad Retirement benefits, and individuals seeking to claim the earned income credit. Ownership of the Series 2009A Bonds may also result in other Federal tax consequences to taxpayers who may be deemed to have incurred or continued indebtedness to purchase or to carry the Series 2009A Bonds; for certain bonds issued during 2009 and 2010, the American Recovery and Reinvestment Act of 2009 modifies the application of those rules as they apply to financial institutions. Prospective investors are advised to consult their own tax advisors regarding these rules.

Commencing with interest paid in 2006, interest paid on tax-exempt obligations such as the Series 2009A Bonds is subject to information reporting to the Internal Revenue Service (the “IRS”) in a

manner similar to interest paid on taxable obligations. In addition, interest on the Series 2009A Bonds may be subject to backup withholding if such interest is paid to a registered owner that (a) fails to provide certain identifying information (such as the registered owner's taxpayer identification number) in the manner required by the IRS, or (b) has been identified by the IRS as being subject to backup withholding.

Bond Counsel is not rendering any opinion as to any Federal tax matters other than those described in the opinions attached as Appendix D. Prospective investors, particularly those who may be subject to special rules described above, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the Series 2009A Bonds, as well as any tax consequences arising under the laws of any state or other taxing jurisdiction.

Changes in Law and Post Issuance Events

Legislative or administrative actions and court decisions, at either the Federal or state level, could have an adverse impact on the potential benefits of the exclusion from gross income of the interest on the Series 2009A Bonds for Federal or state income tax purposes, and thus on the value or marketability of the Series 2009A Bonds. This could result from changes to Federal or state income tax rates, changes in the structure of Federal or state income taxes (including replacement with another type of tax), repeal of the exclusion of the interest on the Series 2009A Bonds from gross income for Federal or state income tax purposes, or otherwise. It is not possible to predict whether any legislative or administrative actions or court decisions having an adverse impact on the Federal or state income tax treatment of holders of the Series 2009A Bonds may occur. Prospective purchasers of the Series 2009A Bonds should consult their own tax advisers regarding such matters.

Bond Counsel has not undertaken to advise in the future whether any events after the date of issuance and delivery of the Series 2009A Bonds may affect the tax status of interest on the Series 2009A Bonds. Bond Counsel expresses no opinion as to any Federal, state or local tax law consequences with respect to the Series 2009A Bonds, or the interest thereon, if any action is taken with respect to the Series 2009A Bonds or the proceeds thereof upon the advice or approval of other counsel.

CONTINUING DISCLOSURE

Pursuant to the Continuing Disclosure Certificate of the City (the "Disclosure Certificate"), the City has agreed to provide, or cause to be provided, to Municipal Securities Rulemaking Board in the manner prescribed by the Securities Exchange Commission certain annual financial information and operating data concerning the City. The annual report to be filed by the City is to be filed not later than 270 days following the end of the City's Fiscal Year (currently June 30), commencing with the Annual Report for Fiscal Year 2009, and is to include audited financial statements of the City.

Prior to March 2004, the City never failed to comply with its previous undertakings with regard to Rule 15c2-12 to provide annual reports or notices of material events. Since that date, the City failed to comply with the undertakings related to 21 bond issues for each of Fiscal Year 2003, Fiscal Year 2004, Fiscal Year 2005, Fiscal Year 2006, and Fiscal Year 2007 due to the unavailability of the City's audited financial statements, as described in greater detail under the caption entitled "INTRODUCTION – Recent Events Regarding the City" herein. Each required annual report and audited financial statement was subsequently filed.

On January 25, 2008 and January 28, 2008, the City filed annual reports (including audited financial statements) relating to securities issued by the Authority and secured by the Sewer Revenue Fund for Fiscal Years 2003 and 2004, respectively. The annual reports for such securities for Fiscal Years 2005, 2006, and 2007 were filed on June 13, 2008, September 15, 2008 and December 11, 2008,

respectively. On February 8, 2008, the City filed annual reports (including audited financial statements) relating to securities issued by the Authority and secured by the Water Utility Fund for Fiscal Years 2003 and 2004 and on June 13, 2008 the City filed the annual report for such securities for Fiscal Year 2005. The annual reports for such securities for Fiscal Years 2006, 2007 and 2008 were filed on September 15, 2008, December 4, 2008 and March 27, 2009, respectively. In addition, on December 11, 2007, the City filed its annual report (including audited financial statements) relating to seven debt issues that are secured directly or indirectly by the City's General Fund for the Fiscal Years 2003 and Fiscal Year 2004. The annual reports for such securities for Fiscal Years 2005, 2006, and 2007 were filed on June 13, 2008, October 7, 2008 and December 5, 2008, respectively. With regard to special tax and assessment bonds, the affected districts did not file reports for Fiscal Year 2004 when due and timely filed reports, without financial statements, for Fiscal Years 2003, 2005, 2006 and 2007. The financial statements for Fiscal Years 2003 through the Fiscal Year 2007 were subsequently filed with the applicable repositories.

The City has timely filed the annual reports and financial statements for Fiscal Year 2008 with respect to securities secured by the Sewer Revenue Fund, the Water Utility Fund or the City's General Fund. The City's covenants in the Disclosure Certificate have been made in order to assist the Underwriter in complying with the Rule. The City's failure to comply with any of the covenants therein shall not be deemed an event of default under the Indenture.

LITIGATION

There is no litigation pending against the City or, to the knowledge of its respective executive officers, threatened, seeking to restrain or enjoin the issuance, sale, execution or delivery of the Series 2009A Bonds or in any way contesting or affecting the validity of the Series 2009A Bonds or the Authorizations or any proceedings of the City taken with respect to the issuance or sale thereof, or the pledge or application of any moneys or security provided for the payment of the Series 2009A Bonds or the use of the proceeds of the Series 2009A Bonds.

There are no pending lawsuits that, in the opinion of the City Attorney, challenge the validity of the above issue, the corporate existence of the City, or the title of the executive officers to their respective offices. In connection with this review, attention has been given to not only litigation pending against the City, but also litigation pending against the MWWD. The Office of the City Attorney has prepared the following summary, as of May 6, 2009, certain claims and lawsuits (for which the estimated loss to the City as of such date exceeds \$1 million ("Material Litigation")) pending against the Sewer Revenue Fund for construction claims and certain other alleged liabilities arising during the ordinary course of operations of the Wastewater System:

- There are two class action lawsuits pending, each alleging that the City failed to include a COD cost component in the sewer rate structure prior to October 2004, which led to overcharges on sewer fees for certain customer groups that were disproportionate to the cost of service for such customer groups. While the allegations in both lawsuits are similar to those set forth in *Shames*, a class action lawsuit on behalf of all single family residential account holders that was settled in 2007 (see "WASTEWATER SYSTEM FINANCIAL OPERATIONS – City Council Actions Relating to Sewer Rate Changes"), the City's defenses and potential liability relative to the two pending lawsuits are different from those in *Shames*.

- *California Restaurant Management System v. City of San Diego*. Plaintiffs filed this case on August 20, 2007 on behalf of local food establishments, alleging that from 1994 to 2004 the City failed to properly calculate the food establishments' proportionate impact on the cost of operating and maintaining the Wastewater System and seeking to recover their alleged overpayment. The case is currently in the discovery stage. A class certification hearing will be

scheduled for a date on or after May 15, 2009. The City currently estimates that the potential liability resulting from this case could be as high as \$5 million.

○ *Edmond A. Vigneau v. City of San Diego.* Plaintiffs filed this case on September 17, 2008 on behalf of multifamily residential customers, alleging the City overcharged them for sewer service from 2000 to 2004, before the City incorporated a COD component. Notwithstanding the absence of a COD cost component, the City believes that the plaintiffs may have been undercharged because other aspects of the pre-October 2004 sewer rate for this customer group, including the base fee for service, may have been too low. The plaintiffs are seeking class status and the case is entering the discovery stage. The City currently estimates that the potential exposure resulting from this case could be as high as \$5 million, but anticipates the plaintiff's likelihood of success is remote.

• *Timothy Cresto, et al. v. Taylor Woodrow Homes, Inc., et al; Christopher Smith, et al. v. Taylor Woodrow Homes, et al.* On August 21, 2007, two sets of plaintiffs filed lawsuits alleging that the City, Taylor Woodrow Homes, Inc. and certain other related parties effected an inverse condemnation of and caused dangerous conditions on their respective properties in a housing development known as Santaluz, by contributing to the plaintiffs' exposure to hydrogen sulfide gas, which allegedly emanated from the Wastewater System. The cases have been coordinated for discovery and settlement purposes. The City currently estimates that the aggregate liability resulting from these two cases could be as high as \$20 million. The City has filed cross-complaints against the developer, the design engineer and the contractors seeking indemnity for any damages that may be awarded to the plaintiffs.

The City believes it has sufficient defenses against such claims and lawsuits and in no event should these claims and lawsuits result in judgments or settlements which, in the aggregate, would have a material adverse effect on the Sewer Revenue Fund's financial position.

LEGAL OPINION

The validity of the Series 2009A Bonds and certain other matters are subject to the approving opinion of Nixon Peabody LLP, Los Angeles, California, Bond Counsel. A complete copy of the proposed form of opinion of Bond Counsel is contained in Appendix D attached hereto. Certain legal matters will be passed upon for the Authority by Hawkins Delafield & Wood LLP, Los Angeles, California, Disclosure Counsel, and by Jan I. Goldsmith, City Attorney, and for the Underwriters by their counsel, Stradling Yocca Carlson & Rauth, A Professional Corporation, Newport Beach, California.

RATINGS

Moody's, S&P and Fitch have assigned the Series 2009A Bonds their ratings of "A2", "A+" and "AA-", respectively, and issued "stable" outlooks in connection with their ratings. Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same, at the following addresses: Standard & Poor's Ratings Services, 55 Water Street, New York, New York 10041; Fitch Ratings, One State Street Plaza, New York, New York 10004; Moody's Investors Service, Inc., 7 World Trade Center, 250 Greenwich Street, New York, New York 10007. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own.

There is no assurance such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Series 2009A Bonds.

UNDERWRITING

The Series 2009A Bonds are being purchased by Banc of America Securities LLC, as representative of the Underwriters named on the cover page to this Official Statement (collectively, the "Underwriters"). The Underwriters have agreed, subject to certain conditions, to purchase the Series 2009A Bonds at a purchase price of \$455,349,388.63, equal to the original principal amount thereof, plus a net original issue premium of \$3,880,530.50, less underwriters' compensation in the amount of \$2,306,141.87. The Underwriters may offer and sell the Series 2009A Bonds to certain dealers and others at prices lower than the offering prices. The offering prices may be changed from time to time by the Underwriters.

PROFESSIONAL ADVISORS

Montague, DeRose and Associates LLC, Walnut Creek, California served as Financial Advisor to the City with respect to the sale of the Series 2009A Bonds. The Financial Advisor has not undertaken to make an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement.

Malcolm Pirnie has served as Feasibility Consultant to the City in connection with the issuance of the Series 2009A Bonds. A complete copy of the Feasibility Consultant's Feasibility Study for 2009 Series Wastewater Revenue Bonds is attached as Appendix B hereto.

FINANCIAL STATEMENTS FOR FISCAL YEAR 2008

The City's basic financial statements include the financial statements of the Sewer Revenue Fund. The City's 2008 basic financial statements have been audited by Macias Gini & O'Connell LLP (the "Independent Auditor"), independent certified public accountants, as stated in their report. The Independent Auditor has agreed to the inclusion of its report in Appendix A-1.

Those portions of the City's 2008 basic financial statements relating to the Sewer Revenue Fund, including all of the City's basic financial statements for Fiscal Year 2008 audited by Macias Gini & O'Connell LLP, are included in Appendix A-1. Appendix A-1 also includes the unaudited management's discussion and analysis, unaudited required supplementary information with respect to the City's Pension System and CERBT and General Fund budgetary information. Certain of the data and information set forth in Appendix A-1 do not pertain to the Sewer Revenue Fund but have been included in Appendix A-1 for purposes of context. The unaudited letter of transmittal from the Mayor and unaudited statistical information regarding debt service coverage on Parity Obligations and Subordinated Obligations are included in Appendix A-2. The City's CAFRs are available in their entirety on the City's website at <http://www.sandiego.gov>. However, the information presented there is not part of this Official Statement, is not incorporated by reference herein and should not be relied upon in making an investment decision with respect to the Series 2009A Bonds. The City's General Fund does not secure payment of debt service on the Series 2009A Bonds.

CHANGES FROM THE PRELIMINARY OFFICIAL STATEMENT

In addition to updates to the Preliminary Official Statement dated April 24, 2009 as a result of pricing, the information appearing on page 161B of the City's 2008 CAFR, Note 18, has been updated to include disclosure on *Crabbe, et al v. City of San Diego*. The City's Wastewater Sewer Revenue Fund is not involved in the litigation and would not contribute to the payment of any resulting liability.

MISCELLANEOUS

This Official Statement has been duly approved, executed and delivered by the Authority and the City.

There are appended to this Official Statement a summary of certain provisions of the principal and legal documents, portions of the City's 2008 CAFR, including financial statements of the Sewer Revenue Fund, the Feasibility Consultant's Feasibility Study for 2009 Series Wastewater Revenue Bonds, the proposed form of opinion of Bond Counsel, and a general description of the City and a description of the Book-Entry Only System. The Appendices are integral parts of this Official Statement and must be read together with all other parts of this Official Statement.

This Official Statement is not to be construed as a contract or agreement between the Authority or the City and the purchasers or holders of any of the Series 2009A Bonds. Any statements made in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended merely as an opinion and not as representations of fact. The information and expressions of opinion 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 financial condition, results of operations or any other affairs of the City or the Authority since the date hereof.

PUBLIC FACILITIES FINANCING AUTHORITY OF
THE CITY OF SAN DIEGO

By: /s/ Joseph W. Craver
Chairperson, Board of Commissioners

THE CITY OF SAN DIEGO

By: /s/ Mary Lewis
Chief Financial Officer

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APPENDIX A-1

**BASIC FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY
INFORMATION FROM THE COMPREHENSIVE ANNUAL FINANCIAL REPORT
OF THE CITY OF SAN DIEGO FOR FISCAL YEAR 2008**

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**CITY OF SAN DIEGO
STATE OF CALIFORNIA**

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

FOR THE FISCAL YEAR ENDED JUNE 30, 2008



**Prepared Under the Supervision of
Tracy McCraner
Interim Comptroller**

FINANCIAL SECTION



MACIAS GINI & O'CONNELL LLP
CERTIFIED PUBLIC ACCOUNTANTS & MANAGEMENT CONSULTANTS

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Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of San Diego, California (City), as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the San Diego Housing Commission, a discretely presented component unit, which statements reflect 90%, 94% and 83% of total assets, total net assets and total revenues, respectively, of the aggregate discretely presented component unit totals. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the San Diego Housing Commission, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of June 30, 2008, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the basic financial statements, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues* and No. 50, *Pension Disclosures*.

The management's discussion and analysis, schedules of funding progress, schedules of contributions from employer and other contributing entities and general fund budgetary information on pages 33 through 46, 168 and 172 through 174, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Macias Fini & O'Connell LLP

Certified Public Accountants

Los Angeles, California

March 26, 2009, except for paragraphs 24 and 25 of
Note 18, as to which the date is April 23, 2009 and
paragraph 26 of Note 18, as to which the
date is May 8, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)
(In Thousands)
June 30, 2008

As management of the City of San Diego (City), we offer readers of the City financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2008.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The focus of the government-wide financial statements is on reporting on the operating results and financial position of the government as an economic entity. These statements are intended to report the entity's operational accountability to its readers, giving information about the probable medium and long-term effects of past decisions on the government's financial position.

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

The statement of activities presents information showing changes in the City's net assets during the fiscal year 2008. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. The focus is on both gross and net costs of City functions, which are supported by general revenues. This Statement also distinguishes functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include: General Government and Support; Public Safety - Police; Public Safety - Fire and Life Safety and Homeland Security; Parks, Recreation, Culture and Leisure; Transportation; Sanitation and Health; and Neighborhood Services. The business-type activities of the City include: Airports; City Store; Development Services; Environmental Services; Golf Course; Recycling; Sewer Utility; and Water Utility.

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

Included within the primary government as blended component units:

- Centre City Development Corporation (CCDC)
- City of San Diego Metropolitan Transit Development Board Authority (MTDB Authority)
- City of San Diego Tobacco Settlement Revenue Funding Corporation (TSRFC)
- Community Facilities and Other Special Assessment Districts
- Convention Center Expansion Financing Authority (CCEFA)
- Public Facilities Financing Authority (PFFA)
- Redevelopment Agency of the City of San Diego (RDA)
- San Diego City Employees' Retirement System (SDCERS)
- San Diego Data Processing Corporation (SDDPC)

- San Diego Facilities and Equipment Leasing Corporation (SDFELC)
- San Diego Industrial Development Authority (SDIDA)
- San Diego Open Space Park Facilities District #1
- Southeastern Economic Development Corporation (SEDC)
- Tourism Marketing District (TMD)

The government-wide financial statements can be found beginning on page 50 of this report.

FUND FINANCIAL STATEMENTS

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

GOVERNMENTAL FUNDS

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both of the Governmental Funds Balance Sheet and the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

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

The City adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget and is presented as required supplementary information.

The basic governmental funds financial statements can be found beginning on page 54 of this report.

PROPRIETARY FUNDS

The City maintains two different types of proprietary funds, enterprise funds and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses Enterprise Funds to account for its various business-type activities, such as Sewer and Water Utilities. Internal Service funds, such as Fleet Services, Central Stores, Publishing Services, and Self Insurance, are used to report activities that provide centralized supplies and/or services to the City. All internal service funds, except for the Special Engineering Fund, have been included within governmental activities in the government-wide financial statements since they predominantly benefit governmental functions. The Special Engineering Fund, which services exclusively Sewer and Water activities, has been included within business-type activities in the government-wide financial statements.

Proprietary fund statements provide the same type of information as the government-wide financial statements, only in more detail. The proprietary funds financial statements provide separate information for the Sewer and Water funds, which are considered to be major funds of the City. Data for the nonmajor proprietary funds are combined into a single, aggregated presentation, and the internal service funds are combined into a single, aggregated presentation as well. Included in the Supplementary Information section of this report are individual fund data for the nonmajor proprietary funds and the internal service funds. The basic proprietary funds financial statements can be found beginning on page 58 of this report.

FIDUCIARY FUNDS

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

The basic fiduciary funds financial statements can be found beginning on page 61 of this report.

NOTES TO THE FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 63 of this report.

OTHER INFORMATION

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 168 of this report.

The individual fund data referred to earlier in connection with nonmajor governmental funds, nonmajor proprietary funds, internal service funds, and fiduciary funds are presented immediately following the required supplementary information on pensions and the General Fund budgetary comparison statement, beginning on page 197 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
Capital Assets	\$ 4,335,317	\$ 4,264,170	\$ 4,634,918	\$ 4,605,284	\$ 8,970,235	\$ 8,869,454
Other Assets	2,096,751	1,824,547	1,031,815	846,103	3,128,566	2,670,650
Total Assets	6,432,068	6,088,717	5,666,733	5,451,387	12,098,801	11,540,104
Net Long-Term Liabilities	1,965,991	1,863,185	2,068,569	1,967,826	4,034,560	3,831,011
Other Liabilities	312,696	285,709	108,455	103,724	421,151	389,433
Total Liabilities	2,278,687	2,148,894	2,177,024	2,071,550	4,455,711	4,220,444
Net Assets:						
Invested in Capital Assets,						
Net of Related Debt	3,518,704	3,461,127	2,933,012	2,998,848	6,451,716	6,459,975
Restricted	564,042	498,695	39,436	37,709	603,478	536,404
Unrestricted	70,635	(19,999)	517,261	343,280	587,896	323,281
Total Net Assets	\$ 4,153,381	\$ 3,939,823	\$ 3,489,709	\$ 3,379,837	\$ 7,643,090	\$ 7,319,660

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$7,643,090 at June 30, 2008, an increase of \$323,430 over fiscal year 2007.

\$6,451,716, or approximately 84%, of total Net Assets represent the City's investment in capital assets (e.g., land, structures and improvements, equipment, distribution and collections systems, infrastructure, and construction-in-progress), less any outstanding debt used to acquire these assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves generally are not used to liquidate these liabilities.

\$603,478, or approximately 8%, of total Net Assets represent resources that are subject to external restrictions on how they may be used. The remaining balance of \$587,896, or approximately 8%, is available to finance ongoing services and obligations to the City's citizens and creditors.

Restricted Net Assets increased by \$67,074, or approximately 13% primarily due to a \$30,000 increase in low-moderate income housing funds, a \$20,000 increase in the Underground Surcharge Fund for undergrounding utilities throughout San Diego, \$10,000 of increased assessments collected in the Maintenance Assessment Districts and the new Tourism Marketing District funds, and the remainder was due to various capital project fund increases attributed to impact fees, private contributions and other capital projects restricted revenues.

Unrestricted Net Assets increased by \$264,615, or approximately 82%. Approximately \$174,000 of this increase was in the Business-type Activities, primarily as a result of Council approved rate increases, increased sales of water, and higher earnings on investments. Governmental Activities increased by approximately \$91,000 as the result of a \$50,000 increase in an internally designated debt service reserve within the Redevelopment Agency, funded by increased property tax revenue; an increase in notes receivable of \$25,000, predominantly in the Centre City Redevelopment area; and increased land sales of \$15,000.

CITY OF SAN DIEGO'S SUMMARY OF CHANGES IN NET ASSETS
(In Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program Revenues						
Charges for Current Services	\$ 289,985	\$ 303,866	\$ 772,602	\$ 742,640	\$ 1,062,587	\$ 1,046,506
Operating Grants and Contributions	75,126	84,745	2,312	1,203	77,438	85,948
Capital Grants and Contributions	78,347	81,169	58,400	141,419	136,747	222,588
General Revenues						
Property Taxes	576,605	526,722	-	-	576,605	526,722
Transient Occupancy Taxes	159,348	154,810	-	-	159,348	154,810
Other Local Taxes	151,267	157,941	-	-	151,267	157,941
Grants and Contributions not Restricted to						
Specific Programs	6,251	5,339	-	-	6,251	5,339
Sales Taxes	269,757	263,399	-	-	269,757	263,399
Investment Income	96,725	76,292	41,224	30,713	137,949	107,005
Other	85,785	94,910	7,850	5,384	93,635	100,294
Total Revenues	1,789,196	1,749,193	882,388	921,359	2,671,584	2,670,552
Expenses:						
General Government and Support	322,157	270,190	-	-	322,157	270,190
Public Safety-Police	382,907	376,581	-	-	382,907	376,581
Public Safety-Fire, Life Safety, Homeland Security	204,822	209,902	-	-	204,822	209,902
Parks, Recreation, Culture and Leisure	231,955	229,500	-	-	231,955	229,500
Transportation	212,255	272,780	-	-	212,255	272,780
Sanitation and Health	51,772	43,780	-	-	51,772	43,780
Neighborhood Services	91,110	99,870	-	-	91,110	99,870
Debt Service:						
Interest on Long-Term Debt	82,211	84,920	-	-	82,211	84,920
Airports	-	-	4,109	3,755	4,109	3,755
City Store	-	-	788	843	788	843
Development Services	-	-	51,461	53,924	51,461	53,924
Environmental Services	-	-	37,279	40,138	37,279	40,138
Golf Course	-	-	11,142	10,690	11,142	10,690
Recycling	-	-	20,511	19,754	20,511	19,754
Sewer Utility	-	-	322,552	313,716	322,552	313,716
Water Utility	-	-	321,123	313,256	321,123	313,256
Total Expenses	1,579,189	1,587,523	768,965	756,076	2,348,154	2,343,599
Change in Net Assets Before Transfers:	210,007	161,670	113,423	165,283	323,430	326,953
Transfers	3,551	(3,425)	(3,551)	3,425	-	-
Net Change in Net Assets	213,558	158,245	109,872	168,708	323,430	326,953
Net Assets - July 1	3,939,823	3,781,578	3,379,837	3,211,129	7,319,660	6,992,707
Net Assets - June 30	\$ 4,153,381	\$ 3,939,823	\$ 3,489,709	\$ 3,379,837	\$ 7,643,090	\$ 7,319,660

GOVERNMENTAL ACTIVITIES

Governmental activities increased the City's net assets by \$213,558 during fiscal year 2008. Variances from fiscal year 2007 of more than 10% are discussed below.

- Operating Grants and Contributions decreased by \$9,619, or approximately 11%, primarily due to the restructuring of the Community Development Block Grant (CDBG) program. The CDBG administration instituted a \$25,000 minimum for certain projects, and several projects were cancelled. In addition, several Urban Areas Securities Initiative (UASI) grants for homeland security were closed out, nearing the end of their two year term. Finally, the transfer of the "6 to 6" Extended School Day program's administration to the San Diego Unified School District in January 2007 resulted in additional decreases as the City's grants for this program are being closed out.
- Investment Income increased by \$20,433, or approximately 27%, primarily attributed to increases in market values for the City's investment pool, as well as an increase in the overall size of the investment pool from fiscal year 2007 to 2008.
- Other Revenue decreased by \$9,125, or approximately 10% primarily due to a decrease in developer contributions of approximately \$18,900, which was mainly in the Pacific Highlands Ranch, Otay Mesa West, and Torrey Hills development areas. This decrease was partially offset by an increase in proceeds from land sales of \$9,300. This is the result of Real Estate Assets department's continued review of the City's property inventory to determine which properties are no longer needed and may be designated for disposition, as part of the portfolio management plan for the City.
- General Government and Support expense increased by \$51,967, or approximately 19%. Approximately \$16,900 of this increase was due to the centralization of data processing costs in the Office of the CIO. Approximately \$7,000 was due to new capital leases for the Public Safety Communications Project, paid for by the Information Technology & Communications (IT&C) Fund. Several vacant positions were filled throughout various General Government departments, which resulted in increased salary and fringe expenses of approximately \$8,200. The Storm Water department had an increase in contractual services of \$4,300, public liability claim expenses increased by \$3,100, and the City Elections program experienced increased expenses of \$2,000, related to the fiscal year 2008 elections.
- Transportation expense decreased by \$60,525, or approximately 22%, which was caused by several factors. During fiscal year 2007 the adjustment for completed capital improvement projects funded by Facilities Benefit Assessment (FBA) credits in prior years resulted in approximately \$41,000 in transportation expenses, which did not recur in fiscal year 2008. Additionally, there was a \$15,000 expense in fiscal year 2007 as a result of current year FBA additions being reclassified as revenue, rather than a reduction of expenses, which also did not recur in fiscal year 2008.
- Sanitation and Health expense increased by \$7,992, or approximately 18%, primarily due to increased expenditures for the Environmental Services department's debris removal program, related to the October 2007 wildfires.

BUSINESS-TYPE ACTIVITIES

Business-type activities increased the City's net assets by \$109,872 during fiscal year 2008. Variances from fiscal year 2007 of more than 10% are discussed below.

- Operating Grants and Contributions increased by \$1,109, or approximately 92%, primarily due to increased grant revenues received by the Water Utility department, related to the seismic retrofit of water pipelines, water desalination studies, and disaster assistance recoveries.
- Capital Grants and Contributions decreased by \$83,019, or approximately 59%, primarily due to the installation of water and sewer mains by developers during fiscal year 2007.
- Investment Income increased by \$10,511, or approximately 34%, primarily attributed to changes in market values for the City's investment pool, as well as an increase in the overall size of the investment pool from fiscal year 2007 to 2008.
- Other revenues increased by \$2,466, or approximately 46%, primarily due to an insurance reimbursement for the Water Utility department and increased receipts of permit and fee revenues for the Sewer Utility department.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

GOVERNMENTAL FUNDS

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

As of the end of fiscal year 2008, the City's governmental funds reported combined ending fund balances of \$1,591,304, an increase of \$225,541 from fiscal year 2007. Approximately \$893,239 constitutes unreserved fund balance, which is available for spending at the government's direction. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed (1) to liquidate contracts and purchase orders of the period, (2) to pay debt service, (3) to generate income to pay for the perpetual funding of various programs, or (4) for a variety of other purposes.

The General Fund is the principal operating fund of the City. At the end of fiscal year 2008, undesignated fund balance of the General Fund was \$75,339, while total fund balance was \$124,781. This represents a \$7,267 decrease from the fiscal year 2007 total fund balance.

PROPRIETARY FUNDS

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

As of the end of fiscal year 2008, Unrestricted Net Assets of the Sewer Utility Fund are \$243,717. Unrestricted Net Assets increased approximately \$91,657, or approximately 60%, mainly due to Council approved rate increases and higher earnings on investments, combined with overall increases in cash positions and reductions in debt related liabilities.

As of the end of fiscal year 2008, Unrestricted Net Assets of the Water Utility Fund are \$211,845. Unrestricted Net Assets increased by \$74,141, or approximately 54%, mainly due to Council approved rate increases and higher earnings on investments.

GENERAL FUND BUDGETARY HIGHLIGHTS

The original budget for expenditures and transfers out was \$20,047 lower than the final budget due to increases (decreases) in appropriations primarily attributed to the following:

- (\$4,818) for General Government. Approximately \$2,600 of this decrease was attributed to several vacant positions in the Storm Water Department. In addition, prior year purchase orders and their corresponding budgets were cleaned up citywide, which resulted in an overall budget decrease of \$2,300.
- (\$2,096) for Public Safety-Police. A portion of the Police department's appropriations were reallocated to cover over budget personnel expenses in Fire and Life Safety, due to the October 2007 wildfires.
- \$9,757 for Public Safety-Fire and Life Safety and Homeland Security. This increase was necessary to cover over budget expenses associated with the October 2007 wildfires. The increase was allocated to cover Salary and fringe expenses of \$6,682, and related equipment, energy, and outlay costs of \$2,670.
- (\$2,376) for Transportation. This decrease was mainly caused by the reallocation of appropriations from Streets Department to other departments within the General Fund such as General Services-Administration and General Services-Contracting.
- \$7,571 for Sanitation and Health. This increase was largely due to emergency debris removal related to the October 2007 wildfires.

- \$2,661 for Neighborhood Services. This increase was mainly due to the completion of the Otay Mesa Community Plan Update and the preparation of the Master Plan for the Grantville Redevelopment Project Area per Council actions in the Planning Department.
- \$2,204 for Principal Retirement. This increase was due to capital lease payments for Police and Parking Enforcement vehicles, as well as equipment, vehicles, and helicopters for the Fire and Life Safety department.
- \$781 for Interest Expense. This increase was due to the fact that interest expense for the Fiscal Year 2008 Tax Revenue Anticipation Notes was higher than anticipated.
- \$7,221 for Transfers to Other Funds. This increase is primarily due to the establishment of a \$7,000 Appropriated Reserve.

Actual revenues received for the General Fund were \$35,751 less than budgeted. Sales Taxes were under budget by \$11,079, which was a result of slower than anticipated growth in local retail sales. Property Taxes and Transient Occupancy Taxes were both under budget by \$2,139 and \$1,455, respectively, as a result of less than anticipated growth. Other Local Taxes were under budget by \$5,563, primarily due to shortfalls in SDG&E franchise fees of \$3,900 and Refuse Collection franchise fees of \$1,100, in addition to Property Transfer Taxes being under budget by \$500 as a result of a downturn in the real estate market. Revenue from Use of Money and Property came in \$7,952 under budget. This was primarily due to slower than anticipated growth in Mission Bay rents and concessions in the amount of \$2,163, and Investment Earnings were under budget due to the transfer of interest earnings to the TRAN fund to pay debt service on the Fiscal Year 2008 TRAN. Revenue from Other Agencies came in \$6,696 under budget. This was primarily due to the City not receiving Booking Fee relief of \$5,222 from the State, and increased DMV administration costs and MVL fees charged by the state of \$2,097. Charges for Current Services were also under budget by \$2,453, mainly due to a reduction of Service Level Agreements for General Government and Support services between funds.

Actual expenditures for the General Fund were \$24,047 less than budgeted. \$11,503 was attributed primarily to personnel savings in the General Government and Support departments and the general fund reserve contribution. The Police department had personnel savings of \$6,708, and the additional savings of \$5,836 was spread relatively evenly between Parks and Recreation, Transportation, Sanitation and Health, and Neighborhood Services non-personnel costs.

CAPITAL ASSET AND DEBT ADMINISTRATION

CITY OF SAN DIEGO'S CAPITAL ASSETS
(Net of Accumulated Depreciation)
(In Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
	Land, Easements, Rights of Way	\$ 1,755,956	\$ 1,731,003	\$ 89,988	\$ 90,011	\$ 1,845,944
Construction-in-Progress	165,880	210,084	174,065	290,161	339,945	500,245
Structures and Improvements	827,912	781,799	1,422,839	1,332,843	2,250,751	2,114,642
Equipment	133,317	106,132	102,069	103,807	235,386	209,939
Distribution and Collection Systems	-	-	2,845,957	2,788,462	2,845,957	2,788,462
Infrastructure	1,452,252	1,435,152	-	-	1,452,252	1,435,152
Totals	\$ 4,335,317	\$ 4,264,170	\$ 4,634,918	\$ 4,605,284	\$ 8,970,235	\$ 8,869,454

CAPITAL ASSETS

In accordance with GASB Statement No. 34, all major infrastructure assets (such as streets, signals, bridges, and drains) are capitalized by the City in the government-wide statements. While capital assets of both governmental and proprietary funds are capitalized at the government-wide level, only proprietary assets are reported at the fund level. Governmental funds are reported on a modified accrual basis at the fund level. Differences between reporting at the fund level and government-wide level for these governmental assets will be explained in both the reconciliation and the accompanying notes to the financial statements.

The City's investment in capital assets (including infrastructure) for governmental and business-type activities as of June 30, 2008 was \$8,970,235 (net of accumulated depreciation). There was an overall increase in the City's investment in capital assets over fiscal year 2007 of approximately \$100,781.

HIGHLIGHTS OF FISCAL YEAR 2008 CAPITAL IMPROVEMENT ACTIVITIESGovernmental Activities

- Planning and acquisition began on the Enterprise Resource Planning (ERP) System Core Project to provide a replacement of the legacy software currently used by the Offices of the Chief Financial Officer (CFO) and Business and Support Services. As identified in the Kroll report, the current system no longer meets the City's requirement for responsible financial management, efficient human resources management, or IT operational efficiency. The project is being funded through a lease purchase agreement with IBM Credit LLC. The City's fiscal year 2008 capital expenditures for this project were \$9,645.
- Construction began on the reconstruction of Soledad Mountain Road following the October 2007 landslide that destroyed a large section of the 5700 block of Soledad Mountain Road and Desert View Drive Alley. The project is funded by TransNet, as well as state and federal grants. The City's fiscal year 2008 capital expenditures for this project were \$7,170.

- Construction began on the Bird Rock Coastal Traffic Flow Improvements. This project provides traffic calming measures to reduce speed and improve safety and walkability on La Jolla Boulevard. The project provides three modern roundabouts on La Jolla Boulevard, as well as three mini roundabouts on connecting residential streets. La Jolla Boulevard will also be reduced from four to two lanes. The project is funded by SANDAG, TransNet, Developer Impact Fees, and federal and state grants. The City's fiscal year 2008 capital expenditures for this project were \$4,169.
- Construction began on the widening of Genesee Avenue from Interstate 5 to Campus Point Drive. This project provides for the widening of 2,500 feet of Genesee Avenue to a modified six-lane primary arterial including Class II bicycle lanes. The project is funded by Facility Benefit Assessments. The City's fiscal year 2008 capital expenditures for this project were \$3,773.
- Construction began on the Balboa Park Museum of Art front façade improvements. This project provides for the restoration of the Museum of Art front façade as recommended in the Balboa Park Master Plan. This project is funded by various State grants. The City's fiscal year 2008 capital expenditures for this project were \$2,169.
- Construction began on Phase II of the Logan Heights Branch Library. This project provides for a new 25,000 square foot library at 28th Street and Ocean Boulevard to serve the Logan Heights Community. The project is funded by various grants and the Library System Improvement Fund. The City's fiscal year 2008 capital expenditures for this project were \$2,238.
- Construction began, and was completed, on the Lifeguard Headquarters Boating Safety Unit Dock. This project provided for the construction of the Boating Safety Unit Dock at 2581 Quivera Court to replace the dock that was constructed in 1956 and incurred substantial damage during the January 2005 storms. The project was funded primarily by lease revenue bonds. The City's fiscal year 2008 capital expenditures for this project were \$2,019.
- Construction continued on the Pacific Highlands Ranch Fire Station #47. This project will provide for a new 10,500 square foot fire station to serve the Pacific Highlands Ranch community. The project is part of the Pacific Highlands Ranch Facilities Financing Plan. The City's fiscal year 2008 capital expenditures for this project were \$3,433.
- Construction continued on the Del Mar Heights Road east of Old Carmel Valley Road. The project provides for construction of Del Mar Heights Road from Old Carmel Valley Road to the new alignment of Carmel Valley Road as a modified five lane roadway within a 122 foot right-of-way for a future six lane facility. The project is funded by Facilities Benefit Assessments. The City's fiscal year 2008 capital expenditures for this project were \$3,620.

Business-Type Activities

During fiscal year 2008, the Water Utility Fund added approximately \$58,700 in capital improvement projects (CIP). Upgrades and expansion of the Miramar Water Treatment Plant and the Rancho Bernardo Reservoir continued, along with water main replacements. Capital asset write-offs for fiscal year 2008 were approximately \$4,100, and were primarily related to losses on abandoned projects, and retirements of developer contributed assets.

During fiscal year 2008, the Sewer Utility Fund added approximately \$26,500 in CIP, of which the Metropolitan system CIP increased approximately \$2,300. Municipal system CIP increased approximately \$24,200 and included the following major projects: Caltrans/SR-905 Otay Mesa Trunk Sewer, Pipeline Rehabilitation Phase C-1, and the continued replacement of sewer mains and upgrades to the sewer infrastructure. Capital asset write-offs for fiscal year 2008 were approximately \$2,100, and were primarily related to losses on abandoned projects, and retirements of developer contributed assets.

HIGHLIGHTS OF APPROVED FISCAL YEAR 2009 CAPITAL IMPROVEMENT PROJECTS (CIP) BUDGET

The Annual Approved Capital Improvements Budget for Fiscal Year 2009 is \$574,000 which constitutes an increase of \$82,300, or approximately 16.7% over the fiscal year 2008 budget of \$491,600. The increase in the Fiscal Year 2008 budget is primarily due to an increase in funding for capital projects addressing deferred maintenance needs. Water and Sewer projects comprise over 46% of the total CIP budget. Engineering & Capital Projects and General Services projects comprise 26%, and 15% of the total CIP budget, respectively. Funding for governmental projects include TransNet funds, Facilities Benefit Assessments, Developer Impact Fees, developer contributions, and Federal, State, local, and private contributions. Highlights of the key budgets by department are as follows:

Governmental Activities

- Engineering and Capital Projects: \$151,600 (26% of total CIP budget). Key projects include the undergrounding of City utilities to augment the California Public Utilities Commission (CPUC) Rule 20A funds. Funding is also allocated for conversion of City-owned street lighting and resurfacing of roadways associated with the undergrounding of utilities. The \$60,000 annual allocation for these projects is entirely funded by the Underground Surcharge Fund. Other significant projects include: \$10,300 for ADA improvements, \$7,400 for 43rd Street and Logan/National Ave Intersection, \$5,000 for State Route 163 and Friars Road, and \$2,400 for Phase III of the Otay Truck Route Widening.
- General Services: \$84,800 (15% of total CIP budget). Key budgets include: \$45,400 for Street Resurfacing, \$31,800 for City facility improvements including roof replacements and heating and air conditioning upgrades and replacements; and \$7,500 for sidewalk replacement and reconstruction.
- Parks and Recreation: \$35,200 (6% of total CIP budget). Planned project types for fiscal year 2008 include play area upgrades, joint use fields, roof reconstruction, accessibility improvements, comfort stations, picnic shelters, sports field and security lighting, and new park development.
- City Comptroller: \$6,800 (1% of total CIP budget). This includes \$6,800 for the Enterprise Resource Planning (ERP) System.
- Office of the CIO: \$3,300 (1% of total CIP budget). This includes \$3,300 for the ongoing master lease payments for the Public Safety Communications Project.

Business-Type Activities

The fiscal year 2009 Water Utility CIP budget is \$177,900. There are no phase funded projects budgeted for fiscal year 2009. Significant projects include: \$44,000 for the Miramar Water Treatment Plant – Upgrade and Expansion; \$41,600 for water main replacements; \$36,900 for the Alvarado Water Treatment Plant – Upgrade and Expansion; \$9,300 for the Otay Water Treatment Plant – Upgrade and Expansion; and 8,600 for Otay Second Pipeline Improvements.

The fiscal year 2009 Sewer Utility CIP budget is \$103,100. There are no phase funded projects budgeted for fiscal year 2009. Significant projects include: \$59,100 for pipeline repair, replacement, and rehabilitation; \$19,500 for repair and upgrade of pump stations; \$12,800 for replacement of trunk sewers; and \$8,100 for repair and upgrade of treatment plants.

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
	Capital Lease Obligations	\$ 61,262	\$ 39,130	\$ 166	\$ 1,006	\$ 61,428
Contracts Payable	2,615	2,615	-	-	2,615	2,615
Notes Payable	5,662	8,555	430,830	280,830	436,492	289,385
Loans Payable	34,777	18,775	95,875	101,316	130,652	120,091
Section 108 Loans	35,896	39,431	-	-	35,896	39,431
SANDAG Loans	-	2,287	-	-	-	2,287
General Obligation Bonds	8,580	10,705	-	-	8,580	10,705
Revenue Bonds/COP's/ Lease Revenue Bonds	498,950	521,210	1,425,445	1,469,060	1,924,395	1,990,270
Special Assessment/ Special Tax Bonds	144,805	145,625	-	-	144,805	145,625
Tax Allocation Bonds	548,643	502,804	-	-	548,643	502,804
Tobacco Settlement Asset-Backed Bonds	99,370	102,700	-	-	99,370	102,700
Pooled Financing Bonds	34,115	-	-	-	34,115	-
Totals	\$ 1,474,675	\$ 1,393,837	\$ 1,952,316	\$ 1,852,212	\$ 3,426,991	\$ 3,246,049

LONG-TERM DEBT

At the end of fiscal year 2008, the City, including blended component units, had total debt outstanding of approximately \$3,426,991. Of this amount, \$8,580 is comprised of debt backed by the full faith and credit of the City. The remainder of the City's debt represents revenue bonds, lease revenue bonds, certificates of participation (COPs), special assessment bonds, tax allocation bonds, tobacco settlement asset-backed bonds, pooled financing bonds, contracts payable, notes payable, loans payable, Section 108 loans, SRF loans, and capital lease obligations.

Governmental Activities

- The City (PFFA) issued \$17,230 of taxable pooled financing bonds, Series 2007 A and \$17,755 of tax-exempt pooled financing bonds Series 2007 B. The Series 2007 A and B bonds were issued to make loans to the Redevelopment Agency for financing and refinancing redevelopment activities in Southcrest, Central Imperial and Mount Hope Redevelopment Project areas.
- The City (RDA) executed six non-revolving lines of credit with San Diego National Bank for an aggregate total amount available of \$70,000. Four lines of credit are for affordable housing in North Park, City Heights, North Bay and Naval Training Center (NTC) Redevelopment Project Areas, and the two remaining lines of credit are for non-housing or general purposes for City Heights and Naval Training Center (NTC) Redevelopment Project Areas. As of June 30, 2008 the amount actually drawn on the lines of credit totaled \$16,063.

- The City issued \$3,950 of Community Facilities District No. 3 (Liberty Station) Special Tax Bonds, Series 2008 A, to finance public improvements required in connection with the district. The 2008 A bonds were issued pursuant to the Mello-Roos Community Facilities Act of 1982 and are limited obligations of the district.
- The City (RDA) issued \$69,000 of Housing Tax Allocation Bonds to finance certain improvements relating to, or increasing the supply of, low and moderate income housing in the Centre City Redevelopment Project and such other areas as authorized by Redevelopment Law. The 2008 A bonds are payable from, secured equally and are on parity with outstanding Centre City Redevelopment Project Tax Allocation Housing Bonds, Series 2004 C and 2004 D and 2006 B bonds, by a charge and lien on the pledged housing tax revenues derived by RDA from the Redevelopment Project.
- Total principal payments for long-term debt were \$74,841. \$56,516 of this amount was for outstanding bonds, including \$10,145 for the amount of outstanding Mount Hope Series 1995B, Southcrest 1995, Southcrest 2000 and Central Imperial 2000 bonds refunded by the PFFA pooled financing bonds series 2007 A and B. Payments on loans payable were \$5,883, payments on notes payable were \$2,893, and payments on capital leases were \$9,549.

Business-Type Activities

- The City (PFFA) sold, on a private placement basis, \$150,000 of Subordinated Water Revenue Notes, Series 2008A to finance the acquisition and construction of the City's water system and to reimburse for costs previously incurred. The Series 2008A Notes are secured by and payable solely from net system revenues of the Water Utility Fund and the final maturity date is August 28, 2009. The 2008A Notes carried a one year call provision with no prepayment penalty after the call date and had no provisions for an extension beyond the final maturity date.
- Total principal payments for long-term debt were \$49,896 which includes \$43,615 for outstanding bonds, \$5,441 for loans payable and \$840 for capital leases.

As of the issuance of this report, the credit ratings on the City of San Diego's outstanding General Obligation Bonds, Revenue Bonds, Lease Revenue Bonds, and COPs are as follows:

	Moody's Investors Service	Fitch Ratings	Standard & Poor's
General Obligation Bonds	A2	A+	A
General Fund Backed Lease Revenue Bonds	Baa1/Baa2	A	A-
Outlook	Stable	Stable	Positive
Wastewater System Bonds	A3	BBB+	A+
Outlook	Negative	Positive	Stable
Water System Bonds	A1/A2	AA-/A+	AA-/A+
Outlook	Stable	Stable	Stable

Section 90 of the City Charter provides that the general obligation bonded indebtedness for the development, conservation and furnishings of water shall not exceed 15% of the last preceding assessed valuation of all real and personal property of the City subject to direct taxation, and that the bonded indebtedness for other municipal improvements shall not exceed 10% of such valuation. The City's current outstanding general obligation balances as of June 30, 2008 are significantly less than the current debt limitations for water and other purposes, which are \$5,665,641 and \$3,777,094, respectively (see Statistical Section, Table 12).

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

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

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the City Comptroller, 202 C Street, San Diego, California 92101, or e-mailed to comptroller@sandiego.gov. This financial report is also available on the City's website at www.sandiego.gov, under the Office of the City Comptroller. Additional information intended for the investor community is available on the Investor Information web page also located on the City's website listed above.

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET ASSETS
June 30, 2008
(In Thousands)

	Primary Government			Component Units	
	Governmental Activities	Business - Type Activities	Total	San Diego Convention Center Corporation	San Diego Housing Commission
ASSETS					
Cash and Investments	\$ 1,271,327	\$ 612,890	\$ 1,884,217	\$ 20,975	\$ 88,047
Receivables:					
Taxes - Net	87,129	-	87,129	-	-
Accounts - Net of Allowance for Uncollectibles					
(Governmental \$8,659, Business-Type \$2,211)	36,409	82,345	118,754	3,707	8,240
Claims - Net	117	-	117	-	-
Contributions	398	-	398	-	-
Special Assessments - Net	1,764	-	1,764	-	-
Notes	97,788	-	97,788	-	155,396
Accrued Interest	8,888	4,745	13,633	-	16,332
Grants	40,715	2,451	43,166	-	-
Investment in Joint Venture	1,981	-	1,981	-	-
Advances to Other Agencies	4,640	-	4,640	-	-
Internal Balances	(1,649)	1,649	-	-	-
Inventories of Water in Storage	-	36,593	36,593	-	-
Inventories	2,105	541	2,646	19	59
Land Held for Resale	38,267	-	38,267	-	-
Prepaid Expenses	3,012	467	3,479	971	136
Restricted Cash and Investments	483,985	279,666	763,651	-	656
Deferred Charges	19,875	10,468	30,343	-	-
Capital Assets - Non-Depreciable	1,921,836	264,053	2,185,889	-	41,264
Capital Assets - Depreciable	2,413,481	4,370,865	6,784,346	17,177	58,169
TOTAL ASSETS	<u>6,432,068</u>	<u>5,666,733</u>	<u>12,098,801</u>	<u>42,849</u>	<u>368,299</u>

STATEMENT OF NET ASSETS
June 30, 2008
(In Thousands)

	Primary Government			Component Units	
	Governmental Activities	Business - Type Activities	Total	San Diego Convention Center Corporation	San Diego Housing Commission
LIABILITIES					
Accounts Payable	\$ 79,265	\$ 47,194	\$ 126,459	\$ 2,798	\$ 3,097
Accrued Wages and Benefits	25,677	13,963	39,640	-	391
Other Accrued Liabilities	175	-	175	1,877	1,664
Interest Accrued on Long-Term Debt	22,660	20,924	43,584	-	161
Long-Term Liabilities Due Within One Year	143,343	344,138	487,481	3,028	1,621
Due to Other Agencies	576	5,468	6,044	-	-
Unearned Revenue	62,785	8,192	70,977	9,601	1,419
Contract Deposits	-	8,108	8,108	-	-
Sundry Trust Liabilities	5,558	-	5,558	-	-
Short-Term Notes Payable	116,000	-	116,000	-	-
Customer Deposits Payable	-	4,331	4,331	-	-
Deposits/Advances from Others	-	275	275	-	1,049
Long-Term Liabilities Due After One Year:					
Arbitrage Liability	-	586	586	-	-
Compensated Absences	42,910	6,698	49,608	-	-
Liability Claims	191,145	44,326	235,471	-	-
Capital Lease Obligations	49,356	-	49,356	1,394	-
Contracts Payable	2,615	-	2,615	-	-
Notes Payable	5,662	150,000	155,662	1,500	29,383
Loans Payable	26,078	90,328	116,406	-	-
Section 108 Loans Payable	33,532	-	33,532	-	-
Net Bonds Payable	1,300,744	1,373,801	2,674,545	-	-
Estimated Landfill Closure and Postclosure Care	-	18,429	18,429	-	-
Net Other Post Employment Benefit Obligation	28,872	8,921	37,793	-	-
Net Pension Obligation	141,734	31,342	173,076	-	-
TOTAL LIABILITIES	<u>2,278,687</u>	<u>2,177,024</u>	<u>4,455,711</u>	<u>20,198</u>	<u>38,785</u>
NET ASSETS					
Invested in Capital Assets, Net of Related Debt	3,518,704	2,933,012	6,451,716	12,476	68,982
Restricted for:					
Capital Projects	314,931	-	314,931	1,625	-
Debt Service	-	2,660	2,660	-	-
Low-Moderate Income Housing	108,026	-	108,026	-	-
Nonexpendable Permanent Endowments	16,757	-	16,757	-	-
Other	124,328	36,776	161,104	-	122,521
Unrestricted	<u>70,635</u>	<u>517,261</u>	<u>587,896</u>	<u>8,550</u>	<u>138,011</u>
TOTAL NET ASSETS	<u>\$ 4,153,381</u>	<u>\$ 3,489,709</u>	<u>\$ 7,643,090</u>	<u>\$ 22,651</u>	<u>\$ 329,514</u>

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

STATEMENT OF ACTIVITIES
Year Ended June 30, 2008
(In Thousands)

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government and Support	\$ 322,157	\$ 111,714	\$ 10,509	\$ 957
Public Safety - Police	382,907	40,628	14,269	-
Public Safety - Fire and Life Safety and Homeland Security	204,822	19,156	18,694	-
Parks, Recreation, Culture and Leisure	231,955	64,030	2,659	15,499
Transportation	212,255	21,877	4	45,737
Sanitation and Health	51,772	9,832	7,400	-
Neighborhood Services	91,110	22,748	21,591	16,154
Debt Service:				
Interest	82,211	-	-	-
TOTAL GOVERNMENTAL ACTIVITIES	1,579,189	289,985	75,126	78,347
Business-Type Activities:				
Airports	4,109	5,140	-	1,376
City Store	788	744	-	-
Development Services	51,461	45,945	-	-
Environmental Services	37,279	35,485	17	-
Golf Course	11,142	15,153	-	139
Recycling	20,511	23,390	462	-
Sewer Utility	322,552	328,119	134	25,359
Water Utility	321,123	318,626	1,699	31,526
TOTAL BUSINESS-TYPE ACTIVITIES	768,965	772,602	2,312	58,400
TOTAL PRIMARY GOVERNMENT	\$ 2,348,154	\$ 1,062,587	\$ 77,438	\$ 136,747
Component Units:				
San Diego Convention Center Corporation	\$ 36,331	\$ 33,930	\$ 4,387	\$ 213
San Diego Housing Commission	168,487	20,323	172,109	1,219
TOTAL COMPONENT UNITS	\$ 204,818	\$ 54,253	\$ 176,496	\$ 1,432
General Revenues:				
Property Taxes				
Transient Occupancy Taxes				
Other Local Taxes				
Developer Contributions and Fees				
Grants and Contributions not Restricted to Specific Programs				
Sales Taxes				
Investment Income				
Gain on Sale of Capital Assets				
Miscellaneous				
Transfers				
TOTAL GENERAL REVENUES AND TRANSFERS				
CHANGE IN NET ASSETS				
Net Assets at Beginning of Year				
NET ASSETS AT END OF YEAR				

Net Revenue/(Expense) and Changes in Net Assets				
Primary Government			Component Units	
Governmental Activities	Business-Type Activities	Total	San Diego Convention Center Corporation	San Diego Housing Commission
\$ (198,977)	\$ -	\$ (198,977)	\$ -	\$ -
(328,010)	-	(328,010)	-	-
(166,972)	-	(166,972)	-	-
(149,767)	-	(149,767)	-	-
(144,637)	-	(144,637)	-	-
(34,540)	-	(34,540)	-	-
(30,617)	-	(30,617)	-	-
<u>(82,211)</u>	<u>-</u>	<u>(82,211)</u>	<u>-</u>	<u>-</u>
<u>(1,135,731)</u>	<u>-</u>	<u>(1,135,731)</u>	<u>-</u>	<u>-</u>
-	2,407	2,407	-	-
-	(44)	(44)	-	-
-	(5,516)	(5,516)	-	-
-	(1,777)	(1,777)	-	-
-	4,150	4,150	-	-
-	3,341	3,341	-	-
-	31,060	31,060	-	-
-	<u>30,728</u>	<u>30,728</u>	<u>-</u>	<u>-</u>
-	64,349	64,349	-	-
<u>(1,135,731)</u>	<u>64,349</u>	<u>(1,071,382)</u>	<u>-</u>	<u>-</u>
-	-	-	2,199	-
-	-	-	-	25,164
-	-	-	<u>2,199</u>	<u>25,164</u>
576,605	-	576,605	-	-
159,348	-	159,348	-	-
151,267	-	151,267	-	-
38,331	-	38,331	-	-
6,251	-	6,251	-	-
269,757	-	269,757	-	-
96,725	41,224	137,949	709	6,858
17,884	-	17,884	-	-
29,570	7,850	37,420	742	-
3,551	(3,551)	-	-	-
<u>1,349,289</u>	<u>45,523</u>	<u>1,394,812</u>	<u>1,451</u>	<u>6,858</u>
213,558	109,872	323,430	3,650	32,022
<u>3,939,823</u>	<u>3,379,837</u>	<u>7,319,660</u>	<u>19,001</u>	<u>297,492</u>
<u>\$ 4,153,381</u>	<u>\$ 3,489,709</u>	<u>\$ 7,643,090</u>	<u>\$ 22,651</u>	<u>\$ 329,514</u>

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

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2008
(In Thousands)**

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and Investments	\$ 91,439	\$ 1,046,844	\$ 1,138,283
Receivables:			
Taxes - Net	76,527	10,602	87,129
Accounts - Net of Allowance for Uncollectibles (General Fund \$6,656, Other Governmental \$993)	11,195	24,799	35,994
Claims - Net	78	28	106
Special Assessments - Net	-	1,764	1,764
Notes	-	97,788	97,788
Accrued Interest	2,395	6,454	8,849
Grants	-	40,715	40,715
From Other Funds	1,600	7,349	8,949
Interfund Loan Receivable	-	34,115	34,115
Advances to Other Funds	-	8,333	8,333
Advances to Other Agencies	9	4,631	4,640
Land Held for Resale	-	38,267	38,267
Prepaid Items	82	565	647
Investment in Joint Venture	1,981	-	1,981
Restricted Cash and Investments	<u>116,383</u>	<u>367,602</u>	<u>483,985</u>
TOTAL ASSETS	<u>\$ 301,689</u>	<u>\$ 1,689,856</u>	<u>\$ 1,991,545</u>
LIABILITIES			
Accounts Payable	\$ 8,005	\$ 49,720	\$ 57,725
Accrued Wages and Benefits	22,265	608	22,873
Other Accrued Liabilities	-	175	175
Due to Other Funds	2,479	11,227	13,706
Due to Other Agencies	-	576	576
Unearned Revenue	784	61,874	62,658
Deferred Revenue	27,375	47,660	75,035
Sundry Trust Liabilities	-	5,558	5,558
Advances from Other Funds	-	8,333	8,333
Interfund Loan Payable	-	37,602	37,602
Short-Term Notes Payable	<u>116,000</u>	<u>-</u>	<u>116,000</u>
TOTAL LIABILITIES	<u>176,908</u>	<u>223,333</u>	<u>400,241</u>

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2008
(In Thousands)**

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
FUND EQUITY:			
Fund Balances:			
Reserved for Land Held for Resale	-	38,267	38,267
Reserved for Notes Receivable	-	94,681	94,681
Reserved for Encumbrances	43,853	257,239	301,092
Reserved for Advances	9	12,964	12,973
Reserved for Low and Moderate Income Housing	-	76,285	76,285
Reserved for Permanent Endowments	-	16,757	16,757
Reserved for Debt Service	-	156,029	156,029
Reserved for Minority Interest in Joint Venture	1,981	-	1,981
Unreserved, Reported in General Fund:			
Designated for Unrealized Gains	2,737	-	2,737
Designated for Subsequent Years' Expenditures	862	-	862
Undesignated	75,339	-	75,339
Unreserved, Reported in:			
Special Revenue Funds	-	233,388	233,388
Debt Service Funds	-	221,814	221,814
Capital Projects Funds	-	358,550	358,550
Permanent Funds	-	<u>549</u>	<u>549</u>
TOTAL FUND EQUITY	<u>124,781</u>	<u>1,466,523</u>	<u>1,591,304</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 301,689</u>	<u>\$ 1,689,856</u>	

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

Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds.	4,225,527
Other assets and liabilities used in governmental activities are not financial resources, and therefore, are either deferred or not reported in the funds.	94,910
Internal Service funds are used by management to charge the costs of activities such as Fleet Services, Print Shop, Self Insurance, and Central Stores to individual funds. The assets and liabilities of certain Internal Service Funds are included in governmental activities in the Statement of Net Assets.	(27,156)
Certain liabilities, including bonds payable, are not due and payable in the current period, and therefore, are not reported in the funds.	<u>(1,731,204)</u>
Net Assets of governmental activities	<u>\$ 4,153,381</u>

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

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2008
(In Thousands)

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES			
Property Taxes	\$ 384,273	\$ 189,038	\$ 573,311
Special Assessments	-	50,274	50,274
Sales Taxes	235,579	35,212	270,791
Transient Occupancy Taxes	83,730	75,618	159,348
Other Local Taxes	71,594	75,305	146,899
Licenses and Permits	33,815	16,878	50,693
Fines, Forfeitures and Penalties	31,083	1,702	32,785
Revenue from Use of Money and Property	44,577	85,005	129,582
Revenue from Federal Agencies	4,086	36,327	40,413
Revenue from Other Agencies	14,236	39,134	53,370
Revenue from Private Sources	-	23,013	23,013
Charges for Current Services	87,263	78,647	165,910
Other Revenue	3,297	27,527	30,824
TOTAL REVENUES	993,533	733,680	1,727,213
EXPENDITURES			
Current:			
General Government and Support	225,570	85,244	310,814
Public Safety - Police	376,050	12,679	388,729
Public Safety - Fire and Life Safety and Homeland Security	186,925	18,735	205,660
Parks, Recreation, Culture and Leisure	119,125	76,683	195,808
Transportation	66,162	69,242	135,404
Sanitation and Health	48,995	4,962	53,957
Neighborhood Services	18,563	69,679	88,242
Capital Projects	-	132,432	132,432
Debt Service:			
Principal Retirement	2,204	57,024	59,228
Interest	5,720	72,413	78,133
Cost of Issuance	-	3,618	3,618
TOTAL EXPENDITURES	1,049,314	602,711	1,652,025
EXCESS (DEFICIENCY) OF REVENUES			
OVER EXPENDITURES	(55,781)	130,969	75,188
OTHER FINANCING SOURCES (USES)			
Transfers from Proprietary Funds	5,896	4,477	10,373
Transfers from Other Funds	94,562	359,128	453,690
Transfers to Proprietary Funds	(5,358)	(4,398)	(9,756)
Transfers to Other Funds	(46,470)	(407,220)	(453,690)
Transfers to Escrow Agent	-	(10,676)	(10,676)
Net Loss from Joint Venture	(116)	-	(116)
Proceeds from the Sale of Capital Assets	-	21,783	21,783
Capital Leases	-	14,561	14,561
Loans Issued	-	16,063	16,063
Special Tax Bonds Issued	-	3,950	3,950
Tax Allocation Bonds Issued	-	69,000	69,000
Pooled Financing Bonds Issued	-	34,985	34,985
Premium on Bonds Issued	-	389	389
Discount on Bonds Issued	-	(203)	(203)
TOTAL OTHER FINANCING SOURCES (USES)	48,514	101,839	150,353
NET CHANGE IN FUND BALANCES	(7,267)	232,808	225,541
Fund Balances at Beginning of Year	132,048	1,233,715	1,365,763
FUND BALANCES AT END OF YEAR	\$ 124,781	\$ 1,466,523	\$ 1,591,304

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

City of San Diego
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds
to the Statement of Activities
Year Ended June 30, 2008
(In Thousands)

Net change in fund balances - total governmental funds (page 56)	\$ 225,541
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	59,360
The net effect of various miscellaneous transactions involving capital assets (i.e., donations, retirements, and transfers) is to decrease net assets.	(30,736)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	7,750
The issuance of long-term debt (i.e., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(62,922)
Some expenses reported in the Statement of Activities do not require the use of current financial resources (i.e., compensated absences, net pension obligation), and therefore are not accrued as expenses in governmental funds.	(13,282)
Internal Service funds are used by management to charge the costs of activities such as Fleet Services, Publishing Services, Central Stores, Self Insurance, and others to individual funds. The net revenue of certain internal service activities is reported with governmental activities.	<u>27,847</u>
Change in net assets of governmental activities (page 53)	<u>\$ 213,558</u>

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

**PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2008
(In Thousands)**

	<u>Business-Type Activities - Enterprise Funds</u>				
	<u>Sewer Utility</u>	<u>Water Utility</u>	<u>Other Enterprise Funds</u>	<u>Total</u>	<u>Internal Service Funds</u>
ASSETS					
Current Assets:					
Cash and Investments	\$ 291,240	\$ 212,932	\$ 107,658	\$ 611,830	\$ 134,104
Receivables:					
Accounts - Net of Allowance for Uncollectibles (Sewer \$970, Water \$990, Other Enterprise \$251, Internal Service \$1,010)	37,627	43,854	864	82,345	415
Claims - Net	-	-	-	-	11
Contributions	-	-	-	-	398
Accrued Interest	1,637	2,040	1,068	4,745	39
Grants	-	1,572	879	2,451	-
From Other Funds	-	-	4,073	4,073	6,710
Inventories of Water in Storage	-	36,593	-	36,593	-
Inventories	-	463	78	541	2,105
Prepaid Expenses	8	446	12	466	2,366
Total Current Assets	330,512	297,900	114,632	743,044	146,148
Non-Current Assets:					
Restricted Cash and Investments	46,839	196,304	36,523	279,666	-
Deferred Charges	5,953	4,515	-	10,468	-
Interfund Loan Receivable	3,487	-	-	3,487	-
Capital Assets - Non-Depreciable	107,309	134,738	22,006	264,053	1,984
Capital Assets - Depreciable	2,722,478	1,584,365	63,814	4,370,657	108,014
Total Non-Current Assets	2,886,066	1,919,922	122,343	4,928,331	109,998
TOTAL ASSETS	3,216,578	2,217,822	236,975	5,671,375	256,146
LIABILITIES					
Current Liabilities:					
Accounts Payable	7,650	37,556	1,944	47,150	21,584
Accrued Wages and Benefits	9,734	1,817	1,983	13,534	3,233
Interest Accrued on Long-Term Debt	7,679	13,236	9	20,924	344
Long-Term Debt Due Within One Year	264,772	76,962	2,404	344,138	51,866
Due to Other Funds	1,206	1,242	281	2,729	3,297
Due to Other Agencies	2,897	2,571	-	5,468	-
Unearned Revenue	-	1,143	7,049	8,192	127
Contract Deposits	3,314	4,519	275	8,108	-
Current Liabilities Payable from Restricted Assets:					
Customer Deposits Payable	-	4,331	-	4,331	-
Total Current Liabilities	297,252	143,377	13,945	454,574	80,451
Non-Current Liabilities:					
Deposits/Advances from Others	250	-	25	275	-
Arbitrage Liability	157	429	-	586	-
Compensated Absences	2,422	2,027	2,249	6,698	4,270
Liability Claims	38,792	5,534	-	44,326	178,155
Capital Lease Obligations	-	-	-	-	18,842
Loans Payable	71,838	18,490	-	90,328	-
Notes Payable	-	150,000	-	150,000	-
Net Revenue Bonds Payable	852,291	521,510	-	1,373,801	-
Estimated Landfill Closure and Postclosure Care	-	-	18,429	18,429	-
Net Other Post Employment Benefit Obligation	3,038	2,659	2,621	8,318	1,741
Net Pension Obligation	10,559	8,276	10,014	28,849	5,325
Total Non-Current Liabilities	979,347	708,925	33,338	1,721,610	208,333
TOTAL LIABILITIES	1,276,599	852,302	47,283	2,176,184	288,784
NET ASSETS					
Invested in Capital Assets, Net of Related Debt	1,695,766	1,151,511	85,527	2,932,804	84,545
Restricted for Debt Service	496	2,164	-	2,660	-
Restricted for Closure/Postclosure Maintenance	-	-	36,776	36,776	-
Unrestricted	243,717	211,845	67,389	522,951	(117,183)
TOTAL NET ASSETS	\$ 1,939,979	\$ 1,365,520	\$ 189,692	3,495,191	\$ (32,638)
Adjustment to reflect the consolidation of Internal Service Fund activities related to Enterprise Funds.				(5,482)	
Net assets of Business-Type activities				<u>\$ 3,489,709</u>	

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

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
YEAR ENDED JUNE 30, 2008
(In Thousands)

	Business-Type Activities - Enterprise Funds				
	Sewer Utility	Water Utility	Other Enterprise Funds	Total	Internal Service Funds
OPERATING REVENUES					
Sales of Water	\$ -	\$ 297,225	\$ -	\$ 297,225	\$ -
Charges for Services	325,048	33	68,856	393,937	181,516
Revenue from Use of Property	-	6,115	-	6,115	-
Usage Fees	-	1,235	54,758	55,993	74,772
Other	3,071	14,018	2,243	19,332	1,462
TOTAL OPERATING REVENUES	328,119	318,626	125,857	772,602	257,750
OPERATING EXPENSES					
Benefit and Claim Payments	-	-	-	-	67,085
Maintenance and Operations	110,492	100,360	86,679	297,531	64,247
Cost of Materials Issued	-	-	295	295	32,453
Cost of Purchased Water Used	-	121,186	-	121,186	-
Taxes	-	162	-	162	-
Administration	91,158	36,722	33,974	161,854	65,492
Depreciation	71,138	29,870	5,471	106,479	16,685
TOTAL OPERATING EXPENSES	272,788	288,300	126,419	687,507	245,962
OPERATING INCOME (LOSS)	55,331	30,326	(562)	85,095	11,788
NONOPERATING REVENUES (EXPENSES)					
Earnings on Investments	17,757	15,536	7,915	41,208	6,367
Federal Grant Assistance	134	1,427	-	1,561	-
Other Agency Grant Assistance	-	272	479	751	-
Loss on Sale/Retirement of Capital Assets	(2,057)	(3,494)	(121)	(5,672)	(3,933)
Debt Service Interest Expense	(48,571)	(29,919)	(30)	(78,520)	(884)
Other	4,524	980	2,342	7,846	45
TOTAL NONOPERATING REVENUES (EXPENSES)	(28,213)	(15,198)	10,585	(32,826)	1,595
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	27,118	15,128	10,023	52,269	13,383
Capital Contributions	25,359	31,526	1,515	58,400	161
Transfers from Other Funds	714	578	349	1,641	1,364
Transfers from Governmental Funds	9	3,867	1,377	5,253	28,895
Transfers to Other Funds	(1,214)	(93)	(237)	(1,544)	(1,461)
Transfers to Governmental Funds	(5,585)	(834)	(2,309)	(8,728)	(11,914)
CHANGE IN NET ASSETS	46,401	50,172	10,718	107,291	30,428
Net Assets at Beginning of Year	1,893,578	1,315,348	178,974		(63,066)
NET ASSETS AT END OF YEAR	\$ 1,939,979	\$ 1,365,520	\$ 189,692		\$ (32,638)
Adjustment to reflect the consolidation of Internal Service Fund activities related to Enterprise Funds.				2,581	
Change in net assets of Business-Type activities				\$ 109,872	

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

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2008
(In Thousands)

	Business-Type Activities - Enterprise Funds				
	Sewer Utility	Water Utility	Other Enterprise Funds	Total	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from Customers and Users	\$ 325,929	\$ 245,713	\$ 108,944	\$ 678,586	\$ 231,971
Receipts from Interfund Services Provided	4,319	71,825	21,403	97,547	22,309
Payments to Suppliers	(122,083)	(241,216)	(39,744)	(403,043)	(109,153)
Payments to Employees	(62,202)	(4,205)	(70,793)	(137,200)	(105,554)
Payments for Interfund Services Used	(16,948)	(13,779)	(7,749)	(38,476)	(1,403)
NET CASH PROVIDED BY OPERATING ACTIVITIES	129,015	58,338	10,061	197,414	38,170
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers from Other Funds	714	398	349	1,461	1,304
Transfers from Governmental Funds	7	716	1,368	2,091	7,664
Transfers to Other Funds	(1,034)	(93)	(237)	(1,364)	(1,401)
Transfers to Governmental Funds	(1,746)	(833)	(2,144)	(4,723)	(11,915)
Operating Grants Received	160	1,329	366	1,855	-
Proceeds from Advances and Deposits	250	67	-	317	-
NET CASH PROVIDED BY (USED FOR) NONCAPITAL FINANCING ACTIVITIES	(1,649)	1,584	(298)	(363)	(4,348)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from Contracts, Notes and Loans	-	149,726	-	149,726	23,385
Proceeds from Capital Contributions	11,861	12,372	1,465	25,698	-
Acquisition of Capital Assets	(43,278)	(60,950)	(9,325)	(113,553)	(38,225)
Proceeds from the Sale of Capital Assets	-	585	-	585	2,591
Principal Payments on Capital Leases	-	-	(840)	(840)	(5,467)
Principal Payments on Contracts, Notes and Loans	(4,569)	(831)	-	(5,400)	-
Principal Payments on Revenue Bonds	(30,250)	(13,365)	-	(43,615)	-
Interest Paid on Long-Term Debt	(48,302)	(28,097)	(39)	(76,438)	(624)
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	(114,538)	59,431	(8,739)	(63,846)	(18,340)
CASH FLOWS FROM INVESTING ACTIVITIES					
Sales of Investments	549,686	925,754	-	1,475,440	-
Purchases of Investments	(495,356)	(1,045,017)	-	(1,540,373)	-
Interest Received on Investments	18,853	15,787	8,371	43,011	6,403
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	73,183	(103,476)	8,371	(21,922)	6,403
Net Increase in Cash and Cash Equivalents	86,011	15,877	9,395	111,283	21,885
Cash and Cash Equivalents at Beginning of Year	205,229	225,338	134,786	565,353	112,219
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 291,240	\$ 241,215	\$ 144,181	\$ 676,636	\$ 134,104
Reconciliation of Cash and Cash Equivalents at End of Year to the Statement of Net Assets:					
Cash and Investments	\$ 291,240	\$ 212,932	\$ 107,658	\$ 611,830	\$ 134,104
Restricted Cash & Investments	46,839	196,304	36,523	279,666	-
Less Investments not meeting the definition of cash equivalents	(46,839)	(168,021)	-	(214,860)	-
Total Cash and Cash Equivalents at End of Year	\$ 291,240	\$ 241,215	\$ 144,181	\$ 676,636	\$ 134,104
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used For) Operating Activities:					
Operating Income (Loss)	\$ 55,331	\$ 30,326	\$ (562)	\$ 85,095	\$ 11,788
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used For) Operating Activities:					
Depreciation	71,138	29,870	5,471	106,479	16,685
Changes in Assets and Liabilities:					
(Increase) Decrease in Receivables:					
Accounts - Net	(1,881)	(1,157)	24	(3,014)	(391)
Claims - Net	-	-	-	-	(1)
Contributions	-	-	-	-	(148)
From Other Funds	-	-	(747)	(747)	-
(Increase) Decrease in Inventories	-	(9,086)	35	(9,051)	(24)
(Increase) Decrease in Prepaid Expenses	(7)	291	1	285	230
Increase (Decrease) in Accounts Payable	(725)	6,788	298	6,361	2,741
Increase (Decrease) in Accrued Wages and Benefits	5,633	(108)	(215)	5,310	949
Increase (Decrease) in Due to Other Funds	1,206	1,242	(362)	2,086	464
Increase (Decrease) in Due to Other Agencies	(2,614)	(1,931)	-	(4,545)	-
Increase (Decrease) in Unearned Revenue	-	139	281	420	44
Increase (Decrease) in Contract Deposits	(514)	(1,050)	749	(815)	-
Increase (Decrease) in Arbitrage Liability	126	236	-	362	-
Increase (Decrease) in Compensated Absences	(333)	(210)	122	(421)	(933)
Increase (Decrease) in Liability Claims	(4,178)	862	-	(3,316)	5,961
Increase (Decrease) in Estimated Landfill Closure and Postclosure Care	-	-	1,494	1,494	-
Increase (Decrease) in Net OPEB Obligation	3,038	2,859	2,621	8,318	1,741
Increase (Decrease) in Net Pension Obligation	(1,729)	(1,513)	(1,491)	(4,733)	(981)
Other Nonoperating Revenue (Expenses)	4,524	980	2,342	7,846	45
Total Adjustments	73,684	28,012	10,623	112,319	26,382
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 129,015	\$ 58,338	\$ 10,061	\$ 197,414	\$ 38,170
Noncash Investing, Capital, and Financing Activities:					
Developer Contributed Assets	\$ 13,498	\$ 19,154	\$ -	\$ 32,652	\$ -
Increase (Decrease) in Capital Assets related Accounts Payable	(2,425)	642	(1,190)	(2,973)	6,086
Noncash Retirement of Capital Assets	(2,057)	(4,079)	(121)	(6,257)	(3,942)
Contributions of Capital Assets from Governmental Activities	2	3,151	9	3,162	21,231

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

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2008
(In Thousands)

	Pension & Employee Savings Trust	Investment Trust	Agency
ASSETS			
Cash or Equity in Pooled Cash and Investments	\$ 6,145	\$ 4,404	\$ 28,904
Cash with Custodian/Fiscal Agent	501,511	-	-
Investments at Fair Value:			
Short Term Investments	42,268	-	-
Domestic Fixed Income Securities (Bonds)	998,630	-	-
International Fixed Income Securities (Bonds)	183,122	-	-
Domestic Equity Securities (Stocks)	1,780,841	-	-
International Equity Securities (Stocks)	819,511	-	-
Real Estate Equity and Real Estate Securities	487,530	-	-
Defined Contribution Investments	735,099	-	-
Receivables:			
Accounts - Net	-	-	91
Contributions	19,657	-	-
Accrued Interest	16,812	22	19
Loans	31,900	-	-
Securities Sold	100,068	-	-
Prepaid Expenses	16	-	-
Securities Lending Collateral	674,085	-	-
Restricted Cash and Investments	-	-	3,287
Capital Assets - Depreciable	523	-	-
TOTAL ASSETS	6,397,718	4,426	\$ 32,301
LIABILITIES			
Accounts Payable	6,057	-	\$ 647
Accrued Wages and Benefits	705	-	-
Deposits/Advances from Others	-	-	12,730
Sundry Trust Liabilities	-	-	18,924
DROP Liability	311,756	-	-
Net Pension Obligation	776	-	-
Securities Lending Obligations.....	674,085	-	-
Securities Purchased	249,510	-	-
TOTAL LIABILITIES	1,242,889	-	\$ 32,301
NET ASSETS			
Held in Trust for Pension Benefits and Other Purposes	\$ 5,154,829	\$ 4,426	

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

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
Year Ended June 30, 2008
(In Thousands)

	Pension & Employee Savings Trust	Investment Trust	Total
ADDITIONS			
Employer Contributions	\$ 237,840	\$ -	\$ 237,840
Employee Contributions	104,495	-	104,495
Retiree Contributions	6,661	-	6,661
Contributions to Pooled Investments	-	7,184	7,184
Earnings on Investments:			
Investment Income (Loss)	(242,094)	129	(241,965)
Investment Expense	(23,975)	-	(23,975)
Net Investment Income	(266,069)	129	(265,940)
Securities Lending Income:			
Gross Earnings	37,350	-	37,350
Borrower Rebates	(30,130)	-	(30,130)
Administrative Expenses (Lending Agent)	(1,895)	-	(1,895)
Net Securities Lending Income	5,325	-	5,325
Other Income:			
Litigation Proceeds	335	-	335
TOTAL OPERATING ADDITIONS	88,587	7,313	95,900
DEDUCTIONS			
DROP Interest Expense	23,050	-	23,050
Benefit and Claim Payments	359,356	-	359,356
Distributions from Pooled Investments	-	5,249	5,249
Administration	15,788	-	15,788
TOTAL OPERATING DEDUCTIONS	398,194	5,249	403,443
CHANGE IN NET ASSETS	(309,607)	2,064	(307,543)
Net Assets at Beginning of Year	5,464,436	2,362	5,466,798
NET ASSETS AT END OF YEAR	\$ 5,154,829	\$ 4,426	\$ 5,159,255

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

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (In Thousands)

The City of San Diego (the "City") adopted its current charter on April 7, 1931 and operates as a municipality in accordance with State laws. Since adoption, the City Charter has been amended several times. The most recent amendments were added with voter approval of Propositions A, B and C during the June 3, 2008 election and Propositions C and D in the November 4, 2008 election. Some of the amendments, which were effective as of the issuance of this report, include a more clear separation of the City's internal auditing function from supervision of the Manager (Mayor) by creating the new office of the City Auditor, which is supervised by a restructured Audit Committee. The Audit Committee consists of two Councilmembers, one being chair, and three public members. The public members must have at least 10 years of professional auditing or accounting experience, and are appointed by the Council. Prop C (June 3, 2008 election) also provides that the Manager (Mayor) will appoint, with Council confirmation, the CFO who will assume the City's accounting responsibilities and oversee the City Treasurer. The measure also made the Office of the IBA permanent, which would otherwise have expired if the strong-mayor form of government does not get approved permanently in the year 2010.

The accounting policies of the City conform to accounting principles generally accepted in the United States of America ("GAAP") as applicable to governmental units. The following is a summary of the City's significant accounting policies:

a. Financial Reporting Entity

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

Blended component units, although legally separate entities, are, in substance, part of the primary government's operations and as a result, data from these units are combined with data of the primary government (references within this document to "the City" are referring to the primary government). Component units should be included in the reporting entity financial statements using the blending method if either of the following criteria is met:

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

Included within the reporting entity as blended component units are the following:

- Centre City Development Corporation
- City of San Diego/Metropolitan Transit Development Board Authority
- Community Facilities and Other Special Assessment Districts
- Convention Center Expansion Financing Authority
- Public Facilities Financing Authority
- Redevelopment Agency of the City of San Diego
- San Diego Data Processing Corporation
- San Diego Facilities and Equipment Leasing Corporation
- San Diego Industrial Development Authority

- San Diego Open Space Park Facilities District #1
- Southeastern Economic Development Corporation
- San Diego City Employees' Retirement System
- Tobacco Settlement Revenue Funding Corporation
- Tourism Marketing District

A brief description of each blended component unit follows:

- Centre City Development Corporation, Inc. (CCDC) is a not-for-profit public benefit corporation established in 1975 to administer certain redevelopment projects in downtown San Diego and to provide redevelopment advisory services to the Redevelopment Agency of the City of San Diego. CCDC's budget and governing board are approved by the City Council and services are provided exclusively to the primary government. CCDC is reported as a governmental fund. Financial statements can be requested from Centre City Development Corporation, 225 Broadway, Suite 1100, San Diego, California 92101.
- The City of San Diego/Metropolitan Transit Development Board Authority (MTDB Authority) is a financing authority which was established in 1988 and acquires and constructs mass transit guide ways, public transit systems, and related transportation facilities primarily benefiting the residents of the City of San Diego. The City appoints two Council members to the governing board and the MTDB appoints one. The MTDB Authority primarily provides services to the primary government. The MTDB Authority is reported as a governmental fund. Financial statements can be requested from the Office of the City Comptroller, 202 C Street, San Diego, California 92101.
- The City maintains various Community Facilities, Maintenance Assessment and Business Improvement Districts to pay for the construction, maintenance and improvement of community facilities and infrastructure. The governing body of Special Assessment Districts and Community Facilities Districts (special districts) is the City Council. Among its duties, it approves the budgets of special districts, parcel fees, special assessments, and special taxes. The special districts are reported in governmental fund types.
- The Convention Center Expansion Financing Authority (CCEFA) was established in 1996 to acquire and construct the expansion to the existing convention center. During the period reported, the governing board was administered by the Mayor, the Port of San Diego Director, and a member of the Board of Commissioners for the Port of San Diego. The CCEFA provides services which primarily benefit the primary government. CCEFA is reported as a governmental fund. Financial statements can be requested from the Office of the City Comptroller, 202 C Street, San Diego, California 92101.
- The Public Facilities Financing Authority (PFFA) was established in 1991 and currently acquires and constructs public capital improvements. PFFA is governed by a five member board appointed by the primary government. PFFA provides services exclusively to the primary government. Financing for governmental funds is reported as a governmental activity and financing for enterprise funds is reported as a business-type activity. Financial statements can be requested from the Office of the City Comptroller, 202 C Street, San Diego, California 92101.
- The Redevelopment Agency of the City of San Diego (RDA) was established in 1958 in order to provide a method for revitalizing deteriorating and blighted areas of the City and began functioning in 1969 under the authority granted by the community redevelopment law. The City Council is the governing board and the RDA is reported as a governmental fund. Complete stand-alone financial statements can be requested from the Office of the City Comptroller, 202 C Street, San Diego, California 92101.

- San Diego Data Processing Corporation (SDDPC) was formed in 1979 as a not-for-profit public benefit corporation for the purpose of providing data processing services. SDDPC's budget and governing board are approved by the City Council. SDDPC provides services almost exclusively to the primary government. SDDPC is reported as an Internal Service Fund. Financial statements can be requested from San Diego Data Processing Corporation, 5975 Santa Fe Street, San Diego, California 92109.
- The San Diego Facilities and Equipment Leasing Corporation (SDFELC) is a not-for-profit public benefit corporation established in 1987 for the purpose of acquiring and leasing to the City real and personal property to be used in the municipal operations of the City. The City Council appoints two of the three members of the governing board and services are exclusively to the primary government. Financing for governmental funds is reported as a governmental activity and financing for enterprise funds is reported as a business-type activity. Financial statements can be requested from the Office of the City Comptroller, 202 C Street, San Diego, California 92101.
- The San Diego Industrial Development Authority (SDIDA) was established in 1983 by the City for the purpose of providing an alternate method of financing to participating parties for economic development purposes. The City Council is the governing board. SDIDA is reported as a governmental fund. Financial statements can be requested from the Office of the City Comptroller, 202 C Street, San Diego, California 92101.
- The San Diego Open Space Park Facilities District #1 (SDOSPF) was established in 1978 by the City for the purpose of acquiring open space properties to implement the Open Space Element of the City's General Plan. The boundaries are contiguous with those of the City. The City Council is the governing board. SDOSPF is reported as a governmental fund. Financial statements can be requested from the Office of the City Comptroller, 202 C Street, San Diego, California 92101.
- Southeastern Economic Development Corporation (SEDC) is a not-for-profit public benefit corporation organized in 1980 by the City to administer certain redevelopment projects in southeast San Diego and to provide redevelopment advisory services to RDA. SEDC's budget and governing board are approved by the City Council and services are provided either to the City or on behalf of the City. SEDC is reported as a governmental fund. Financial statements can be requested from the Southeastern Economic Development Corporation, 995 Gateway Center Way, Suite 300, San Diego, California 92102.
- San Diego City Employees' Retirement System (SDCERS) was established in 1927 by the City and administers retirement, post employment healthcare, disability, and death benefits. Currently, SDCERS also administers the Port of San Diego and the San Diego County Regional Airport Authority defined benefit plans.

SDCERS is a legally separate, blended component unit of the City of San Diego. It is managed by a Board of Administration, the majority of which is appointed by the City of San Diego, and a Pension Administrator who does not report to, or work under the direction of the elected officials or appointed managers of the City of San Diego. SDCERS provides services almost exclusively to the primary government. Additionally, during the period reported, SDCERS utilized legal counsel independent of the City of San Diego. As such, the City does not maintain direct operational oversight of SDCERS or its financial reports.

SDCERS is reported as a pension and employee savings trust fund. Complete stand-alone financial statements can be requested from the San Diego City Employees' Retirement System, 401 West A Street, Suite 400, San Diego, California 92101.

- The Tobacco Settlement Revenue Funding Corporation (TSRFC) is a not-for-profit public benefit corporation established in 2006 for the purpose of acquiring the Tobacco Settlement Revenues allocated to the City from the State of California, pursuant to the Master Settlement Agreement. TSRFC is governed by the Board of Directors which consists of two officials of the City and one independent director. The independent director shall be appointed by the Mayor or the remaining directors. TSRFC is reported as a governmental fund. Financial statements can be requested from the Office of the City Comptroller, 202 C Street, San Diego, California, 92101.
- The Tourism Marketing District (TMD) is an assessment district created, in fiscal year 2008, by the City on behalf of larger hotel and motel operators within the City. The TMD provides for tourism development, including coordinated joint marketing and promotion of San Diego, in order to maintain and expand the tourism industry. The TMD procedural ordinance establishes a method by which benefited businesses may be assessed for the cost of activities associated with tourism development within their respective area. The governing body of the TMD is the City Council. Among its duties, it will initiate proceedings to establish a district upon submission of a written petition, signed by the business owners in the proposed district who will pay more than 50 percent of the assessments proposed to be levied, and will approve the district management plan which includes an annual budget, frequency for levying assessments, and number of years assessments will be levied. The TMD is reported as a governmental fund.

Discretely presented component units, which are also legally separate entities, have financial data reported in a separate column from the financial data of the primary government to demonstrate they are financially and legally separate from the primary government.

There are two entities which are discretely presented component units:

- San Diego Convention Center Corporation (SDCCC)

SDCCC is a not-for-profit public benefit corporation originally organized to market, operate and maintain the San Diego Convention Center. On August 1, 1993, SDCCC assumed similar responsibility for the Civic Theatre. The City is the sole member of SDCCC and acts through the San Diego City Council in accordance with the City Charter and the City's Municipal Code. The City appoints seven voting members out of the nine-member Board of Directors of SDCCC. The City is liable for any operating deficits and would be secondarily liable for any debt issuances of SDCCC. SDCCC is discretely presented because it provides services directly to the citizens. Complete stand-alone financial statements can be requested from San Diego Convention Center Corporation, 111 West Harbor Drive, San Diego, California 92101.

- San Diego Housing Commission (SDHC)

SDHC is a government agency which was formed by the City under Ordinance No. 2515 on December 5, 1978 in accordance with the Housing Authority Law of the State of California. SDHC primarily serves low-income families by providing rental assistance payments, rental housing, loans and grants to individuals and not-for-profit organizations and other services. Members of the Board of Commissioners are appointed by the Mayor and confirmed by the City Council. SDHC is discretely presented because it provides services directly to the citizens. Complete stand-alone financial statements can be requested from San Diego Housing Commission, 1122 Broadway, Suite 300, San Diego, California 92101.

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

b. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government and its component units. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-

type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported discretely from certain legally separate component units for which the primary government is financially accountable.

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

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

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

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

The business-type activities and proprietary funds financial statements apply all effective pronouncements of the Governmental Accounting Standards Board ("GASB"). In addition, these statements apply all Accounting Principles Board Opinions ("APBO") and Financial Accounting Standards Board ("FASB") Statements and Interpretations issued on or before November 30, 1989, except those that conflict with GASB pronouncements. The City has elected not to apply all FASB Statements and Interpretations issued after November 30, 1989.

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

All internal service funds, except for the Special Engineering Fund, have been included within governmental activities in the government-wide financial statements since they predominantly benefit governmental functions. The Special Engineering Fund, which services exclusively water and sewer activities, has been included within business-type activities in the government-wide financial statements.

Amounts reported as program revenues include (1) charges to customers for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. General revenues include all taxes and investment income.

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

Revenues which are considered susceptible to accrual include: real and personal property taxes; other local taxes; franchise fees; fines, forfeitures and penalties; motor vehicle license fees; rents and concessions; interest; and state and federal grants and subventions, provided they are received within 60 days from the end of the fiscal year.

Licenses and permits, including parking citations and miscellaneous revenues are recorded as revenues when received in cash because they generally are not measurable until actually received.

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

The governmental funds financial statements do not present long-term debt, but the related debt is shown in the reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets. Bond premiums, discounts and issuance costs are recognized during the current period.

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

Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, and/or other governmental units, and include pension and employee savings trust, investment trust, and agency funds. Pension and Employee Savings Trust Funds are reported using the same measurement focus and basis of accounting as Proprietary Funds. Agency funds are reported using the accrual basis of accounting.

The following is the City's major governmental fund:

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

The following are the City's major Enterprise Funds:

Sewer Utility Fund - The sewer utility fund is used to account for the operation, maintenance and development of the City's sewer system. The City's sewer utility fund includes activities related to the performance of services for Participating Agencies.

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

The following are the City's other fund types:

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

Pension and Employee Savings Trust Funds - These funds account for the San Diego City Employees' Retirement System, the Supplemental Pension Savings Plan (SPSP), and the 401(k) Plan.

Investment Trust Fund - This fund was established to account for equity that legally separate entities have in the City Treasurer's investment pool. The Automated Regional Justice Information System (ARJIS), the San Diego Graphic Information Source (SanGIS), and the Abandoned Vehicle Abatement (AVA) are all legally separate entities which have cash invested in the City Treasurer's investment pool.

Agency Funds - These funds account for assets held by the City as an agent for individuals, private organizations, and other governments, including federal and state income taxes withheld from employees, parking citation revenues, and certain employee benefit plans.

d. Property Taxes

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

The County's tax calendar is from July 1 to June 30. Property taxes attach as a lien on property on January 1. Taxes are levied on July 1 and are payable in two equal installments on November 1 and February 1, and become delinquent after December 10 and April 10, respectively. Since the passage of California's Proposition 13, beginning with fiscal year ended 1979, general property taxes are based either on a flat 1% rate applied to the 1975-76 full value of the property or on 1% of the sales price of any property sold or of the cost of any new construction after the 1975-76 valuation. Taxable values of properties (exclusive of increases related to sales and new construction) can increase by a maximum of 2% per year. The Proposition 13 limitation on general property taxes does not apply to taxes levied to pay the debt service on any indebtedness approved by the voters prior to June 6, 1978 (the date of passage of Proposition 13).

At the government-wide level, property tax revenue is recognized in the fiscal year for which the taxes have been levied. Property taxes received after the fiscal year in which they were levied are not considered available as a resource that can be used to finance the current year operations of the City and, therefore, are recorded as deferred revenue in the governmental funds. The City provides an allowance for uncollected property taxes of 3% of the outstanding balance which reflects historical collections.

Property owners can appeal the assessment value of their property to the County Assessment Appeals Board. If successful, the County Assessor may reduce the taxable value of a property and/or provide a refund to affected property owners. Reductions of taxable property value within the City of San Diego will have a negative impact on future tax collections until assessed valuations increase.

e. Cash and Investments

The City's cash and cash equivalents for Statement of Cash Flows purposes are considered to be cash on hand, demand deposits, restricted cash, and investments held by the City Treasurer in a cash management investment pool and reported at market value. Cash equivalents reported in the Statement of Cash Flows for the Water and Sewer Utilities do not include restricted investments represented as Restricted Cash and Investments with a maturity date greater than ninety days.

The City's cash resources are combined to form a cash and investment pool managed by the City Treasurer (the pool). The pool is not registered as an investment company with the Securities and Exchange Commission (SEC) nor is it a 2a7-like pool. The investment activities of the Treasurer in managing the pool are governed by California Government Code § 53601 and the City's Investment Policy, which is reviewed by the Investment Advisory Committee and approved annually by the City Council. Interest earned on pooled investments is allocated to participating funds and entities based upon their average daily cash balance during the allocation month. Fair market value adjustments to the pool are recorded annually; however, the City Treasury reports on market values monthly. The value of the shares in the pool approximates the fair market value of the pool.

The pool participates in the California State Treasurer's Local Agency Investment Fund (LAIF). Investments in LAIF are governed by State statutes and overseen by a five member Local Investment Advisory Board. The fair value of the City's position in LAIF may be greater or less than the value of the shares. Investments in LAIF are valued in these financial statements using a fair value factor provided by LAIF applied to the value of the City's shares in the investment pool.

It has been the City's policy to allow the General Fund to receive interest earned by certain governmental funds, internal service funds and agency funds, unless otherwise expressly stated in the resolutions creating individual funds. During the fiscal year ended June 30, 2008, approximately \$9,236 interest was assigned from various funds to the General Fund. These transactions caused an increase to the "transfers from other funds" amount for the General Fund and caused a like increase to the "transfer to other funds" amount for the fund disbursing the interest. In the case of negative interest, these transactions caused an increase to the "transfers from other funds" amount for the fund transferring the negative interest and caused a like increase to the "transfer to other funds" amount for the General Fund.

Certain governmental funds maintain investments outside of the City's investment pool. These funds are supervised and controlled by a five member Funds Commission which is appointed by the Mayor and confirmed by the City Council. The Funds Commission engages money managers to direct the investments of these funds. Additionally, the City and its component units maintain individual accounts pursuant to bond issuances and major construction contracts which may or may not be related to debt issuances. The investment of these funds is governed by the policies set forth in individual indenture and trustee agreements. Certain component units of the City also participate in LAIF separately from the City Treasurer's investment pool.

All City investments are reported at fair value in accordance with the GASB 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*. Note 3 of the notes to the financial statements contain additional information on permissible investments per the City investment policy and other policies applicable to the cash and investments reported herein.

The discharge of fiduciary duties by SDCERS' Board is governed by Section 144 of the City Charter and Article XVI, Section 17 of the California State Constitution. Investment decisions are made on a risk versus return basis in a total portfolio context. SDCERS' Board has the authority to delegate investment management duties to outside advisors, to seek the advice of outside investment counsel, and to provide oversight and monitoring of the investment managers it hires. Furthermore, under the California State Constitution and other relevant authorities, SDCERS' Board may, at its discretion, and when prudent in the informed opinion of the Board, invest funds in any form or type of investment, financial instrument, or financial transaction, unless otherwise limited by the San Diego City Council. SDCERS' agents, in SDCERS' name, manage all investments.

SDCERS' investments are reported at fair value in the accompanying Statement of Fiduciary Net Assets. SDCERS' custodian, State Street Bank & Trust Company, provides the market values of exchange traded assets. In the case of debt securities acquired through private placements, SDCERS' contract investment advisors compute fair value based on market yields and average maturity dates of comparable quoted securities. Short-term investments are reported at cost or amortized cost, which approximates fair value. Real estate equity investment fair values are based on either annual valuation estimates provided by SDCERS' contract real estate advisors or by independent certified appraisers. Fair value

of investments in commingled funds of publicly traded securities are based on the funds' underlying asset values determined from published market prices and quotations from major investment firms.

f. Inventories

Inventories reported in the government-wide financial statements and the proprietary funds financial statements, which consist of water in storage and supplies, are valued at the lower of cost or market. Such inventories are expensed when consumed using primarily the first-in, first-out (FIFO) and weighted-average methods, respectively. Inventory supplies of governmental funds are recorded as expenditures when purchased.

g. Land Held for Resale

Land Held for Resale, purchased by RDA, is reported in the government-wide and fund financial statements at the lower of cost or net realizable value.

h. Deferred Charges

In the government-wide and proprietary funds financial statements, Deferred Charges represent the unamortized portion of bond issuance costs. These costs will be amortized over the life of the related bonds using a method which approximates the effective yield method.

i. Capital Assets

Non-depreciable Capital Assets, which include land and construction-in-progress, are reported in the applicable governmental or business-type activities column in the government-wide financial statements, as well as in the Proprietary Fund's financial statements.

Depreciable Capital Assets, which include structures and improvements, equipment, distribution and collection systems, and infrastructure, are reported net of accumulated depreciation in the applicable governmental or business-type activities column in the government-wide financial statements, as well as in the Proprietary Fund's financial statements. To meet the criteria for capitalization, an asset must have a useful life in excess of one year and in the case of equipment outlay, must equal or exceed a capitalization threshold of five thousand dollars. All other capital assets such as land, structures, infrastructure, and distribution and collection systems are capitalized regardless of cost. Subsequent improvements are capitalized to the extent that they extend the initial estimated useful life of the capitalized asset, or improve the efficiency or capacity of that asset. Costs for routine maintenance are expensed as incurred. Interest expense incurred during the construction phase of business-type capital assets are reflected in the capitalized value of the asset constructed. During fiscal year 2008, \$12,955 of interest expense incurred was capitalized, which is calculated net of related interest revenue of \$3,504.

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

Assets	Years
Structures and Improvements	
Buildings	40 - 50
Building Improvements	15 - 40
Equipment	
Automobiles and Light Trucks	5 - 10
Construction and Maintenance Vehicles	5 - 20
General Machinery and Office Equipment	3 - 30
Distribution and Collection Systems	
Sewer Pipes and Water Mains	15 - 150
Reservoirs	100 - 150
Infrastructure	
Pavement and Traffic Signals	12 - 50
Bridges	75
Hardscape	20 - 50
Flood Control Assets	40 - 75

j. Disposition and Development Agreements

RDA and McMillin-NTC, LLC entered into a Disposition and Development Agreement (DDA), dated June 26, 2000, and a Third Implementation Agreement, dated May 6, 2003, which were executed for the purpose of effectuating the Redevelopment Plan at the Naval Training Center Redevelopment Project, in addition to constructing and installing additional infrastructure improvements as required by the City. The developer has agreed to advance the funds needed to pay for infrastructure costs. RDA has consistently reimbursed McMillin-NTC, LLC for eligible costs as they are billed, therefore, this agreement is not treated as a loan, and instead expenditures are recognized as payments are made to the developer and a corresponding capital asset is recorded in the government-wide financial statements.

On March 30, 2004 RDA entered into a DDA with Western Pacific Housing for a condominium development project in the North Park Redevelopment Project Area. Under the agreement, RDA promised to pay the maximum aggregate principal amount of \$3,000, of which \$2,100 represents the Affordability component of RDA's Payment Obligation, and \$900 represents the Public Improvement component. The Affordability component is subject to an adjustment based on the actual project sales revenue proceeds received by the Developer. This adjustment amount cannot be computed until all 45 affordable units are sold. The principal amount outstanding bears simple interest at a rate equal to 5% per annum. Solely for the purposes of calculating the amount of interest payable, the developer shall be deemed to have paid an amount equal to 25% of RDA's Payment Obligation as of the date which is 195 days after closing of escrow, 50% as of the date which is 390 days after closing of escrow, 75% as of the date which is 585 days after closing of escrow, and 100% at the completion date, which is the date on which the release of construction covenants under the agreement have been recorded in the official records of the San Diego County. For purposes of calculating the amount of interest payable, the principal amounts stated above will be reduced by a 10% per annum applied on a pro rata basis for the period of time the Developer is not in compliance with the schedule of performance dates stated in the agreement for commencement and completion of construction. All payments shall be made from the site-generated property tax increment. To date, only the \$900, representing the Public Improvement component of RDA's Payment Obligation, has been recognized as a

liability since the remaining \$2,100, representing the Affordability component of RDA's Payment Obligation, is subject to adjustment upon final sales of all 45 affordable units. As of the issuance of this report, there are two remaining units to be sold.

On April 4, 2004, RDA approved a DDA for the development and construction of a 12-story, mixed-use commercial building. RDA was responsible for the purchase of a 5,000 square foot parcel for the proposed site. The developer paid a purchase price for the acquisition parcel equal to the sum of all acquisition and relocation costs. The property was conveyed to the developer in the current fiscal year. Because the developer advances were recognized as revenue at the time the property was acquired in prior fiscal years, no additional revenue was recognized for the disposition of the property, resulting in a loss to RDA equal to the book value of the land in the current fiscal year.

On July 21, 2003, RDA entered into a DDA with Citymark Fahrenheit LLC ("Developer"). Pursuant to the DDA, RDA sold a property to the developer for a purchase price of \$3,500 and a contingent portion for the sale of each of the for-sale market-rate residential units developed on the property. Proceeds from the sale of the property resulted in a gain which was recognized at the time RDA conveyed the property to the developer. Revenue from the sale of each unit is recognized at the time the unit is sold and the revenue is received by RDA.

k. Unearned/Deferred Revenue

In the government-wide and all fund level financial statements, unearned revenue represents amounts received which have not been earned. The government-wide financial statements include revenues earned from developer credits, which are not reported in governmental funds because they are non-monetary transactions. In the governmental funds financial statements, deferred revenue represents revenues which have been earned but have not met the recognition criteria based on the modified accrual basis of accounting.

l. Interfund Transactions

The City has the following types of interfund transactions:

Loans – amounts provided with a requirement for repayment. Interfund loans are normally reported as interfund receivables (i.e. Due from Other Funds) in lender funds and interfund payables (i.e. Due to Other Funds) in borrower funds. The non-current portions of long-term interfund loans receivable are reported as advances. There is one interfund loan between the Facilities Benefit Assessments (FBA) Fund and the Sewer Utility Fund, for developer fees owed for the Carmel Valley Trunk sewer project, which is reported as an Interfund Loan Receivable/Payable at the fund level and included with Internal Balances on the government-wide Statement of Net Assets.

Services provided and used – sales and purchases of goods and services between funds for a price approximating their external exchange value. Interfund services provided and used are reported as revenues in seller funds and expenditures or expenses in purchaser funds. Unpaid amounts are reported as interfund receivables and payables in the fund balance sheets or fund statements of net assets.

Reimbursements – repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them. Reimbursement is reported as expenditures or expenses in the reimbursing fund and a reduction of expenditures or expenses in the paying fund.

Transfers – flows of assets (such as cash or goods) without equivalent flows of assets in return, and without a requirement for repayment. In governmental funds, transfers are reported as other financing uses in the funds making transfers and as other financing sources in the funds receiving transfers. In proprietary funds, transfers are reported after non-operating revenues and expenses.

m. Long-Term Liabilities

In the government-wide and proprietary funds financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary funds statements of net assets. Capital appreciation bond accretion, bond premiums and discounts, and bond refunding gains and losses are amortized over the life of the bonds using a method which approximates the effective yield method. Net bonds payable reflects amortized bond accretion and unamortized bond discounts, premiums and refunding gains and losses.

n. Sundry Trust Liabilities

Under approval of certain agreements, developers submit to RDA an initial deposit to ensure the developer proceeds diligently and in good faith to negotiate and perform all of the obligations under the agreement. These deposits can normally be used for administrative costs of RDA. In the government-wide financial statements and in the fund financial statements, the unspent portion of these deposits, called Sundry Trust Liabilities, are reported as liabilities of RDA.

o. Compensated Absences

The City provides combined annual leave to cover both vacation and sick leave. It is the City's policy to permit employees to accumulate between 8.75 weeks and 17.5 weeks of earned but unused annual leave, depending on hire date. Accumulation of these earnings will be paid to employees upon separation from service.

The liability for compensated absences reported in the government-wide, proprietary and fiduciary fund financial statements consists of unpaid, accumulated vacation and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. The liability has been calculated based on the employees' current salary level and includes salary related costs (e.g. Social Security and Medicare Tax). A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

p. Claims and Judgments

The costs of claims and judgments are accrued when incurred and measurable in the government-wide financial statements and both proprietary and fiduciary funds financial statements. In governmental funds, the costs of claims and judgments are recorded as expenditures when payments are due and payable.

q. Non-Monetary Transactions

The City, as part of approving new development in the community planning process, requires that certain public facilities be constructed per the provisions of community financing plans. Historically, the City has agreed to pay a pro rata share of these assets. In lieu of providing direct funding for these assets, the City often provides developers with credits (also referred to as FBA credits) for future permit fees. These credits are earned by the developer upon successful completion of construction phases and when City engineers have accepted the work. The credits are recognized as permit revenue upon issuance and a corresponding capital asset is recorded in the government-wide financial statements.

r. Net Assets

In the government-wide and proprietary fund financial statements, net assets are categorized as follows:

- Invested in Capital Assets, Net of Related Debt consists of capital assets, net of accumulated depreciation, and reduced by outstanding debt attributed to the acquisition of these assets.

- Restricted Net Assets consist of assets with restrictions imposed on them by external creditors, grantors, contributors, laws and regulations of other governments, or law through constitutional provisions or enabling legislation. It is the City's policy to first apply restricted resources when an expense is incurred for purposes which both restricted and unrestricted net assets are available. As of June 30, 2008, the amount of restricted net assets due to enabling legislation was approximately \$281,562.
- Unrestricted Net Assets consist of net assets that do not meet the definition of Invested in Capital Assets, Net of Related Debt or Restricted Net Assets.

s. Fund Balance

In the fund financial statements, portions of fund equity of governmental funds have been reserved for specific purposes. Reservations are created to either (1) satisfy legal covenants that require a portion of the fund balance to be segregated, or (2) identify the portion of the fund balance that is not appropriate for future expenditures.

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

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

t. Reserves

City Charter Section 91 titled "General Reserve Fund" was approved by the voters on November 6, 1962. This section requires the City Council to create and maintain a General Reserve Fund for the purpose of keeping the payment of running expenses of the City on a cash basis. Section 91 requires the reserve be maintained in an amount sufficient to meet all legal demands against the City Treasury for the first four months or other necessary period of each fiscal year prior to the collection of taxes. This fund may be expended only in the event of a public emergency by the affirmative vote of two-thirds of the City Council. The argument for this charter section given by the Citizens Charter Review Committee, commissioned in 1962, was to "strengthen the financial position of the City through the more efficient utilization of tax monies by reducing the amount of taxes collected and lying idle during a great part of the year, and through focusing responsibility for fiscal policies on the elected City Council."

On February 28, 1984, the City Attorney's Office issued Opinion No. 84-3 which addresses issues in regards to the City's compliance with the funding requirements of Charter Section 91. Such opinion stated, "To the extent that the legislative body approves the issuance of short term notes, commonly referred to as Tax or Revenue Anticipation Notes, pursuant to Section 92 titled "Borrowing Money on Short Term Notes"; or authorizes temporary loans to any tax-supported fund from any other funds in the treasury pursuant to Section 93 titled "Loans and Advances", the General Reserve Fund required under section 91 can be reduced." Therefore, the funding requirements of Charter Section 91 have been satisfied through a combination of the General Fund reserve of \$75,339 reported within the General Fund column of the Governmental Funds Balance Sheet in Undesignated Fund Balance, and the provisions set forth in Charter Sections 92 and 93 for the fiscal year ended June 30, 2008.

In September 2007, the City Attorney's Office issued a new opinion that supersedes, in part, the opinion issued on February 28, 1984. The revised opinion states that the Charter Section 91 General Reserve must be a separate, legal fund. This fund, separate from the General Fund, must be funded if not at a "four month operating expenditure" level then at a level of such "other necessary funding." The City Attorney's Opinion referenced the guidance of the Government Finance Officer's Association, which recommends a level between 5% and 15% of operating expenditures as the benchmark for interpreting the required funding level that meets the intent of the City's voters. Per the City Attorney's opinion, the City has created a separate General Reserve in fiscal year 2008, and the General Fund reserve monies were transferred to that separate reserve and reported therein in all future financial statements. The City Council also approved

the Mayor's "City Reserve Policy" with Ordinance 19679 on November 13, 2007. This is a formal fiscal reserve policy that establishes a General Fund Reserve that will be set at a minimum of 8% of annual General Fund Revenues. The policy provides that the City shall reach this level of funding no later than fiscal year 2012.

The City also has an internal reserve policy in relation to certain governmental long term liabilities which are repaid with Transient Occupancy Tax revenues. When the liabilities are incurred by the City, the City creates policy reserves equal to one half of the annually required lease payments in the form of a rate stabilization reserve for each liability. The purpose of the internal reserve is to make the lease payments when they are due; even if there are unanticipated fluctuations in the Transient Occupancy Tax receipts that could potentially impact the timely payment of lease payments for such liabilities. In addition to the internal rate stabilization reserve, the City may also maintain cash funded debt service reserve funds or surety guarantees with trustees in accordance with the bond indentures that exist for these liabilities.

As of June 30, 2008, the following is a schedule of all such internal stabilization reserves (in whole dollars) by fund:

<u>Internal Stabilization Reserve</u>	<u>CAFR Section</u>	<u>CAFR Column</u>	<u>Amount</u>
Convention Center Expansion	Special Revenue	Transient Occupancy Tax	\$ 6,850,531
Petco Park (PFFA-Ballpark)	Special Revenue	Transient Occupancy Tax	5,700,000
Balboa Park (SDFELC)	Special Revenue	Transient Occupancy Tax	3,286,878
Trolley (MTDB)	Special Revenue	Public Transportation	2,043,591
			<u>\$ 17,881,000</u>

u. Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities, disclosure of contingent assets and liabilities, and the related amounts of revenues and expenses. Actual results could differ from those estimates. Management believes that the estimates are reasonable.

v. New Governmental Accounting Standards

The requirements for the following accounting standards are effective for the purpose of implementation, for the City, for fiscal year ended June 30, 2008.

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting for Employers for Postemployment Benefits Other than Pensions*, which addresses how state and local governments should account for and report their costs and obligations related to postemployment healthcare, as well as other forms of postemployment benefits (for example, life insurance) when provided separately from the pension plan. These benefits are commonly referred to as postemployment benefits, or OPEB. The Statement generally requires that employers account for and report on the annual cost of OPEB and the outstanding obligations related to OPEB in the same manner as they do pensions. Annual OPEB cost will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due. This Statement's provisions may be applied prospectively and do not require governments to fund their OPEB plans. This Statement also establishes disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and, for certain employers, the extent to which the plan has been funded over time. [Refer to Note 13, Other Postemployment Benefits, for details.]

In September 2006, GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenue*. Governments sometimes exchange an interest in their expected cash flows from collecting specific receivables or specific future revenues for immediate cash payments—generally, a single lump sum. The financial reporting addressed by this Statement is whether that transaction should be regarded as a sale or as a collateralized borrowing resulting in a liability. This Statement establishes criteria that governments will use to ascertain whether the proceeds received should be reported as revenue or as a liability. This Statement also includes guidance to be used for recognizing other assets and liabilities arising from a sale of specific receivables or future revenues, including residual interests and recourse provisions. The disclosures pertaining to future revenues that have

been pledged or sold are intended to provide financial statement users with information about which revenues will be unavailable for other purposes and how long they will continue to be so. [Refer to Note 5, Governmental Activities Long-Term Liabilities, and Note 6, Business-Type Activities Long-Term Liabilities, for details.]

In May 2007, GASB issued Statement No. 50, *Pension Disclosures – An Amendment of GASB Statements No. 25 and No. 27*. This Statement amends GASB Statement 25 Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans (GASB Statement 25) and GASB Statement 27 Accounting for Pensions by State and Local Governmental Employers (GASB Statement 27) to require defined benefit pension plans to present notes to financial statements that disclose the funded status of the plan as of the most recent actuarial valuation date. Defined benefit pension plans also should disclose actuarial methods and significant assumptions used in the most recent actuarial valuation in notes to financial statements instead of in notes to required supplementary information (RSI). [Refer to Note 12, Pension Plans and Note 13, Other Postemployment Benefits for details.]

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (In Thousands)

Certain adjustments are necessary to reconcile governmental funds to governmental activities (which includes all internal service funds except the Special Engineering Fund). The reconciliation of these adjustments is as follows:

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

The Governmental Funds Balance Sheet includes a reconciliation between "Total Fund Balances-Governmental Funds" and "Total Net Assets-Governmental Activities" as reported in the Government-wide Statement of Net Assets. One element of the reconciliation states, "Other assets and liabilities used in governmental activities are not financial resources (uses), and therefore, are either deferred or not reported in the funds." The details of this \$94,910 difference are as follows:

Deferred Charges, net, July 1, 2007	\$ 17,296
Issuance Costs	3,618
Amortization Expense	<u>(1,039)</u>
Deferred Charges, net, June 30, 2008	<u>19,875</u>
Deferred Revenue:	
Taxes Receivable	20,682
Sales Taxes Receivable	3,489
Notes Receivable	3,107
Motor Vehicle License Receivable	318
Special Assessments Receivable	2,061
Grants and Other Receivables	<u>45,378</u>
Deferred Revenue, net, June 30, 2008	<u>75,035</u>
Net Adjustment to increase "Total Fund Balances-Governmental Funds" to arrive at "Total Net Assets-Governmental Activities"	<u>\$ 94,910</u>

Another element of the reconciliation states, "Certain liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this (\$1,731,204) difference are as follows:

Interest Accrued on Long-Term Debt	\$ (22,316)
Compensated Absences	(66,601)
Liability Claims	(12,990)
Capital Leases Payable	(35,811)
Contracts Payable	(2,615)
Notes Payable	(5,662)
Loans Payable	(34,777)
Section 108 Loans Payable	(35,896)
Net Bonds Payable	(1,335,063)
Accretion of Interest on Capital Appreciation Bonds	(12,837)
Net Pension Obligation	(138,902)
Net OPEB Obligation	<u>(27,734)</u>
Net adjustment to decrease "Total Fund Balances-Governmental Funds" to arrive at "Total Net Assets-Governmental Activities"	<u>\$ (1,731,204)</u>

Another element of the reconciliation states, "Internal Service Funds are used by management to charge the costs of activities such as Fleet Services, Print Shop, Self Insurance, and Central Stores to individual funds. The assets and liabilities of certain Internal Service Funds are included in the governmental activities in the Statement of Net Assets. The details of this (\$27,156) difference are as follows:

Assets:	
Capital Assets - Non Depreciable	\$ 1,984
Capital Assets - Depreciable	107,806
Internal Balances	3,031
Other Assets	145,087
Liabilities:	
Compensated Absences	(8,224)
Liability Claims	(219,458)
Capital Lease Obligations	(25,451)
Net Other Post Employment Benefits Obligation	(1,138)
Net Pension Obligation	(2,832)
Other Liabilities	<u>(27,961)</u>
Net adjustment to decrease "Total Fund Balances-Governmental Funds" to arrive at "Total Net Assets-Governmental Activities"	<u>\$ (27,156)</u>

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

The Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances includes a reconciliation between "Net Change in Fund Balances-Total Governmental Funds" and "Changes in Net Assets of Governmental Activities" as reported in the Government-wide Statement of Activities. One element of that reconciliation explains, "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$59,360 difference are as follows:

Capital Projects	\$ 132,432
Other Capital Activities	46,762
Depreciation Expense	<u>(119,834)</u>
Net Adjustment to increase "Net Changes in Fund Balances-Total Governmental Funds" to arrive at "Changes in Net Assets of Governmental Activities"	<u>\$ 59,360</u>

Another element of the reconciliation states "The net effect of various miscellaneous transactions involving capital assets (i.e., donations, retirements, and transfers) is to decrease net assets." The details of this (\$30,736) are as follows:

In the Statement of Activities, only the net gain on the sale of land is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balances by the net book value of the capital assets sold/retired.	\$ (214)
Transfers of capital assets to Business-Type activities decrease net assets in the Statement of Activities, but do not appear in the governmental funds because they are not financial resources.	(20,387)
The Statement of Activities reports losses arising from the retirement of existing depreciable capital assets. Conversely, governmental funds do not report any gain or loss on retirements of capital assets.	<u>(10,135)</u>
Net adjustment to decrease "Net Change in Fund Balances-Total Governmental Funds" to arrive at "Changes in Net Assets of Governmental Activities"	<u><u>\$ (30,736)</u></u>

Another element of the reconciliation states, "Internal Service Funds are used by management to charge the costs of activities such as Fleet Services, Publishing Services, Central Stores, Self Insurance, and others to individual funds." The net expense of certain Internal Service activities is reported with governmental activities. The details of this \$27,847 are as follows:

Allocated Operating Profit	\$ 9,020
Nonoperating Revenues (Expenses):	
Loss on Sale/Retirement of Capital Assets	(3,899)
Other Nonoperating Revenues	5,508
Transfers	17,057
Capital Contributions	<u>161</u>
Net adjustment to increase "Net Changes in Fund Balances-Total Governmental Funds" to arrive at "Changes in Net Assets of Governmental Activities"	<u><u>\$ 27,847</u></u>

Another element of the reconciliation states "The issuance of long-term debt (i.e., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets." The details of this (\$62,922) difference are as follows:

Debt Issued or Incurred:	
Capital Leases	\$ (14,561)
Loans Payable	(16,063)
Special Tax Bonds	(3,950)
Tax Allocation Bonds	(69,000)
Pooled Financing Bonds	(34,985)
Principal Repayments:	
Capital Leases	4,081
Contracts/Notes Payable	2,893
Loans Payable	61
Section 108 Loans	3,535
SANDAG Loans	2,287
G.O. Bonds	2,125
Revenue Bonds	22,260
Special Assessment Bonds/Special Tax Bonds	4,770
Tax Allocation Bonds	13,016
Tobacco Settlement Asset-Backed Bonds	3,330
Pooled Financing Bonds	870
Transfer of Capital Lease to Business-Type Activities	6,264
Refundings:	
Tax Allocation Bonds	<u>10,145</u>
Net adjustment to decrease "Net Changes in Fund Balances-Total Governmental Funds" to arrive at "Changes in Net Assets of Governmental Activities"	<u>\$ (62,922)</u>

Another element of the reconciliation states that "Some expenses reported in the Statement of Activities do not require the use of current financial resources (i.e., compensated absences, net pension obligation) and therefore are not accrued as expenses in governmental funds." The details of this (\$13,282) difference are as follows:

Compensated Absences	\$ (1,059)
Net Pension Obligation/Net OPEB Obligation	(11,954)
Accrued Interest	(1,060)
Current Year Premiums/Discounts and Interest Accretion	
Less Amortization of Bond Premiums	(1,788)
Issuance Costs Less Current Year Amortization	<u>2,579</u>
Net adjustment to decrease Net Changes in Fund Balances - Total Governmental Funds to arrive at Changes in Net Assets of Governmental Activities	<u>\$ (13,282)</u>

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3. CASH AND INVESTMENTS (In Thousands)

The following is a summary of the carrying amount of cash and investments:

	Governmental Activities	Business-Type Activities	Fiduciary Statement of Net Assets other than SDCERS	Subtotal	SDCERS Fiduciary Statement of Net Assets	Grand Total
Cash and Cash or Equity in						
Pooled Cash and Investments	\$ 1,358,621	\$ 654,233	\$ 37,618	\$ 2,050,472	\$ 5,122	\$ 2,055,594
Cash and Investments with Fiscal Agent	147,556	71,181	111	218,848	501,400	720,248
Investments at Fair Value	249,135	167,142	735,099	1,151,376	4,311,902	5,463,278
Securities Lending Collateral	-	-	-	-	674,085	674,085
TOTAL	\$ 1,755,312	\$ 892,556	\$ 772,828	\$ 3,420,696	\$ 5,492,509	\$ 8,913,205

a. Cash and Cash or Equity in Pooled Cash and Investments

Cash and Cash or Equity in Pooled Cash and Investments represents petty cash, cash at the bank in demand deposit and/or savings accounts, and cash in escrow for contract retention payables. Furthermore, it represents equity in pooled cash and investments, which is discussed in further detail below.

As provided for by California Government Code, the cash balances of substantially all funds and certain outside entities are pooled and invested by the City Treasurer for the purpose of increasing interest earnings through investment activities. The respective funds' shares of the total pooled cash and investments are included in the table above, under the caption Cash and Cash or Equity in Pooled Cash and Investments.

The following represents a summary of the items included in the Cash and Cash or Equity in Pooled Cash and Investments line item:

Cash on Hand - Petty Cash	\$ 204
Deposits - Held in Escrow Accounts	3,287
Deposits - Cash and Cash Equivalents (Not Pooled)	1,310
Deposits - Cash and Cash Equivalents (Pooled)	4,414
Pooled Investments in the City Treasury	2,046,379
Total Cash and Cash or Equity in Pooled Cash and Investments	\$ 2,055,594

A summary of the investments held by the City Treasurer's investment pool as of June 30, 2008 is presented in the table below:

Investment	Fair Value	Book Value	Interest Rate % Range	Maturity Range
U.S. Treasury Bills	\$ 19,931	\$ 19,876	1.27% *	9/11/2008
U.S. Treasury Notes & Bonds	749,162	742,093	1.75-4.88%	5/15/2009-1/15/2011
U.S. Agency Discount Notes	417,503	414,992	2.02-3.88% *	7/3/2008-3/27/2009
U.S. Agency Notes & Bonds	511,841	510,705	2.43-5.88%	9/17/2008-1/9/2012
Commercial Paper	153,677	152,999	2.16-3.41% *	7/1/2008-1/23/2009
Corporate Notes & Bonds	82,076	81,556	3.13-6.88%	12/15/2008-10/27/2009
Local Agency Investment Fund (LAIF)	24,040	24,041	4.18% **	1/29/2009
Repurchase Agreement	83,149	83,149	2.35%	7/1/2008
Certificates of Deposit (CDARS)	5,000	5,000	3.78%	3/20/2009
	<u>\$ 2,046,379</u>	<u>\$ 2,034,411</u>		

* Discount Rates

** LAIF - Fair Value is adjusted to account for LAIF factor. Maturity range is based on weighted average maturity of 212 days.

The following represents a condensed statement of net assets and changes in net assets for the City Treasurer's cash and investment pool as of June 30, 2008:

Statement of Net Assets

Deposit - Cash and Cash Equivalents (Pooled)	\$ 4,414
Investments of Pool Participants	2,046,379
Accrued Interest Receivable of Internal Pool Participants	13,086
Accrued Interest Receivable of External Pool Participants	22
Total Cash, Investments, and Interest Receivable	<u>\$ 2,063,901</u>
Equity of Internal Pool Participants	\$ 2,059,475
Equity of External Pool Participants (SanGIS, ARJIS & AVA) **	4,426
Total Equity	<u>\$ 2,063,901</u>

**Voluntary Participation

Statement of Changes in Net Assets

Net Assets Held for Pool Participants at July 1, 2007	\$ 1,824,425
Net Change in Investments by Pool Participants	239,476
Total Net Assets Held for Pool Participants at June 30, 2008	<u>\$ 2,063,901</u>

b. Cash and Investments with Fiscal Agents

Cash and Investments with Fiscal Agents represents cash and investments held by fiscal agents resulting from bond issuances. More specifically, these funds represent reserves held by fiscal agents or trustees as legally required by bond issuances and liquid investments held by fiscal agents or trustees which are used to pay debt service. Under the Fiduciary Statement of Net Assets, Cash and Investments with Fiscal Agent represents the City's balance for the Preservation of Benefit Plan (POB Plan). The POB Plan is a qualified governmental excess benefit arrangement (QEBA) under Internal Revenue Code (IRC) section 415(m) and is discussed in further detail in Note 12.

The San Diego City Employees' Retirement System (SDCERS) portion of Cash and Investments with Fiscal Agents represents funds held as cash collateral from market neutral portfolios (domestic fixed income investment

strategy). Furthermore, it represents transaction settlements, held in each investment manager’s portfolio, which are invested overnight by SDCERS’ custodial bank.

c. Investments at Fair Value

Investments at Fair Value represents investments of the City’s Supplemental Pension Savings Plan, 401(k) Plan, San Diego City Employees’ Retirement System (SDCERS), investments managed by the City Treasurer (which are not part of the pool), investments reported by San Diego Data Processing Corporation (SDDPC), and investments managed by the Funds Commission (e.g. Cemetery Perpetuity, Effie Sergeant, Gladys Edna Peters, Los Penasquitos Canyon, and the Edwin A. Benjamin Library Fund).

d. Investment Policy

In accordance with City Charter Section 45 and under authority annually approved by the City Council, the City Treasurer is responsible for the safekeeping and investment of the unexpended cash in the City Treasury according to the City Treasurer’s Investment Policy (the “Policy”). This Policy applies to all of the investment activities of the City except for the pension trust funds, the proceeds of certain debt issues, which are managed and invested at the direction of the City Treasurer in accordance with the applicable indenture or by Trustees appointed under indenture agreements or by fiscal agents, and the assets of trust funds, which are placed in the custody of the Funds Commission by Council ordinance.

City staff reviews the Policy annually and may make revisions based upon changes to the California Government Code and the investment environment. These suggested revisions are presented to the Investment Advisory Committee (IAC) for review and comments. The IAC consists of two City representatives and three outside financial professionals with market and portfolio expertise not working for the City of San Diego. The City Council reviews the Policy and considers approval on an annual basis.

The IAC evaluates the horizon returns, risk parameters, security selection, and market assumptions the City’s investment staff is using when explaining the City’s investment returns. The IAC also meets semi-annually to review the previous two quarters’ investment returns and make recommendations to the City Treasurer on proposals presented to the IAC by the Treasurer’s staff.

The Policy is governed by the California Government Code (CGC), Sections 53600 et seq. The following table presents the authorized investments, requirements, and restrictions per the CGC and the City Policy:

Investment Type	Maximum Maturity (1)		Maximum % of Portfolio		Maximum % with One Issuer		Minimum Rating	
	CGC	City Policy	CGC	City Policy	CGC	City Policy	CGC	City Policy
U.S. Treasury Obligations (bills, bonds, or notes)	5 years	5 years	None	None	None	None	None	None
U.S. Agencies	5 years	5 years	None	(2)	None	(2)	None	None
Bankers’ Acceptances (6)	180 days	180 days	40%	40%	30%	10%	None	(3)
Commercial Paper (6)	270 days	270 days	25%	25%	10%	10%	P1	P1
Negotiable Certificates (6)	5 years	5 years	30%	30%	None	10%	None	(3)
Repurchase Agreements	1 year	1 year	None	None	None	None	None	None
Reverse Repurchase Agreements (4)	92 days	92 days	20%	20%	None	None	None	None
Local Agency Investment Fund	N/A	N/A	None	None	None	None	None	None
Non-Negotiable Time Deposits (6)	5 years	5 years	None	25%	None	10%	None	(3)
Medium Term Notes/Bonds (6)	5 years	5 years	30%	30%	None	10%	A	A
Municipal Securities of California Local Agencies (6)	5 years	5 years	None	20%	None	10%	None	A
Mutual Funds	N/A	N/A	20%	5%	10%	None	AAA	AAA
Notes, Bonds, or Other Obligations	5 years	5 years	None	None	None	None	None	AA
Mortgage Pass-Through Securities	5 years	5 years	20%	20%	None	None	AA	AAA
Financial Futures (5)	N/A	None	None	None	None	None	None	None

Footnotes:

- (1) In the absence of a specified maximum, the maximum is 5 years.
- (2) No more than one-third of the cost value of the total portfolio at time of purchase can be invested in the unsecured debt of any one agency.
- (3) Credit and maturity criteria must be in accordance per Section X of the City’s Investment Policy.
- (4) Maximum % of portfolio for Reverse Repurchase Agreements is 20% of base value.
- (5) Financial futures transactions would be purchased only to hedge against changes in market conditions for the reinvestment of bond proceeds.
- (6) Investment types with a 10% maximum with one issuer are further restricted per the City’s Investment Policy: 5% per issuer and an additional 5% with authorization by City Treasurer.

According to the Policy, the City may enter into repurchase and reverse repurchase agreements only with primary dealers of the Federal Reserve Bank of New York with which the City has entered into a master repurchase agreement.

Additionally, the Policy authorizes investment in other specific types of securities. The City may invest in floating rate notes with coupon resets based upon a single fixed income index (which would be representative of an eligible investment), provided that security is not leveraged. Structured notes issued by U.S. government agencies that contain imbedded calls or options are authorized as long as those securities are not inverse floaters, range notes, or interest only strips derived from a pool of mortgages. A maximum of 8% of the "cost value" of the pooled portfolio may be invested in structured notes.

In fiscal year 2008, the City deposited \$5 million with Neighborhood National Bank to be invested as part of the Certificate of Deposit Account Registry Service (CDARS). Under the City Treasurer's Investment Policy, this type of investment is subject to a 1% limit of total portfolio value for the City's pooled investments. The CDARS investment program is permissible per the California Government Code (CGC), Section 53601.8, and is subject to a 30% limit of total portfolio value.

Ineligible investments prohibited from use in the portfolio include, but are not limited to, common stocks and long-term corporate notes/bonds. A copy of the City Treasurer's Investment Policy can be requested from the City Treasurer, 1200 3rd Avenue, Suite 1624, San Diego, CA 92101.

Other Investment Policies

The City currently has a Funds Commission whose role is to supervise and control all trust, perpetuity, and investment funds of the City and such pension funds as shall be placed in its custody. The statutory authority for the Funds Commission is created in the City Charter Article V, Section 41(a). While the duties described in the creation document form broad authority for the Funds Commission, in practice, the Funds Commission only oversees investments related to a small number of permanent endowments. The allowable investments for these funds are different than those as prescribed in the City Treasurer's Investment Policy. Each permanent endowment fund has its own separate investment policy. Copies of the individual investment policies can be requested from the City Treasurer, 1200 3rd Avenue, Suite 1624, San Diego, CA 92101. Additionally, the City and its component units have funds invested in accordance with various bond indenture and trustee agreements.

City of San Diego – Disclosures for Specific Risks

e. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Market or interest-rate risk for the City's pooled investments is intended to be mitigated by establishing two portfolios, a liquidity portfolio and a core portfolio. Target durations are based upon the expected short and long-term cash needs of the City. The liquidity portfolio is structured with an adequate mix of highly liquid securities and maturities to meet major cash outflow requirements for at least six months (per CGC Section 53646). The liquidity portfolio uses the Merrill Lynch 3-6 month Treasury Index as a benchmark with a duration of plus or minus 40% of the duration of that benchmark.

The core portfolio uses the Merrill Lynch 1-3 year Treasury Index as a benchmark with a duration of plus or minus 20% of the duration of that benchmark. It consists of high quality liquid securities with a maximum maturity of 5 years and is structured to meet the longer-term cash needs of the City. Information about the sensitivity of the fair value of the City's investments to market interest rate fluctuations is presented in the table on the next page.

As of June 30, 2008, the City's investments (in thousands) by maturity are as follows:

	Years				Fair Value
	Under 1	1-3	3-5	Over 5	(In Thousands)
<u>Pooled Investments with City Treasurer:</u>					
U.S. Treasury Bills	\$ 19,931	\$ -	\$ -	\$ -	\$ 19,931
U.S. Treasury Notes	51,100	698,062	-	-	749,162
U.S. Agencies - Federal Farm Credit Bank	25,133	40,056	-	-	65,189
U.S. Agencies - Federal Home Loan Bank	175,217	90,241	-	-	265,458
U.S. Agencies - Federal Home Loan Mortgage Corporation	243,749	75,833	10,097	-	329,679
U.S. Agencies - Federal National Mortgage Association	150,816	118,202	-	-	269,018
Commercial Paper	153,677	-	-	-	153,677
Corporate Notes	56,357	25,719	-	-	82,076
Non-Negotiable Certificate of Deposit (CDARS deposit)	5,000	-	-	-	5,000
Repurchase Agreement	83,149	-	-	-	83,149
State Local Agency Investment Fund	24,040	-	-	-	24,040
	<u>988,169</u>	<u>1,048,113</u>	<u>10,097</u>	<u>-</u>	<u>2,046,379</u>
<u>Non-Pooled Investments with City Treasurer:</u>					
U.S. Treasury Bills	14,282	-	-	-	14,282
U.S. Treasury Notes	43,664	-	-	-	43,664
U.S. Agencies - Federal Farm Credit Bank	28,689	-	-	-	28,689
U.S. Agencies - Federal Home Loan Bank	27,380	-	-	-	27,380
U.S. Agencies - Federal Home Loan Mortgage Corporation	64,859	-	-	-	64,859
U.S. Agencies - Federal National Mortgage Association	110,733	-	-	-	110,733
Commercial Paper	100,698	-	-	-	100,698
Repurchase Agreements	9,351	-	-	-	9,351
	<u>399,656</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>399,656</u>
<u>Investments with Fiscal Agents, Funds Commission, and Blended Component Units:</u>					
U.S. Treasury Bills	15,125	-	-	-	15,125
U.S. Treasury Bonds and Notes	40,502	69	-	416	40,987
U.S. Agencies - Federal Home Loan Bank	40,447	-	-	-	40,447
U.S. Agencies - Federal Home Loan Mortgage Corporation	14,102	-	-	302	14,404
U.S. Agencies - Federal National Mortgage Association	17,083	85	-	-	17,168
Commercial Paper	10,856	-	-	-	10,856
Common Stock	3,254	-	-	-	3,254
Corporate Bonds and Notes	201	500	882	2,641	4,224
Guaranteed Investment Contracts	20,507	-	-	13,716	34,223
Money Market Mutual Funds	47,252	-	-	-	47,252
Mortgage Backed Securities - Commercial	-	-	-	95	95
Mortgage Backed Securities - Government	-	-	-	37	37
Mutual Funds - Equity	368,637	-	-	-	368,637
Mutual Funds - Fixed Income	12,866	-	356,270	1,563	370,699
Repurchase Agreements	3,000	-	-	-	3,000
Cash (with Fiscal Agents)	160	-	-	-	160
	<u>593,992</u>	<u>654</u>	<u>357,152</u>	<u>18,770</u>	<u>970,568</u>
Total Investments	\$ 1,981,817	\$ 1,048,767	\$ 367,249	\$ 18,770	3,416,603
Total Deposits					9,011
Total Cash on Hand					204
Total Investments, Deposits, and Cash on Hand (Includes SDCERS Pooled Cash and Investments with the City - \$5,122)					<u>\$ 3,425,818</u>

f. Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. As of June 30, 2008, the City's investments and corresponding credit ratings are as follows:

<u>Pooled Investments with City Treasurer:</u>	<u>Moody's</u>	<u>S&P</u>	<u>Fair Value</u>	<u>Percentage</u>
U.S. Treasury Bills	Exempt	Exempt	\$ 19,931	0.97%
U.S. Treasury Notes	Exempt	Exempt	749,162	36.62%
U.S. Agencies - Federal Farm Credit Bank	Aaa	N/A	65,189	3.19%
U.S. Agencies - Federal Home Loan Bank ¹	Aaa	N/A	130,775	6.39%
U.S. Agencies - Federal Home Loan Bank ¹	P-1	N/A	134,683	6.58%
U.S. Agencies - Federal Home Loan Mortgage Corporation ¹	Aaa	N/A	156,891	7.67%
U.S. Agencies - Federal Home Loan Mortgage Corporation ¹	Aa2	N/A	15,792	0.77%
U.S. Agencies - Federal Home Loan Mortgage Corporation ¹	P-1	N/A	156,996	7.67%
U.S. Agencies - Federal National Mortgage Association ¹	Aaa	N/A	118,202	5.78%
U.S. Agencies - Federal National Mortgage Association ¹	P-1	N/A	150,816	7.37%
Commercial Paper	P-1	N/A	153,677	7.51%
Corporate Notes	Aaa	N/A	10,168	0.50%
Corporate Notes	Aa1	N/A	19,940	0.97%
Corporate Notes	Aa2	N/A	15,551	0.76%
Corporate Notes	Aa3	N/A	29,378	1.44%
Corporate Notes	A1	N/A	7,039	0.34%
Non-Negotiable Certificate of Deposit (CDARS deposit)	Not Rated	Not Rated	5,000	0.24%
Repurchase Agreements	Not Rated	Not Rated	83,149	4.06%
State Local Agency Investment Fund	Not Rated	Not Rated	24,040	1.17%
Subtotal - Pooled Investments			<u>2,046,379</u>	<u>100.00%</u>
<u>Non-Pooled Investments with City Treasurer:</u>				
U.S. Treasury Bills	Exempt	Exempt	14,282	3.57%
U.S. Treasury Notes	Exempt	Exempt	43,664	10.93%
U.S. Agencies - Federal Farm Credit Bank ¹	P-1	N/A	23,667	5.92%
U.S. Agencies - Federal Farm Credit Bank ¹	Aaa	N/A	5,022	1.26%
U.S. Agencies - Federal Home Loan Bank ¹	P-1	N/A	26,844	6.72%
U.S. Agencies - Federal Home Loan Bank ¹	Not Available	AAA	536	0.13%
U.S. Agencies - Federal Home Loan Mortgage Corporation ¹	P-1	N/A	64,859	16.24%
U.S. Agencies - Federal National Mortgage Association ¹	P-1	N/A	96,197	24.06%
U.S. Agencies - Federal National Mortgage Association ¹	Aaa	N/A	14,536	3.64%
Commerical Paper	P-1	A-1+	100,698	25.19%
Repurchase Agreements	Not Rated	Not Rated	9,351	2.34%
Subtotal - Non-Pooled Investments			<u>399,656</u>	<u>100.00%</u>

"Exempt" - Per GASB 40, U.S. Treasury Obligations do not require disclosure of credit quality.

"N/A" - S&P rating not applicable, Moody's rating provided.

"Not Available" - Bloomberg credit history did not have Moody's ratings, only S&P ratings.

¹ More than 5% of total investments are with U.S. Agencies whose debt is backed by full faith and credit of the U.S. Government, as of September 2008.

(continued on next page)

<u>Investments with Fiscal Agents, Funds Commission, and Blended Component Units:</u>	<u>Moody's</u>	<u>S&P</u>	<u>Fair Value</u>	<u>Percentage</u>
U.S. Treasury Bills	Exempt	Exempt	\$ 15,125	1.56%
U.S. Treasury Bonds and Notes	Exempt	Exempt	40,987	4.22%
U.S. Agencies - Federal Home Loan Bank ¹	Aaa	N/A	6,057	0.62%
U.S. Agencies - Federal Home Loan Bank ¹	Not Available	AAA	2,598	0.27%
U.S. Agencies - Federal Home Loan Bank ¹	Not Available	A-1+	31,792	3.28%
U.S. Agencies - Federal Home Loan Mortgage Corporation ¹	Aaa	N/A	302	0.03%
U.S. Agencies - Federal Home Loan Mortgage Corporation ¹	P-1	N/A	12,776	1.33%
U.S. Agencies - Federal Home Loan Mortgage Corporation ¹	Not Available	A-1+	1,326	0.14%
U.S. Agencies - Federal National Mortgage Association ¹	Aaa	N/A	85	0.01%
U.S. Agencies - Federal National Mortgage Association ¹	P-1	N/A	11,000	1.13%
U.S. Agencies - Federal National Mortgage Association ¹	Not Available	AAA	6,083	0.63%
Commercial Paper	Not Available	A-1+	10,856	1.12%
Common Stock	Not Rated	Not Rated	3,254	0.34%
Corporate Bonds and Notes	Aa1	N/A	100	0.01%
Corporate Bonds and Notes	Aa2	N/A	833	0.09%
Corporate Bonds and Notes	Aa3	N/A	469	0.05%
Corporate Bonds and Notes	A1	N/A	1,031	0.10%
Corporate Bonds and Notes	A2	N/A	1,520	0.16%
Corporate Bonds and Notes	A3	N/A	101	0.01%
Corporate Bonds and Notes	Baa1	N/A	170	0.02%
Guaranteed Investment Contracts	Not Rated	Not Rated	34,223	3.53%
Money Market Mutual Funds	Aaa	N/A	47,252	4.87%
Mortgage Backed Securities - Commercial	Aaa	N/A	95	0.01%
Mortgage Backed Securities - Government	Not Rated	Not Rated	37	0.01%
Repurchase Agreements	Not Rated	AAA	3,000	0.31%
Mutual Funds - Equity	Not Rated	Not Rated	368,637	37.98%
Mutual Funds - Fixed Income	Not Rated	Not Rated	370,699	38.14%
Cash (with Fiscal Agents)	Not Rated	Not Rated	160	0.03%
Subtotal - Other Investments			<u>970,568</u>	<u>100.00%</u>
Total Investments			3,416,603	
Total Deposits			9,011	
Total Cash on Hand			204	
Total Investments, Deposits, and Cash on Hand*			<u>\$ 3,425,818</u>	

*(includes SDCERS Pooled Cash and Investments with the City - \$5,122)

"Exempt" - Per GASB 40, US Treasury Obligations do not require disclosure of credit quality.

"N/A" - S&P rating not applicable, Moody's rating provided.

"Not Available" - Bloomberg credit history did not have Moody's ratings, only S&P ratings.

¹ More than 5% of total investments are with U.S. Agencies whose debt is backed by full faith and credit of the U.S. Government, as of September 2008.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the relative size of an investment in a single issuer. As of June 30, 2008, the City exceeded the 5% limit of total investments for issuers of various U.S. Agencies. Investments exceeding the 5% limit are referenced in the credit ratings table above. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are exempt.

g. Custodial Credit Risk*Deposits*

At June 30, 2008, the carrying amount of the City's cash deposits was approximately \$5,724, and the bank balance was approximately \$28,915, the difference of which is substantially due to outstanding checks. For the balance of cash deposits in financial institutions, approximately \$5,480 was covered by federal depository insurance and approximately \$23,435 was uninsured. Pursuant to the California Government Code, California banks and savings and loan associations are required to secure the City's deposits not covered by federal depository insurance by pledging government securities as collateral. As such, \$20,810 of the City's deposits are pledged at 110% and held by a bank acting as the City's agent, in the City's name. The City is exposed to custodial credit risk for the remaining \$2,625, which is uninsured and uncollateralized. The amount subject to custodial credit risk includes approximately \$2,574 in deposits relating to San Diego Data Processing Corporation and \$51 in deposits relating to Southeastern Economic Development Corporation, Inc.

The City also has deposits held in escrow accounts with a carrying amount and bank balance of approximately \$3,287. For the balance of deposits in escrow accounts, approximately \$963 was covered by federal depository insurance. The remaining balance of \$2,324 was uninsured. Pursuant to the California Government Code, California banks and savings and loans associations are required to secure the City's deposits in excess of insurance by pledging government securities as collateral. As such, \$2,324 of the City's deposits in escrow accounts are collateralized and pledged at 110%.

Investments

The City's investments at June 30, 2008 are categorized as described below:

- Category 1: Insured or registered, with securities held by the City or its agent in the City's name.
- Category 2: Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.
- Category 3: Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the City's name.
- Non-Categorized: Includes investments made directly with another party, real estate, direct investments in mortgages and other loans, open-end mutual funds, pools managed by other governments, annuity contracts, and guaranteed investment contracts.

At June 30, 2008, the City had investments exposed to custodial credit risk. Investments within the Cemetery Perpetuity Fund's portfolio were held by Northern Trust Bank, and were not in the City's name. The following summarizes the investment types and amounts that are exposed to custodial credit risk and are classified Category 3:

<u>Investment Type</u>	<u>Fair Value</u>
U.S. Treasury Bonds and Notes	\$ 788
U.S. Agencies	388
Corporate Bonds and Notes	4,224
Mortgage Backed Securities - Commercial	95
Mortgage Backed Securities - Government	37
Common Stock	3,254
Total	<u>\$ 8,786</u>

h. Restricted Cash and Investments

Cash and investments at June 30, 2008 that are restricted by legal or contractual requirements are comprised of the following:

<u>General Fund</u>	
TRANS Repayment	\$ 116,383
<u>Nonmajor Governmental Funds</u>	
Reserved for Debt Service	350,348
Permanent Endowments	<u>17,254</u>
Total Nonmajor Governmental Funds	<u>367,602</u>
<u>Environmental Services Enterprise Fund</u>	
Funds set aside for landfill site closure and maintenance costs	36,523
<u>Water Utility Enterprise Fund</u>	
Customer deposits	4,855
Interest and redemption funds	<u>191,449</u>
Total Water Utility Enterprise Fund	<u>196,304</u>
<u>Sewer Utility Enterprise Fund</u>	
Interest and redemption funds	46,839
<u>Miscellaneous Agency Funds</u>	
Retention held in escrow	<u>3,287</u>
Total Restricted Cash and Investments	<u><u>\$ 766,938</u></u>

Summary of Total Cash and Investments
(In Thousands)

Total Unrestricted Cash and Investments	\$ 8,146,267
Total Restricted Cash and Investments	766,938
Total Cash and Investments	<u><u>\$ 8,913,205</u></u>
Total Governmental Activities	\$ 1,755,312
Total Business-Type Activities	892,556
Total Fiduciary Activities	<u>6,265,337</u>
Total Cash and Investments	<u><u>\$ 8,913,205</u></u>

San Diego City Employees' Retirement System (SDCERS) – Disclosures for Policy and Specific Risks

Summary of Cash and Investments – San Diego City Employees' Retirement System

Cash or Equity in Pooled Cash and Investments with the City of San Diego	\$ 5,122
Cash and Cash Equivalents on Deposit with Custodial Bank and Fiscal Agents	501,400
Investments at Fair Value:	
Short-Term Investments	42,268
Domestic Fixed Income Securities	998,630
International Fixed Income Securities	183,122
Domestic Equity Securities	1,780,841
International Equity Securities	819,511
Directly Owned Real Estate Assets and Real Estate Equity Securities	487,530
Securities Lending Collateral	<u>674,085</u>
Total Cash and Investments for SDCERS	<u>\$ 5,492,509</u>

Narratives and tables presented in the following sections (i. through r.) are taken directly from the comprehensive annual financial report of the San Diego City Employees' Retirement System, as of June 30, 2008, issued December 15, 2008.

i. Investment Policy

Investments for the pension trust fund are authorized to be made by the Board of Administration of the SDCERS (Board) in accordance with Section 144 of the City Charter and the California State Constitution Article XVI, Section 17. The Board is authorized to invest in any securities that are allowed by general law for savings banks. The Board may also invest in additional investments as approved by resolution of the San Diego City Council. These investments include, but are not limited to, bonds, notes and other obligations, real estate investments, common stock, preferred stock, and pooled vehicles. Additionally, investment policies permit SDCERS' Board to invest in financial futures contracts provided the contracts do not leverage SDCERS' Trust Fund portfolio. Financial futures contracts are recorded at fair value each day and must be settled at expiration date. Changes in the fair value of the contracts will result in the recognition of a gain or loss under GASB Statement No. 25.

Investment earnings from the pension trust fund are accounted for in accordance with GASB Statement No. 25. Net investment income includes the net appreciation/depreciation in the fair value of investments, interest income, dividend income, and other income not included in the change in the fair value of investments, less total investment expenses (including investment management/custodial fees and all other significant investment-related costs). SDCERS had realized gains (income earnings and net gains) that totaled \$294,974 for the year ended June 30, 2008. Pursuant to the San Diego Municipal Code, realized gains and losses determine whether contingent benefits will be paid each fiscal year.

SDCERS' investments include fixed income strategies to diversify the investment portfolio. The percentage allocated to these strategies is based on efficient model portfolios developed from an annual asset allocation study. SDCERS' target asset allocation policy is reviewed annually to reflect changes in capital market assumptions. As of June 30, 2008, SDCERS' target allocation to fixed income strategies was 34%. The fixed income allocation is externally managed and is comprised as follows: 18% to core-plus domestic fixed income, 9% to an unsecuritized market neutral strategy, 4% to non-U.S. fixed income, and 3% to convertible bond securities.

The market neutral and convertible bond strategies do not exhibit interest rate risk, and duration is not relevant in structuring these portfolios. Both strategies have a low correlation to fixed income assets and provide additional diversification to the portfolio's fixed income allocation. The balance of SDCERS' fixed income portfolio (22% target of total invested assets) is sensitive to interest rate risk and credit risk. SDCERS employs two core-plus managers for its domestic income strategy. One of SDCERS' fixed income managers has tactical discretion to

invest in non-U.S. fixed income securities while the other domestic core-plus manager is limited to U.S. fixed income investments only.

A copy of the SDCERS investment policy and additional details on the results of the system's investment activities are available at 401 West A Street, Suite 400, San Diego, CA 92101.

j. Interest Rate Risk

SDCERS uses duration to measure how changes in interest rates will affect the value of its fixed income portfolios. Convertible bonds are typically not subject to interest rate risk because convertible bonds are usually positively correlated to interest rate movements compared to other fixed income securities. As of June 30, 2008, SDCERS' domestic convertible bond portfolio had nine securities which had interest rate sensitivity. These securities, convertible bonds and preferred stock, have been included in the presentation of interest rate risk exposure.

The following table displays the durations for SDCERS' domestic and international fixed income strategies based on portfolio holdings as of June 30, 2008.

**Fixed Income Portfolios (Domestic and International)
Portfolio Duration Analysis as of June 30, 2008**

Type of Security	Effective Duration (in years)	Fair Value ¹ (in thousands)
<u>Collateralized Mortgage Obligations</u>		
Collateralized Mortgage Obligations	4.24	\$ 149,907
<u>Corporates</u>		
Convertible Bonds	10.30	125,573
Corporate Bonds	4.22	289,591
Preferred Stock	7.43	19,498
<u>Government & Agency Obligations</u>		
FHLMC	4.80	38,025
FNMA	4.62	329,492
GNMA I	4.56	5,271
GNMAII	1.45	1,077
Government Issues	5.24	226,936
Municipals	8.20	7,982
<u>Asset-Backed Securities</u>		
Asset-Backed Securities	2.91	30,964
<u>Short-Term/Other</u>		
Short-Term	0.25	21,023
Options-Futures	0.00	(69)
Total		\$ 1,245,270

¹ Fair Value is different from Plan Net Asset investments by \$21,251, as the Fair Value includes preferred stock holdings that have a duration, and it excludes credit default swaps, mutual funds, and short-term investment funds for which duration cannot be calculated.

Source: SDCERS' CAFR as of June 30, 2008

k. Investments Highly Sensitive to Interest Rate Changes

SDCERS has investments that contain terms that increase the sensitivity of their fair values to increasing interest rates. The total value of securities that are more highly sensitive to interest rate changes in the portfolio as of June 30, 2008 are presented in the table below.

	Fair Value (in thousands)	Percent of Fixed Income Portfolio
Asset Backed Securities	\$ 3,826	0.313%
Interest Only Strips	1,442	0.118
Inverse Floating Rate Notes	3,774	0.308
Holdings with Greater 10 Years Duration	63,873	5.218

Source: SDCERS' CAFR as of June 30, 2008

Although SDCERS holds such investments, this risk is mitigated by diversification of issuer, credit quality, maturity, and security selection.

l. Credit Risk

SDCERS' fixed income portfolios are sensitive to credit risk. Unless information is available to the contrary, obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government are not considered to have credit risk and do not require disclosure of credit quality. "NR" represents those securities that are not rated and "NA" represents those securities that are not applicable to the rating disclosure requirements. The tables on the following pages identify the credit quality for SDCERS' domestic and international fixed income strategies, based on portfolio holdings as of June 30, 2008.

Credit Quality of SDCERS'
Fixed Income Strategies (Domestic and International)
As of June 30, 2008

S&P Quality Rating	Moody's Quality Rating	Total Fair Value (in thousands)	Collateralized Mortgage Obligations	U.S. Government & Agency Obligations ²	U.S. Government & Agency Obligations ¹	Asset-Backed Securities	Short-Term/ Other	International Corporates	International Government Obligations	International Asset-Backed Securities
U.S. Treasury	U.S. Treasury	\$ 73,528	\$ -	\$ -	\$ 73,528	\$ -	\$ -	\$ -	\$ -	\$ -
AAA	Aaa	482,318	68,496	5,774	261,769	6,981	8,221	22,271	108,806	-
AAA	Aa1	984	-	-	984	-	-	-	-	-
AAA	NR	72,565	71,553	-	-	1,012	-	-	-	-
AA+	Aaa	3,067	-	1,986	-	-	-	1,081	-	-
AA	Aaa	30,221	-	844	-	-	-	9,603	19,774	-
AA+	Aa1	8,210	-	8,210	-	-	-	-	-	-
AA+	Aa3	566	-	-	566	-	-	-	-	-
AA+	A3	436	-	-	-	436	-	-	-	-
AA	Aa1	16,655	-	14,280	574	-	-	1,801	-	-
AA	Aa2	4,412	-	4,019	393	-	-	-	-	-
AA	Aa3	1,377	-	398	-	979	-	-	-	-
AA	NR	1,097	-	1,097	-	-	-	-	-	-
AA-	Aaa	443	-	-	443	-	-	-	-	-
AA-	Aa1	4,018	-	3,077	-	-	-	941	-	-
AA-	Aa2	4,653	-	4,223	-	-	-	430	-	-
AA-	Aa3	37,264	-	36,376	-	-	-	888	-	-
AA-	A1	614	-	614	-	-	-	-	-	-
AA-	Baa1	1,516	-	1,516	-	-	-	-	-	-
A+	Aa2	6,409	-	6,409	-	-	-	-	-	-
A+	Aa3	14,592	-	13,320	-	-	-	1,272	-	-
A+	A1	16,325	-	16,325	-	-	-	-	-	-
A+	Baa1	4,647	-	4,647	-	-	-	-	-	-
A	Aaa	1,867	-	-	-	1,867	-	-	-	-
A	Aa2	278	-	-	-	278	-	-	-	-
A	Aa3	2,113	-	2,113	-	-	-	-	-	-
A	A1	17,230	-	17,230	-	-	-	-	-	-
A	A2	22,192	-	19,943	-	-	-	2,249	-	-
A	Baa3	781	-	781	-	-	-	-	-	-
A	NR	765	-	765	-	-	-	-	-	-
A-	Aa3	1,077	-	1,077	-	-	-	-	-	-
A-	A2	5,032	-	4,117	-	-	-	915	-	-
A-	A3	4,903	-	4,903	-	-	-	-	-	-
A-	Baa1	7,626	-	7,626	-	-	-	-	-	-
A-	Baa2	294	-	-	-	294	-	-	-	-

Credit Quality of SDCERS'
Fixed Income Strategies (Domestic and International)
As of June 30, 2008

S&P Quality Rating	Moody's Quality Rating	Total Fair Value (in thousands)	Collateralized Mortgage Obligations	Corporates ¹	U.S. Government & Agency Obligations ²	Asset-Backed Securities	Short-Term/ Other	International Corporates	International Government Obligations	International Asset-Backed Securities
BBB+	Baa1	\$ 4,625	\$ -	\$ 3,604	\$ -	\$ -	\$ -	\$ 1,021	\$ -	\$ -
BBB+	Baa2	8,126	-	7,418	-	708	-	-	-	-
BBB+	Baa3	4,731	-	4,731	-	-	-	-	-	-
BBB+	NR	1,766	-	1,459	-	-	-	307	-	-
BBB	A2	172	-	172	-	-	-	-	-	-
BBB	A3	2,953	-	2,488	-	-	-	465	-	-
BBB	Baa1	1,560	-	1,492	-	68	-	-	-	-
BBB	Baa2	4,480	-	3,905	-	575	-	-	-	-
BBB	Baa3	4,010	-	1,027	2,983	-	-	-	-	-
BBB-	Baa2	3,012	-	-	-	3,012	-	-	-	-
BBB-	Ba1	2,259	-	2,259	-	-	-	-	-	-
BBB-	Baa3	1,285	-	1,285	-	-	-	-	-	-
BBB-	NR	4,438	-	460	-	3,978	-	-	-	-
BB+	Ba1	28	-	28	-	-	-	-	-	-
BB+	Ba2	481	-	-	-	-	-	-	481	-
BB+	Ba3	1,397	-	1,397	-	-	-	-	-	-
BB+	Baa3	9,044	-	6,873	-	2,171	-	-	-	-
BB	Ba1	2,017	-	2,017	-	-	-	-	-	-
BB	Baa3	1,018	-	-	-	1,018	-	-	-	-
BB-	B3	342	-	-	-	342	-	-	-	-
BB-	Ba2	180	180	-	-	-	-	-	-	-
BB-	Ba3	1,637	-	1,637	-	-	-	-	-	-
B+	B1	11	-	11	-	-	-	-	-	-
B+	B2	2,207	-	2,207	-	-	-	-	-	-
B	B1	4,582	-	4,582	-	-	-	-	-	-
B	B3	2,164	-	2,164	-	-	-	-	-	-
NR	A1	5,757	-	5,757	-	-	-	-	-	-
NR	A2	177	-	-	-	-	-	177	-	-
NR	Aaa	18,237	9,099	-	-	1,564	-	7,574	-	-
NR	Aa2	1,976	-	-	-	-	-	1,976	-	-
NR	Baa2	111	-	-	-	-	-	-	-	111
NR	NR	279,161	579	123,557	138,481	5,571	10,973	-	-	-
Totals		<u>\$ 1,224,019</u>	<u>\$ 149,907</u>	<u>\$ 362,200</u>	<u>\$ 479,721</u>	<u>\$ 30,854</u>	<u>\$ 19,194</u>	<u>\$ 52,971</u>	<u>\$ 129,061</u>	<u>\$ 111</u>

¹ Corporates include convertible bonds from SDCERS' convertible bond manager.

² Includes municipal holdings as well.

Source: SDCERS' CAFR as of June 30, 2008

m. Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the relative size of an investment in a single issuer. As of June 30, 2008, no single issuer exceeded 5% of SDCERS' total investments. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded. With respect to the concentration of credit risk, specific investment guidelines with each manager place limitations on the maximum holdings in any one issuer.

n. Custodial Credit Risk

Custodial credit risk is the risk that if a financial institution or counterparty fails, SDCERS would not be able to recover the value of its deposits, investments, or securities. SDCERS' exposure to custodial credit risk is further discussed in the following paragraphs.

Deposits

SDCERS' is exposed to custodial credit risk for uncollateralized cash and cash equivalents that are not covered by federal depository insurance. At June 30, 2008, the amount of cash and cash equivalents on deposit with SDCERS' custodial bank totaled \$ 69,033.

Investments

As of June 30, 2008, 100% of SDCERS' investments were held in SDCERS' name. SDCERS is not exposed to custodial credit risk related to these investments.

Securities Lending Collateral

SDCERS is exposed to custodial credit risk for the securities lending collateral such that certain collateral is received in the form of letters of credit, tri-party collateral or securities collateral. The fair value of securities on loan collateralized by these non-cash vehicles totaled \$118,694 as of June 30, 2008 and are at risk as the collateral for these loaned securities is not held in SDCERS' name and cannot be sold without a borrower default. The cash collateral held by SDCERS' custodian in conjunction with the securities lending program, which totaled \$674,085 as of June 30, 2008, is also at risk as it is invested in a pooled vehicle managed by the custodian.

o. Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The following table represents SDCERS' securities (in thousands) held in a foreign currency as of June 30, 2008.

Foreign Currency Risk ¹
As of June 30, 2008
(All values are in U.S. Dollars)

<u>Local Currency Name</u>	<u>Cash</u>	<u>Equity</u>	<u>Fixed income</u>	<u>Total</u>
Australian Dollar	\$ 845	\$ 18,804	\$ 13,162	\$ 32,811
Canadian Dollar	174	17,329	2,845	20,348
Swiss Franc	196	55,033	-	55,229
Czech Koruna	-	5,527	-	5,527
Danish Krone	2	7,381	4,454	11,837
Euro Currency	1,545	213,331	81,007	295,883
UK Pound	1,026	146,673	11,070	158,769
Hong Kong Dollar	580	29,469	-	30,049
Indonesian Rupiah	-	4,563	-	4,563
Japanese Yen	2,303	138,107	52,193	192,603
South Korean Won	1	3,927	-	3,928
Norwegian Krone	444	1,086	-	1,530
New Zealand Dollar	-	907	-	907
Swedish Krona	15	8,005	18,741	26,761
Singapore Dollar	238	3,546	-	3,784
South African Rand	-	4,916	-	4,916
Totals	<u>\$ 7,369</u>	<u>\$ 658,604</u>	<u>\$ 183,472</u>	<u>\$ 849,445</u>

¹ The foreign exchange exposure in SDCERS' international equity small cap value portfolio (an institutional mutual fund investment) is not included in this disclosure.

Source: SDCERS' CAFR as of June 30, 2008

Foreign currency is comprised of international investment proceeds and income to be repatriated into U.S. dollars and funds available to purchase international securities. Foreign currency is not held by SDCERS as an investment. Foreign currency is held temporarily in foreign accounts until it is able to be repatriated or expended to settle trades. A significant component of the diversification benefit of non-domestic investments comes from foreign currency exposure. As such, SDCERS does not have a policy to hedge against fluctuations in foreign exchange rates. SDCERS' investment managers may hedge currencies at their discretion pursuant to specific guidelines included in their investment management agreements.

p. Derivative Instruments

SDCERS' investment managers, as permitted by specific investment guidelines, may enter into transactions involving derivative financial instruments, consistent with the objectives established by the Board's Investment Policy Statement. These instruments include futures, options and swaps. By Board policy these investment vehicles may not be used to leverage SDCERS' portfolio. These instruments are used primarily to enhance a portfolio's performance and to reduce its risk or volatility. The notional or contractual amount (in thousands) of futures contracts as of June 30, 2008 was \$417,354. The fair value (in thousands) of options and swaps included in the short-term investments line on the SDCERS Statement of Plan Net Assets was (\$1,636) as of June 30, 2008.

Futures contracts are contracts in which the buyer agrees to purchase and the seller agrees to make delivery on a specific financial instrument on a predetermined date and price. Gains and losses on futures contracts are settled daily based on a notional principal value and do not involve an actual transfer of the specific instrument. Futures contracts are standardized and are traded on exchanges. The exchange assumes the risk that counterparty will not pay and generally requires margin payments to minimize such risk.

Option contracts provide the option purchaser with the right, but not the obligation, to buy or sell the underlying security at a set price during a period or at a specified date. The option writer is obligated to buy or sell the underlying security if the option purchaser chooses to exercise the option. SDCERS uses exchange-traded and over-the-counter options. Options are sold and proceeds are received to enhance fixed income portfolio performance. Option contracts sold were predominantly on money market and short-term instruments of less than one-year to maturity. In call option contracts, if interest rates remained steady or declined during the option contract periods, the contracts would expire unexercised. By contrast, in put option contracts, if interest rates rose sufficiently to result in the purchase of the securities on or before the end of the option periods, this would occur at prices attractive to the portfolio manager.

Swap agreements are used to modify investment returns or interest rates on investments. Swap transactions involve the exchange of investment returns or interest rate payments without the exchange of the underlying principal amounts. These swaps could expose investors entering into these types of arrangements to credit risk in the event of non-performance by counterparties.

q. Real Estate

SDCERS' target allocation to real estate is 11%. The real estate investment program is structured with a target allocation of approximately 30% in stable core real estate and approximately 70% to enhanced, high return and opportunistic real estate opportunities. The 70% target is divided between REIT securities (25%) and limited partnership investments in commingled real estate funds (45%). No more than 40% of SDCERS' real estate portfolio is allocated to non-U.S. real estate investment opportunities pursuant to a policy adopted by the Board in FY 2007. As SDCERS adds non-U.S. investments to its real estate portfolio, new capital commitments will be made to pool funds that target enhanced and high return strategies. As of June 30, 2008, unfunded capital commitments totaled \$156,889 and real estate investments totaled \$487,530.

r. Securities Lending Collateral

SDCERS has entered into an agreement with its custodial bank, State Street Bank & Trust Company, to lend domestic and international equity and fixed income securities to broker-dealers and banks in exchange for pledged collateral. A simultaneous agreement is entered into by which State Street agrees to return the collateral plus a fee to the borrower in the future for return of the same securities originally lent. All securities loans can be terminated on demand by either the lender or the borrower.

State Street manages the securities lending program and receives cash (United States and foreign currency), securities issued or guaranteed by the United States government, sovereign debt rated "A" or better, Canadian provincial debt, convertible bonds, and irrevocable letters of credit as collateral. State Street does not have the ability to pledge or sell collateral securities delivered absent a borrower default. Borrowers are required to deliver collateral for each loan equal to: (i) in the case of loaned securities denominated in United States dollars or whose primary trading market was located in the United States or sovereign debt issued by foreign governments, 102% of the market value of the loaned securities; and (ii) in the case of loaned securities not denominated in United States dollars or whose primary trading market was not located in the United States, 105% of the market value of the loaned securities.

SDCERS had no credit risk exposure to borrowers because the amounts provided to State Street on behalf of SDCERS, in the form of collateral plus accrued interest, exceeded the amounts broker-dealers and banks owed to the State Street on behalf of SDCERS for securities borrowed. State Street has indemnified SDCERS by agreeing to purchase replacement securities or return cash collateral in the event a borrower fails to return or pay distributions on a loaned security. Non-cash collateral (securities and letters of credit) cannot be pledged or sold without a borrower default and are therefore not reported as an asset of SDCERS for financial reporting purposes.

The SDCERS securities lending transactions, collateralized by cash as of June 30, 2008 had a fair value of \$652,974 and a collateral value of \$674,085, which were reported in the assets and liabilities in the accompanying Statements of Plan Net Assets for the Group Trust in accordance with GASB Statement No. 28. As of June 30, 2008, the securities lending transactions collateralized by securities, irrevocable letters of credit, or tri-party collateral had a fair value of \$118,694 and a collateral value of \$123,658, which were not reported in the assets or liabilities in the accompanying Statements of Plan Net Assets for the Group Trust per GASB Statement No. 28. The total collateral pledged to SDCERS at fiscal year end for its securities lending activities was \$797,743.

The cash collateral received on lent securities was invested by State Street, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment pool. Because the securities loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. As of June 30, 2008, the investment pool had an average duration of 41.84 days and an average weighted maturity of 395.61 days for U.S. Dollar (USD) denominated collateral. Beginning in fiscal year 2007, the securities lending program was expanded to allow the acceptance of Euro (EUR) denominated collateral. As of June 30, 2008, the Euro collateral pool had an average duration of 37 days and an average weighted maturity of 603 days.

Despite lending securities on a fully collateralized basis, SDCERS may encounter various risks related to securities lending agreements. These risks include operational risk, borrower or counterparty default risk, and collateral reinvestment risk. However, State Street is required to maintain its securities lending program in compliance with applicable laws of the United States and all countries in which lending activities take place, and all rules, regulations, and exemptions from time to time promulgated and issued under the authority of those laws.

Discretely Presented Component Units – Disclosures for Policy and Specific Risks

Narratives and tables presented in the following sections (s. through t.) are taken directly from the comprehensive annual financial reports of the San Diego Convention Center Corporation and the San Diego Housing Commission, as of June 30, 2008.

s. San Diego Convention Center Corporation

Cash deposits and investments for SDCCC were categorized as follows at June 30, 2008:

Cash on hand	\$ 77
Deposits	902
Money market mutual funds	18,714
Certificates of deposit	<u>1,282</u>
Total cash and investments	<u>\$ 20,975</u>

Deposits (In Thousands)

On June 30, 2008, the carrying amount of the San Diego Convention Center Corporation's (SDCCC) cash on hand and deposits was \$979 and the bank balance was \$1,180. Of the bank balance, \$362 was covered by federal depository insurance. The remaining balance was either collateralized with the collateral held by an affiliate of the counterparty's financial institution or is uncollateralized, and therefore exposed to custodial credit risk. SDCCC does not have a formal deposit and investment policy that addresses custodial credit risk.

Investments (In Thousands)

At June 30, 2008, SDCCC had a total investment balance of \$19,996. The total investment balance includes \$18,714 in several money market mutual funds and \$1,282 maintained in two certificates of deposit, which bear an interest rate of 2.1% and 1.9%, and have maturities of less than one year. Neither the money market mutual funds nor the certificates of deposit are rated by credit rating agencies. SDCCC does not have a formal deposit and investment policy that addresses credit quality risk.

t. San Diego Housing Commission

Cash, cash equivalents, and investments at June 30, 2008 consisted of the following:

Deposits	\$ 770
Petty cash	5
Certificates of deposit	34,267
Repurchase Agreements	5,300
Agency Bonds	7,825
Local agency investment fund	<u>39,880</u>
Total cash and investments	88,047
Restricted cash and cash equivalents	<u>656</u>
Total	<u><u>\$ 88,703</u></u>

Deposits (In Thousands)

The carrying amount of the San Diego Housing Commission's (SDHC) deposits and petty cash was \$775 and the bank balance was \$1,566 at June 30, 2008. The bank balances were fully insured and/or collateralized with securities held by the pledging financial institutions in SDHC's name. The California Government Code requires California banks and savings and loan associations to secure SDHC's deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in SDHC's name.

At June 30, 2008, SDHC had a carrying amount and bank balance of \$34,267 in non-negotiable certificates of deposit. The certificates of deposit were not covered by insurance and were collateralized 100% with securities held by pledging financial institutions.

Investments (In Thousands)

As of June 30, 2008, SDHC's investments included repurchase agreements, agency bonds, and California Local Agency Investment Fund (LAIF). SDHC had \$5,300 in repurchase agreements, with \$4,300 maturing on July 1, 2008. The remaining balance of \$1,000 in repurchase agreements was open and callable at any time by SDHC.

Agency bonds represent the SDHC's investment in Government-Sponsored Enterprises (GSE) Senior Debt bonds traded on a national exchange. Senior Debt of GSE's currently hold a AAA rating. The following table shows the detail of SDHC's investment in agency bonds as of June 30, 2008.

<u>Issuer</u>	<u>Coupon</u>	<u>Maturity</u>	<u>Fair Value</u>
FNMA	4.00%	6/25/2010	\$ 1,003
FHLMC	3.55%	12/2/2010	1,802
FHLMC	4.25%	12/17/2010	2,011
FNMA	3.75%	3/23/2011	1,000
FNMA	4.00%	6/24/2011	2,009
		Total	<u><u>\$ 7,825</u></u>

SDHC participates in the Local Agency Investment Fund (LAIF). As of June 30, 2008, SDHC had \$39,880 invested with LAIF. The investment in LAIF represents SDHC's equity in the pooled investments of that fund. LAIF had 14.72% of the pool investment funds in structured notes and asset-backed securities.

Policy

In accordance with state statutes and HUD regulations, SDHC has authorized the CFO or their designee to invest in obligations of the U.S. Treasury, U.S. Government agencies or other investments as outlined in the Commission Investment Policy. An Investment Committee, consisting of two Commission Board members, monitors the management of funds and compliance with the Commission Investment Policy. There are many factors that can affect the value of investments. Some factors, such as credit risk, custodial risk, concentration of credit risk, and interest rate risk, may affect both equity and fixed income securities. It is the investment policy of SDHC to invest substantially all of its funds in fixed income securities which limits SDHC's exposure to most types of risk.

Interest Rate Risk

In accordance with its investment policy, SDHC manages its interest rate risk by limiting the weighted average maturity of its investment portfolio. This is accomplished by matching portfolio maturities to projected liabilities and by continuously investing a portion of the portfolio in readily available funds to ensure that appropriate liquidity is maintained in order to meet ongoing operations. At June 30, 2008, SDHC does not have any debt investments that are highly sensitive to changes in the market.

Credit Risk

SDHC will minimize credit risk by limiting investments to those listed in the investment policy. In addition, SDHC will pre-qualify the financial institutions, broker/dealers, intermediaries, and advisors with which SDHC will do business in accordance with the investment policy. SDHC will diversify the portion of the investment portfolio not invested in U.S. Treasury Bills, Notes, Bonds, and Collateralized Certificates of Deposit to minimize potential losses from any one type of security or issuer.

Concentration of Credit Risk

Concentration of credit risk is the risk associated with a lack of diversification, such as having substantial investments in a few individual issuers. Investments issued or guaranteed by the U.S. government and investments in external investment pools such as LAIF are not considered subject to concentration of credit risk. SDHC may choose to maintain 100% of its investment portfolio in U.S. Treasury Bills, Notes, Bonds, and Collateralized Certificates of Deposit.

Custodial Credit Risk

At June 30, 2008, SDHC did not have any investments exposed to custodial risk. Bonds are purchased through a Merrill Lynch account in SDHC's name. All securities are held in safekeeping by Merrill Lynch and are covered by Securities Investor Protection Corporation (SIPC) and a separate Lloyd's of London policy for a combined aggregate limit of \$600 million.

4. CAPITAL ASSETS (In Thousands)

Capital asset activity for the year ended June 30, 2008 was as follows:

	Primary Government				
	Beginning Balance	Increases	Decreases/ Adjustments	Transfers	Ending Balance
GOVERNMENTAL ACTIVITIES:					
Non-Depreciable Capital Assets:					
Land, Easements, Rights of Way	\$ 1,731,003	\$ 20,403	\$ (214)	\$ 4,764	\$ 1,755,956
Construction in Progress	210,084	103,277	(2,486)	(144,995)	165,880
Total Non-Depreciable Capital Assets	1,941,087	123,680	(2,700)	(140,231)	1,921,836
Depreciable Capital Assets:					
Structures and Improvements	1,072,023	9,935	(46)	61,471	1,143,383
Equipment	382,641	60,127	(77,780)	2,016	367,004
Infrastructure	2,906,517	29,880	(8,019)	79,407	3,007,785
Total Depreciable Capital Assets	4,361,181	99,942	(85,845)	142,894	4,518,172
Less Accumulated Depreciation For:					
Structures and Improvements	(290,224)	(25,293)	46	-	(315,471)
Equipment	(276,509)	(25,298)	69,940	(1,820)	(233,687)
Infrastructure	(1,471,365)	(85,892)	1,724	-	(1,555,533)
Total Accumulated Depreciation	(2,038,098)	(136,483)	71,710	(1,820)	(2,104,691)
Total Depreciable Capital Assets - Net of Depreciation	2,323,083	(36,541)	(14,135)	141,074	2,413,481
Governmental Activities Capital Assets, Net	\$ 4,264,170	\$ 87,139	\$ (16,835)	\$ 843	\$ 4,335,317
BUSINESS-TYPE ACTIVITIES:					
Non-Depreciable Capital Assets:					
Land, Easements, Rights of Way	\$ 90,011	\$ -	\$ (23)	\$ -	\$ 89,988
Construction in Progress	290,161	91,619	(3,694)	(204,021)	174,065
Total Non-Depreciable Capital Assets	380,172	91,619	(3,717)	(204,021)	264,053
Depreciable Capital Assets:					
Structures and Improvements	1,662,564	5,606	(296)	117,839	1,785,713
Equipment	326,600	3,368	(4,596)	17,202	342,574
Distribution & Collection Systems and Other Infrastructure	3,380,321	42,690	(7,927)	66,317	3,481,401
Total Depreciable Capital Assets	5,369,485	51,664	(12,819)	201,358	5,609,688
Less Accumulated Depreciation For:					
Structures and Improvements	(329,721)	(33,961)	1,375	(567)	(362,874)
Equipment	(222,793)	(24,985)	4,466	2,807	(240,505)
Distribution & Collection Systems and Other Infrastructure	(591,859)	(47,569)	4,404	(420)	(635,444)
Total Accumulated Depreciation	(1,144,373)	(106,515)	10,245	1,820	(1,238,823)
Total Depreciable Capital Assets - Net of Depreciation	4,225,112	(54,851)	(2,574)	203,178	4,370,865
Business-Type Activities Capital Assets, Net	\$ 4,605,284	\$ 36,768	\$ (6,291)	\$ (843)	\$ 4,634,918

Governmental Activities capital assets net of accumulated depreciation at June 30, 2008 are comprised of the following:

General Capital Assets, Net	\$ 4,225,527
Internal Service Funds Capital Assets, Net	<u>109,790</u>
Total	<u>\$ 4,335,317</u>

Business-Type Activities capital assets net of accumulated depreciation at June 30, 2008 are comprised of the following:

Enterprise Funds Capital Assets, Net	\$ 4,634,710
Internal Service Funds Capital Assets, Net	<u>208</u>
Total	<u>\$ 4,634,918</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:

General Government and Support	\$ 1,802
Public Safety - Police	7,105
Public Safety - Fire and Life Safety	3,861
Parks, Recreation, Culture and Leisure	30,340
Transportation	73,537
Sanitation and Health	643
Neighborhood Services	<u>2,546</u>
Subtotal	119,834
Internal Service (Except Special Engineering)	<u>16,649</u>
Total Depreciation Expense	<u>\$ 136,483</u>

Business-Type Activities:

Airports	\$ 495
City Store	1
Development Services	175
Environmental Services	3,171
Golf Course	572
Recycling	1,057
Sewer Utility	71,138
Water Utility	<u>29,870</u>
Subtotal	106,479
Internal Service (Special Engineering)	<u>36</u>
Total Depreciation Expense	<u>\$ 106,515</u>

Discretely Presented Component Units

Capital asset activities for the City's Discretely Presented Component Units for the year ended June 30, 2008 are as follows:

	Discretely Presented Component Unit - San Diego Convention Center Corp.				
	Beginning Balance	Increases	Decreases/ Adjustments	Transfers	Ending Balance
Depreciable Capital Assets:					
Structures and Improvements	\$ 23,741	\$ 1,614	\$ (26)	\$ -	\$ 25,329
Equipment	8,137	1,421	(241)	-	9,317
Total Depreciable Capital Assets	<u>31,878</u>	<u>3,035</u>	<u>(267)</u>	<u>-</u>	<u>34,646</u>
Less Accumulated Depreciation For:					
Structures and Improvements	(8,517)	(1,583)	13	(539)	(10,626)
Equipment	(6,802)	(820)	240	539	(6,843)
Total Accumulated Depreciation	<u>(15,319)</u>	<u>(2,403)</u>	<u>253</u>	<u>-</u>	<u>(17,469)</u>
Capital Assets, Net	<u>\$ 16,559</u>	<u>\$ 632</u>	<u>\$ (14)</u>	<u>\$ -</u>	<u>\$ 17,177</u>

	Discretely Presented Component Unit - San Diego Housing Commission				
	Beginning Balance	Increases	Decreases/ Adjustments	Transfers	Ending Balance
Non-Depreciable Capital Assets:					
Land, Easements, Rights of Way	\$ 29,436	\$ 21,017	\$ (21,017)	\$ 108	\$ 29,544
Construction in Progress	10,608	1,220	-	(108)	11,720
Total Non-Depreciable Capital Assets	<u>40,044</u>	<u>22,237</u>	<u>(21,017)</u>	<u>-</u>	<u>41,264</u>
Depreciable Capital Assets:					
Structures and Improvements	104,062	29,673	(69,462)	-	64,273
Equipment	3,282	186	(1,005)	-	2,463
Total Depreciable Capital Assets	<u>107,344</u>	<u>29,859</u>	<u>(70,467)</u>	<u>-</u>	<u>66,736</u>
Less Accumulated Depreciation For:					
Structures and Improvements	(45,152)	(2,499)	40,023	-	(7,628)
Equipment	(1,129)	(482)	672	-	(939)
Total Accumulated Depreciation	<u>(46,281)</u>	<u>(2,981)</u>	<u>40,695</u>	<u>-</u>	<u>(8,567)</u>
Total Depreciable Capital Assets - Net of Depreciation	<u>61,063</u>	<u>26,878</u>	<u>(29,772)</u>	<u>-</u>	<u>58,169</u>
Capital Assets, Net	<u>\$ 101,107</u>	<u>\$ 49,115</u>	<u>\$ (50,789)</u>	<u>\$ -</u>	<u>\$ 99,433</u>

5. GOVERNMENTAL ACTIVITIES LONG-TERM LIABILITIES (IN THOUSANDS)

a. Long-Term Liabilities

Governmental long-term liabilities as of June 30, 2008 are comprised of the following:

<u>Type of Obligation</u>	<u>Interest Rates</u>	<u>Fiscal Year Maturity Date</u>	<u>Original Amount</u>	<u>Balance Outstanding June 30, 2008</u>
Compensated Absences				\$ 74,825
Liability Claims				232,448
Capital Lease Obligations				61,262
<u>Contracts Payable:</u>				
Contract Payable to SDSU Foundation, dated December 1991	variable*	---	\$ 1,598	1,598
Amendment to Contract Payable to SDSU Foundation, dated January 1995	variable*	---	117	117
Contract Payable to Western Pacific Housing, Inc., dated April 2004	5.0%	---	900	900
Total Contracts Payable				<u>2,615</u>
<u>Notes Payable:</u>				
Note Payable to Price Charities, dated April 2001	5.0	2032	5,115	3,382
Note Payable to Price Charities, dated May 2005	8.0	2025	2,100	2,100
Amendment to Note Payable to Price Charities, dated February 2006	8.0	2025	180	180
Total Notes Payable				<u>5,662</u>
<u>Loans Payable:</u>				
International Gateway Associates, LLC, dated October 2001	10.0	2032	1,876	1,806
PCCP/SB Las America, LLC, dated August 2005	10.0	2036	1,247	1,231
Centerpoint, LLC, dated April 2006	7.0	2021	5,246	5,246
Bank of America, N.A. Line of Credit, dated October 2006	4.25 - 6.57	2009	8,530	8,530
California Energy Resources Conservation and Development Commission, dated March 2007	3.95	2019	2,154	1,901
San Diego National Bank, Line of Credit, dated July 2007 City Heights Housing Area	4.05	2011	1,298	1,298
San Diego National Bank, Line of Credit, dated July 2007 City Heights Non-Housing Area	6.42	2011	2,011	2,011
San Diego National Bank, Line of Credit, dated July 2007 Naval Training Center Non-Housing Area	3.57 - 5.49	2011	6,804	6,804
San Diego National Bank, Line of Credit, dated July 2007 North Bay Housing Area	4.05	2011	2,255	2,255
San Diego National Bank, Line of Credit, dated July 2007 North Park Non-Housing Area	3.69 - 4.05	2011	3,695	3,695
Total Loans Payable				<u>34,777</u>
Section 108 Loans Payable				35,896
<u>General Obligation Bonds:</u>				
Public Safety Communications Project, Series 1991	5.0 - 8.0**	2012	25,500	8,170
Open Space Park Refunding Bonds, Series 1994	5.0 - 6.0**	2009	64,260	410
Total General Obligation Bonds				<u>8,580</u>

(continued on next page)

<u>Type of Obligation</u>	<u>Interest Rates</u>	<u>Fiscal Year Maturity Date</u>	<u>Original Amount</u>	<u>Balance Outstanding June 30, 2008</u>
<u>Revenue Bonds / Lease Revenue Bonds / COPs:</u>				
MTDB Authority Lease Revenue Refunding Bonds, Series 1994	4.25 - 5.625**	2010	\$ 66,570	\$ 5,390
Public Facilities Financing Authority Stadium Lease Revenue Bonds, Series 1996 A	6.2 - 7.45**	2027	68,425	57,775
San Diego Facilities and Equipment Leasing Corp. Certificates of Participation, Series 1996 A	4.0 - 5.6**	2011	33,430	9,760
San Diego Facilities and Equipment Leasing Corp. Certificates of Participation Refunding, Series 1996 B	4.0 - 6.0**	2022	11,720	8,445
Convention Center Expansion Financing Authority Lease Revenue Bonds, Series 1998 A	3.8 - 5.25**	2028	205,000	173,355
Centre City Parking Revenue Bonds, Series 1999 A	4.5 - 6.49**	2026	12,105	10,195
Public Facilities Financing Authority Reassessment District Refunding Revenue Bonds, Series 1999 A	2.75 - 4.75**	2018	30,515	13,625
Public Facilities Financing Authority Reassessment District Refunding Revenue Bonds, Series 1999 B	3.5 - 5.10**	2018	7,630	3,375
Public Facilities Financing Authority Fire and Life Safety Lease Revenue Bonds, Series 2002 B	3.55 - 7.0**	2032	25,070	22,805
Centre City Parking Revenue Bonds, Series 2003 B	3.0 - 5.30**	2027	20,515	18,195
MTDB Authority Lease Revenue Refunding Bonds, Series 2003	2.0 - 4.375**	2023	15,255	12,775
San Diego Facilities Equipment Leasing Corp. Certificates of Participation Refunding, Series 2003	1.0 - 4.0**	2024	17,425	10,490
Public Facilities Financing Authority Ballpark Lease Revenue Refunding Bonds, Series 2007A	5.0 - 5.25**	2032	156,560	152,765
Total Revenue Bonds / Lease Revenue Bonds / COPs				<u>498,950</u>
<u>Special Assessment / Special Tax Bonds:</u>				
Otay Mesa Industrial Park Limited Obligation Improvement Bonds, Issued May 1992	5.5 - 7.95**	2013	2,235	300
Miramar Ranch North Special Tax Refunding Bonds, Series 1998	3.75 - 5.375**	2021	59,465	42,065
Santaluz Special Tax Bonds, Improvement Area No.1, Series 2000 A	4.75 - 6.375**	2031	56,020	53,055
Santaluz Special Tax Bonds, Improvement Area No.3, Series 2000 B	4.5 - 6.2**	2031	4,350	4,090
City of San Diego Reassessment District No. 2003-1 Limited Obligation Refunding Bonds	4.25 - 5.8**	2018	8,850	6,825
Piper Ranch Limited Obligation Improvement Bonds, Issued January 2004	2.5 - 6.2**	2034	5,430	4,400
Santaluz Special Tax Bonds, Improvement Area No.1, Series 2004 A	1.7 - 5.5**	2031	5,000	4,645
Santaluz Special Tax Bonds, Improvement Area No.4, Series 2004 A	1.65 - 5.5**	2034	9,965	9,585
Liberty Station Special Tax Bonds, Series 2006A	5.0 - 5.75**	2037	16,000	15,890
Liberty Station Special Tax Bonds, Series 2008A	3.74 - 6.3**	2037	3,950	3,950
Total Special Assessment / Special Tax Bonds				<u>144,805</u>

Type of Obligation	Interest Rates	Fiscal Year Maturity Date	Original Amount	Balance Outstanding June 30, 2008
Tax Allocation Bonds:				
Gateway Center West Redevelopment Project Tax Allocation Bonds, Series 1995	7.8 - 9.75**	2014	\$ 1,400	\$ 665
Mount Hope Redevelopment Project Tax Allocation Bonds, Series 1995 A	4.4 - 6.0**	2020	1,200	795
Horton Plaza Redevelopment Project Tax Allocation Refunding Bonds, Series 1996 A	3.8 - 6.0**	2016	12,970	7,070
Centre City Redevelopment Tax Allocation Bonds, Series 1999 A	3.0 - 5.125**	2019	25,680	25,245
Centre City Redevelopment Tax Allocation Bonds, Series 1999 B	6.25**	2014	11,360	11,360
Centre City Redevelopment Tax Allocation Bonds, Series 1999 C	3.1 - 4.75**	2025	13,610	11,945
City Heights Redevelopment Tax Allocation Bonds, Series 1999 A	4.5 - 5.8**	2029	5,690	5,200
City Heights Redevelopment Tax Allocation Bonds, Series 1999 B	5.75 - 6.4***	2029	10,141	9,318
Centre City Redevelopment Project Tax Allocation Bonds, Series 2000 A	4.0 - 5.6**	2025	6,100	4,995
Centre City Redevelopment Project Tax Allocation Bonds, Series 2000 B	3.95 - 5.35**	2025	21,390	18,705
Horton Plaza Redevelopment Project Tax Allocation Bonds, Series 2000	4.25 - 5.8**	2022	15,025	13,715
North Bay Redevelopment Project Tax Allocation Bonds, Series 2000	4.25 - 5.875**	2031	13,000	11,450
North Park Redevelopment Project Tax Allocation Bonds, Series 2000	4.1 - 5.9**	2031	7,000	6,170
Centre City Redevelopment Tax Allocation Bonds, Series 2001 A	4.93 - 5.55****	2027	58,425	56,270
Mount Hope Redevelopment Project Tax Allocation Bonds, Series 2002 A	5.0**	2027	3,055	3,055
Centre City Redevelopment Project Tax Allocation Bonds, Series 2003 A	2.5 - 5.0**	2029	31,000	15,320
City Heights Redevelopment Project Tax Allocation Bonds, Series 2003 A	5.875 - 6.5**	2034	4,955	4,955
City Heights Redevelopment Project Tax Allocation Bonds, Series 2003 B	2.5 - 4.25**	2014	865	485
North Park Redevelopment Project Tax Allocation Bonds, Series 2003 A	1.5 - 6.125**	2028	7,145	6,240
North Park Redevelopment Project Tax Allocation Bonds, Series 2003 B	4.75 - 5.0**	2034	5,360	5,360
Horton Plaza Redevelopment Project Tax Allocation Bonds, Series 2003 A	4.65 - 5.1**	2022	6,325	6,325
Horton Plaza Redevelopment Project Tax Allocation Bonds, Series 2003 B	3.25 - 5.45**	2022	4,530	4,410
Horton Plaza Redevelopment Project Tax Allocation Bonds, Series 2003 C	3.49 - 7.74**	2022	8,000	6,875
Centre City Redevelopment Project Tax Allocation Bonds, Series 2004 A	3.5 - 5.25**	2030	101,180	95,575
Centre City Redevelopment Project Tax Allocation Bonds, Series 2004 B	2.26 - 4.58**	2011	9,855	4,830
Centre City Redevelopment Project Tax Allocation Bonds, Series 2004 C	2.26 - 6.18**	2030	27,785	25,790

(continued on next page)

<u>Type of Obligation</u>	<u>Interest Rates</u>	<u>Fiscal Year Maturity Date</u>	<u>Original Amount</u>	<u>Balance Outstanding June 30, 2008</u>
Centre City Redevelopment Project Tax Allocation Bonds, Series 2004 D	2.26 - 6.28**	2030	\$ 8,905	\$ 8,275
Centre City Redevelopment Project Tax Allocation Bonds, Series 2006 A	4.25 - 5.25**	2033	76,225	75,725
Centre City Redevelopment Project Tax Allocation Bonds, Series 2006 B	5.66 - 6.2**	2032	33,760	33,520
Centre City Redevelopment Project Tax Allocation Bonds, Series 2008 A	3.74 - 6.3**	2021	69,000	69,000
Total Tax Allocation Bonds				<u>548,643</u>
<u>Tobacco Settlement Asset-Backed Bonds:</u>				
Tobacco Settlement Revenue Funding Corporation Asset-Backed Bonds, Series 2006	7.125**	2023	105,400	<u>99,370</u>
<u>Pooled Financing Bonds:</u>				
Public Facilities Financing Authority Pooled Financing Bonds, Series 2007A	5.95 - 6.65**	2038	17,230	16,690
Public Facilities Financing Authority Pooled Financing Bonds, Series 2007B	4.0 - 5.25**	2038	17,755	<u>17,425</u>
Total Pooled Financing Bonds				<u>34,115</u>
Total Bonds Payable				<u>1,334,463</u>
Net Other Postemployment Benefits Obligation				28,872
Net Pension Obligation				<u>141,734</u>
Total Governmental Activities Long-Term Liabilities				<u>\$ 1,952,554</u>

* Additional information on the variable rate contracts payable with the SDSU Foundation and loans payable with SANDAG are discussed further on the following page.

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

*** The City Heights Redevelopment Tax Allocation Bonds, Series 1999 B, are capital appreciation bonds, which mature from fiscal year 2011 through 2029. The balance outstanding at June 30, 2008 does not include accreted interest of \$6,942.

**** The Centre City Redevelopment Tax Allocation Bonds, Series 2001 A, partially include capital appreciation bonds, which mature from fiscal year 2015 through 2027. The balance outstanding at June 30, 2008 does not include accreted interest of \$5,895.

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

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

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

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

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

SANDAG loans are comprised of two components: repayment of debt service on bonds, and repayment of proceeds from commercial paper. The City receives distributions of SANDAG bond proceeds, based on the City's agreement with SANDAG. The annual debt service payments related to these bond issuances are recovered by SANDAG through reductions in TransNet allocations that would otherwise be available for payment to the City. TransNet-Proposition A, was passed in 1987 to enact a ½ percent sales tax increase to fund regional transportation projects. All expenses must first be approved by SANDAG and be included on the Regional Transportation Plan (RTP). The City recognizes repayment of the principal and interest on bonds as an increase in TransNet revenues and an offsetting debt service expenditure. In addition to financing from bond issuances, financing for TransNet related projects is available through the issuance of commercial paper notes by SANDAG, at the request of the City. Repayment of proceeds related to the commercial paper is collected in future periods through reductions in TransNet allocations, similar to the repayment of the debt service on bonds. All outstanding SANDAG loan balances were paid in full as of June 30, 2008.

San Diego State University Foundation executed an Agreement for Processing a Redevelopment Plan and Land Use Entitlements with RDA which allows for reimbursement of expenses incurred by the Foundation, in assisting in the preparation and processing of the Redevelopment Plan and Land Use Entitlements in the College Area. The agreement is a variable rate obligation of RDA. The unpaid principal bears interest at the prime rate and is fixed on a quarterly basis, using the prime rate established on the first banking day of each calendar quarter. Interest calculations are made on the quarterly weighted average of the principal balance and are made at the end of the quarter based upon the rate fixed for that quarter. The effective interest rate as of June 30, 2008 is 5.25 percent.

Loans Payable includes a line of credit executed by RDA with Bank of America, N.A. on October 31, 2006. The line of credit is to be used to refinance the North Park Theatre, to pay sums of settlement of eminent domain actions relating to the North Park Redevelopment Area and for other redevelopment activities in the North Park Redevelopment Area. The tax-exempt portion of the line of credit has an effective interest rate of 3.80 percent and the taxable portion has an effective interest rate of 5.85 percent as of June 30, 2008 and the effective interest rate will reset on October 31, annually.

Loans Payable also includes six separate non-revolving secured three-year term lines of credit executed by RDA with San Diego National Bank dated July 26, 2007. Four lines of credit are for affordable housing in North Park, City Heights, North Bay and Naval Training Center (NTC) Redevelopment Project Areas. Two lines of credit are for non-housing or general purposes for City Heights and NTC Redevelopment Project Areas.

Tobacco Settlement Asset-Backed Bonds are limited obligations of the Tobacco Settlement Revenue Funding Corporation, which is a separate legal California nonprofit public benefit corporation established by the City of San Diego. The Corporation

purchased from the City the rights to receive future tobacco settlement revenues due to the City. The Tobacco Settlement Asset-Backed Bonds are payable from and secured solely by pledged tobacco settlement revenues.

b. Amortization Requirements

The annual requirements to amortize such long-term debt outstanding as of June 30, 2008, including interest payments to maturity, are as follows:

Year Ended June 30,	Capital Lease Obligations		Contracts Payable		Notes Payable		Loans Payable	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ 11,906	\$ 2,417	\$ -	\$ -	\$ -	\$ -	\$ 8,699	\$ 1,495
2010	11,466	1,930	-	-	-	-	177	1,368
2011	10,358	1,470	-	-	-	-	16,249	374
2012	10,456	1,031	-	-	-	-	195	351
2013	8,856	586	-	-	-	-	205	341
2014-2018	8,220	344	-	-	-	-	1,199	1,532
2019-2023	-	-	-	-	-	-	645	1,226
2024-2028	-	-	-	-	-	-	702	954
2029-2033	-	-	-	-	-	-	1,131	525
2034-2038	-	-	-	-	-	-	329	68
Unscheduled*	-	-	2,615	1,868	5,662	2,500	5,246	-
Total	\$ 61,262	\$ 7,778	\$ 2,615	\$ 1,868	\$ 5,662	\$ 2,500	\$ 34,777	\$ 8,234

* The contracts payable to SDSU Foundation in the amount of \$1,715, the contract payable to Western Pacific Housing, Inc. in the amount of \$900, the notes payable to Price Charities of \$5,662, and the loan payable to Centerpoint, LLC in the amount of \$5,246 do not have annual repayment schedules. Annual payments on the San Diego State University debt is based on the availability of tax increment, net of the low-moderate and taxing agency set-asides, as well as project area administration costs. Annual payments to the Western Pacific Housing, Inc., and Price Charities debt are based on available tax increment. Annual payments to the Centerpoint, LLC debt are based upon future receipts of unallocated tax increment or other available sources.

Year Ended June 30,	Section 108 Loans		General Obligation Bonds		Revenue Bonds / COPs		Special Assessment / Special Tax Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
	2009	\$ 2,364	\$ 2,046	\$ 2,265	\$ 502	\$ 22,315	\$ 25,904	\$ 4,610
2010	2,457	1,920	1,975	353	21,970	24,865	4,935	7,750
2011	2,595	1,783	2,100	219	20,040	23,854	5,275	7,500
2012	2,724	1,633	2,240	74	17,460	22,918	5,640	7,226
2013	2,863	1,471	-	-	18,355	22,026	5,935	6,925
2014-2018	14,179	4,639	-	-	99,415	95,193	34,500	29,420
2019-2023	7,043	1,425	-	-	120,380	67,033	30,580	20,006
2024-2028	1,671	91	-	-	133,230	32,666	24,770	12,576
2029-2033	-	-	-	-	45,785	6,125	22,655	4,384
2034-2038	-	-	-	-	-	-	5,905	619
Total	<u>\$ 35,896</u>	<u>\$ 15,008</u>	<u>\$ 8,580</u>	<u>\$ 1,148</u>	<u>\$ 498,950</u>	<u>\$ 320,584</u>	<u>\$ 144,805</u>	<u>\$ 104,359</u>

Year Ended June 30,	Tax Allocation Bonds			Tobacco Asset-Backed Bonds		Pooled Financing Bonds	
	Unaccreted			Principal	Interest	Principal	Interest
	Principal	Appreciation	Interest				
2009	\$ 14,096	\$ 2,081	\$ 26,339	\$ 3,600	\$ 7,080	\$ 655	\$ 1,917
2010	19,054	2,163	26,620	3,800	6,826	680	1,883
2011	19,948	2,243	25,727	4,000	6,555	770	1,846
2012	20,884	2,317	24,749	4,400	6,270	825	1,805
2013	24,143	2,388	23,612	4,600	5,956	860	1,762
2014-2018	138,792	12,144	97,827	28,900	24,310	5,005	8,089
2019-2023	142,776	9,837	59,645	50,070	12,455	5,745	6,576
2024-2028	113,226	3,474	28,220	-	-	6,495	4,864
2029-2033	54,069	20	7,029	-	-	8,650	2,644
2034-2038	1,655	-	44	-	-	4,430	684
Subtotal	<u>548,643</u>	<u>36,667</u>	<u>319,812</u>	<u>99,370</u>	<u>69,452</u>	<u>34,115</u>	<u>32,070</u>
Add: Accreted Appreciation through June 30, 2008	12,837	-	-	-	-	-	-
Total	<u>\$ 561,480</u>	<u>\$ 36,667</u>	<u>\$ 319,812</u>	<u>\$ 99,370</u>	<u>\$ 69,452</u>	<u>\$ 34,115</u>	<u>\$ 32,070</u>

c. Change in Long-Term Liabilities

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

The following is a summary of changes in governmental activities long-term liabilities for the year ended June 30, 2008. The effect of bond accretion, bond premiums, discounts, and deferred amounts on bond refunds are amortized as adjustments to long-term liabilities.

	Governmental Activities				
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated Absences	\$ 73,050	\$ 54,792	\$ (53,017)	\$ 74,825	\$ 31,915
Liability Claims	226,487	53,083	(47,122)	232,448	41,303
Capital Lease Obligations	39,130	31,681	(9,549)	61,262	11,906
Contracts Payable	2,615	-	-	2,615	-
Notes Payable	8,555	-	(2,893)	5,662	-
Loans Payable	18,775	16,063	(61)	34,777	8,699
SANDAG Loans Payable	2,287	-	(2,287)	-	-
Section 108 Loans Payable	39,431	-	(3,535)	35,896	2,364
General Obligation Bonds	10,705	-	(2,125)	8,580	2,265
Revenue Bonds / COPs	521,210	-	(22,260)	498,950	22,315
Unamortized Bond Premiums, Discounts and Deferred Amounts on Refunding	(4,438)	-	203	(4,235)	(203)
Net Revenue Bonds/COPs	516,772	-	(22,057)	494,715	22,112
Special Assessment / Special					
Tax Bonds	145,625	3,950	(4,770)	144,805	4,610
Unamortized Bond Premiums, Discounts and Deferred Amounts on Refunding	(556)	(27)	49	(534)	(49)
Net Special Assessment Bonds	145,069	3,923	(4,721)	144,271	4,561
Tax Allocation Bonds	502,804	69,000	(23,161)	548,643	14,096
Interest Accretion	11,015	1,996	(174)	12,837	-
Balance with Accretion	513,819	70,996	(23,335)	561,480	14,096
Unamortized Bond Premiums, Discounts and Deferred Amounts on Refunding	5,628	(176)	42	5,494	(116)
Net Tax Allocation Bonds	519,447	70,820	(23,293)	566,974	13,980
Tobacco Settlement Asset-Backed Bonds	102,700	-	(3,330)	99,370	3,600
Pooled Financing Bonds	-	34,985	(870)	34,115	655
Unamortized Bond Premiums, Discounts and Deferred Amounts on Refunding	-	(142)	17	(125)	(17)
Net Pooled Financing Bonds	-	34,843	(853)	33,990	638
Net Other Postemployment Benefits Obligation	-	28,872	-	28,872	-
Net Pension Obligation	158,162	-	(16,428)	141,734	-
Total	\$ 1,863,185	\$ 294,077	\$ (191,271)	\$ 1,965,991	\$ 143,343

d. Defeasance and Redemption of Debt

PFFA issued Pooled Financing Bonds, Series 2007 A in the amount of \$17,230 and Series B in the amount of \$17,755. The bond proceeds were used to make loans to RDA for the purpose of refunding outstanding Southcrest 1995, Mount Hope 1995B, Southcrest 2000, and Central Imperial 2000 Bonds. The current refunding of the Southcrest 1995 bonds resulted in a total economic gain of approximately \$186 and a cash flow savings of approximately \$235. The current refunding of the Mount Hope 1995B bonds resulted in a total economic gain of approximately \$262 and a cash flow savings of approximately \$381. These refunded bonds were fully redeemed at a call date prior to the end of the fiscal year, and accordingly, there was no balance outstanding as of June 30, 2008. The Southcrest 2000 and Central Imperial 2000 bonds were advance refunded and resulted in an economic gain of approximately \$95 and cash flow savings of approximately \$143, and an economic gain of approximately \$242, and a cash flow savings of approximately \$400, respectively. The balance of these defeased bonds are listed below.

As of June 30, 2008, principal amounts payable from escrow funds established for defeased bonds are as follows:

<u>Defeased Bonds</u>	<u>Amount</u>
Central Imperial Redevelopment Project Tax Allocation Bonds, Series 2000	\$ 3,040
Southcrest Redevelopment Project Tax Allocation Bonds, Series 2000	<u>1,570</u>
Total Defeased Bonds Outstanding	<u><u>\$ 4,610</u></u>

e. Long-Term Pledged Liabilities

Governmental long-term pledged liabilities as of June 30, 2008 are comprised of the following:

<u>Type of Pledged Revenue</u>	<u>Fiscal Year Maturity Date</u>	<u>Pledged Revenue to Maturity</u>	<u>Debt Principal & Interest Paid</u>	<u>Pledged Revenue Recognized</u>
<u>Pledged CDBG Revenue:</u>				
Section 108 Loans Payable		\$ 39,386	\$ 4,935	\$ 4,935
Total Pledged CDBG Revenue		<u>39,386</u>	<u>4,935</u>	<u>4,935</u>
<u>Pledged Developer Revenue:</u>				
Regional Transportation Center Redevelopment Project (Section 108)	2021	<u>2,947</u>	<u>293</u>	<u>293</u>
Total Pledged Developer Revenue		<u>2,947</u>	<u>293</u>	<u>293</u>
<u>Pledged Net Operating Revenue (Parking):</u>				
Centre City Parking Revenue Bonds, Series 1999 A	2026	<u>17,022</u>	<u>955</u>	<u>966</u>
Centre City Parking Revenue Bonds, Series 2003 B	2027	<u>28,387</u>	<u>1,508</u>	<u>1,450</u>
Total Pledged Net Operating Revenue (Parking)		<u>45,409</u>	<u>2,463</u>	<u>2,416</u>
<u>Pledged Special Assessment / Special Tax Revenue:</u>				
Otay Mesa Industrial Park Limited Obligation Improvement Bonds, Issued May 1992	2013	<u>364</u>	<u>76</u>	<u>75</u>
Miramar Ranch North Special Tax Refunding Bonds, Series 1998	2021	<u>56,488</u>	<u>4,373</u>	<u>4,184</u>
Public Facilities Financing Authority Reassessment District Refunding Revenue Bonds, Series 1999 A	2018	<u>15,997</u>	<u>2,518</u>	<u>1,962</u>
Public Facilities Financing Authority Reassessment District Refunding Revenue Bonds, Series 1999 B	2018	<u>4,029</u>	<u>640</u>	<u>490</u>
Santaluz Special Tax Bonds, Improvement Area No.1, Series 2000 A	2031	<u>100,864</u>	<u>4,132</u>	<u>4,338</u>
Santaluz Special Tax Bonds, Improvement Area No.3, Series 2000 B	2031	<u>7,641</u>	<u>314</u>	<u>327</u>
City of San Diego Reassessment District No. 2003-1 Limited Obligation Refunding Bonds	2018	<u>8,883</u>	<u>896</u>	<u>956</u>
Piper Ranch Limited Obligation Improvement Bonds, Issued January 2004	2034	<u>8,656</u>	<u>1,005</u>	<u>943</u>
Santaluz Special Tax Bonds, Improvement Area No.1, Series 2004 A	2031	<u>8,020</u>	<u>351</u>	<u>377</u>
Santaluz Special Tax Bonds, Improvement Area No.4, Series 2004 A	2034	<u>17,846</u>	<u>613</u>	<u>679</u>
Liberty Station Special Tax Bonds, Series 2006A	2037	<u>32,379</u>	<u>1,008</u>	<u>1,590</u>
Liberty Station Special Tax Bonds, Series 2008A	2037	<u>8,024</u>	<u>-</u>	<u>-</u>
Total Pledged Special Assessment / Special Tax Revenue		<u>269,191</u>	<u>15,926</u>	<u>15,921</u>

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Type of Pledged Revenue	Fiscal Year Maturity Date	Pledged Revenue to Maturity	Debt Principal & Interest Paid	Pledged Revenue Recognized
<u>Pledged Tax Increment Revenue:</u>				
<u>Contracts</u>				
Contract Payable to SDSU Foundation, dated December 1991	---	\$ 3,035	\$ 356	\$ 356
Amendment to Contract Payable to SDSU Foundation, dated January 1995	---	222	26	26
Contract Payable to Western Pacific Housing, Inc., dated April 2004	---	1,226	-	-
<u>Notes</u>				
Note Payable to Price Charities, dated April 2001	2032	5,882	927	927
Note Payable to Price Charities, dated May 2005	2025	2,100	-	-
Amendment to Note Payable to Price Charities, dated February 2006	2025	180	-	-
<u>Loans</u>				
International Gateway Associates, LLC, dated October 2001	2032	4,975	199	199
PCCP/SB Las America, LLC, dated August 2005	2036	3,703	132	132
Centerpoint, LLC, dated April 2006	2021	5,246	-	-
Bank of America, N.A. Line of Credit, dated October 2006	2009	8,648	381	381
San Diego National Bank, Line of Credit, dated July 2007 City Heights Housing Area	2011	1,489	64	64
San Diego National Bank, Line of Credit, dated July 2007 City Heights Non-Housing Area	2011	2,428	196	196
San Diego National Bank, Line of Credit, dated July 2007 Naval Training Center Housing Area	2011	61	30	30
San Diego National Bank, Line of Credit, dated July 2007 Naval Training Center Non-Housing Area	2011	7,587	344	344
San Diego National Bank, Line of Credit, dated July 2007 North Bay Housing Area	2011	2,499	67	67
San Diego National Bank, Line of Credit, dated July 2007 North Park Non-Housing Area	2011	4,011	68	68
Naval Training Center Civic, Arts, and Cultural Center (Section 108)	2025	8,571	510	510

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<u>Type of Pledged Revenue</u>	<u>Fiscal Year Maturity Date</u>	<u>Pledged Revenue to Maturity</u>	<u>Debt Principal & Interest Paid</u>	<u>Pledged Revenue Recognized</u>
Bonds				
Gateway Center West Redevelopment Project Tax Allocation Bonds, Series 1995	2014	\$ 877	\$ 148	\$ 180
Mount Hope Redevelopment Project Tax Allocation Bonds, Series 1995 A	2020	1,108	93	90
Horton Plaza Redevelopment Project Tax Allocation Refunding Bonds, Series 1996 A	2016	8,894	1,120	1,091
Centre City Redevelopment Tax Allocation Bonds, Series 1999 A	2019	34,263	1,273	1,214
Centre City Redevelopment Tax Allocation Bonds, Series 1999 B	2014	13,864	710	676
Centre City Redevelopment Tax Allocation Bonds, Series 1999 C	2025	17,973	799	768
City Heights Redevelopment Tax Allocation Bonds, Series 1999 A	2029	8,928	427	420
City Heights Redevelopment Tax Allocation Bonds, Series 1999 B	2029	31,702	460	429
Centre City Redevelopment Project Tax Allocation Bonds, Series 2000 A	2025	7,660	448	405
Centre City Redevelopment Project Tax Allocation Bonds, Series 2000 B	2025	28,834	1,455	1,394
Horton Plaza Redevelopment Project Tax Allocation Bonds, Series 2000	2022	20,159	1,351	1,319
North Bay Redevelopment Project Tax Allocation Bonds, Series 2000	2031	20,697	895	835
North Park Redevelopment Project Tax Allocation Bonds, Series 2000	2031	11,156	480	448
Centre City Redevelopment Tax Allocation Bonds, Series 2001 A	2027	111,729	2,568	2,458
Mount Hope Redevelopment Project Tax Allocation Bonds, Series 2002 A	2027	5,508	153	153
Centre City Redevelopment Project Tax Allocation Bonds, Series 2003 A	2029	25,078	3,973	3,713
City Heights Redevelopment Project Tax Allocation Bonds, Series 2003 A	2034	10,687	316	316
City Heights Redevelopment Project Tax Allocation Bonds, Series 2003 B	2014	544	89	88
North Park Redevelopment Project Tax Allocation Bonds, Series 2003 A	2028	10,522	544	524
North Park Redevelopment Project Tax Allocation Bonds, Series 2003 B	2034	11,448	259	240

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<u>Type of Pledged Revenue</u>	<u>Fiscal Year Maturity Date</u>	<u>Pledged Revenue to Maturity</u>	<u>Debt Principal & Interest Paid</u>	<u>Pledged Revenue Recognized</u>
Horton Plaza Redevelopment Project Tax Allocation Bonds, Series 2003 A	2022	\$ 9,797	\$ 310	\$ 271
Horton Plaza Redevelopment Project Tax Allocation Bonds, Series 2003 B	2022	6,463	341	287
Horton Plaza Redevelopment Project Tax Allocation Bonds, Series 2003 C	2022	11,050	802	700
Centre City Redevelopment Project Tax Allocation Bonds, Series 2004 A	2030	152,941	6,855	6,245
Centre City Redevelopment Project Tax Allocation Bonds, Series 2004 B	2011	5,120	1,972	1,879
Centre City Redevelopment Project Tax Allocation Bonds, Series 2004 C	2030	44,121	2,233	2,246
Centre City Redevelopment Project Tax Allocation Bonds, Series 2004 D	2030	14,294	722	726
Centre City Redevelopment Project Tax Allocation Bonds, Series 2006 A	2033	129,832	4,181	4,712
Centre City Redevelopment Project Tax Allocation Bonds, Series 2006 B	2032	64,034	2,266	2,855
Public Facilities Financing Authority Pooled Financing Bonds, Series 2007A	2038	33,908	1,316	1,316
Public Facilities Financing Authority Pooled Financing Bonds, Series 2007B	2038	32,277	956	956
Centre City Redevelopment Project Tax Allocation Bonds, Series 2008 A	2021	98,677	-	-
Total Pledged Tax Increment Revenue		<u>1,046,008</u>	<u>42,815</u>	<u>42,254</u>
<u>Pledged Tobacco Settlement Revenue:</u>				
Tobacco Settlement Revenue Funding Corporation Asset-Backed Bonds, Series 2006	2023	\$ 168,822	\$ 10,640	\$ 10,100
Total Pledged Tobacco Settlement Revenue		<u>168,822</u>	<u>10,640</u>	<u>10,100</u>
Total Pledged Revenue		<u>\$ 1,571,763</u>	<u>\$ 77,072</u>	<u>\$ 75,919</u>

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

a. Long-Term Liabilities

Business-type activities long-term liabilities as of June 30, 2008 are comprised of the following:

<u>Type of Obligation</u>	<u>Interest Rates</u>	<u>Fiscal Year Maturity Date</u>	<u>Original Amount</u>	<u>Balance Outstanding June 30, 2008</u>
Arbitrage Liability				\$ 586
Compensated Absences				13,355
Liability Claims				50,239
Capital Lease Obligations				166
<u>Revenue Notes Payable:</u>				
Subordinated Sewer Revenue Notes, Series 2007	5.0*	2009	223,830	223,830
Subordinated Water Revenue Notes, Series 2007A	4.06*	2009	57,000	57,000
Subordinated Water Revenue Notes, Series 2008A	3.28*	2010	150,000	<u>150,000</u>
Total Revenue Notes Payable				<u>430,830</u>
<u>Loans Payable:</u>				
Loans Payable to San Diego County Water Authority	-	-	100	100
Loans Payable to State Water Resources Control Board, issued February 9, 2000	1.80%**	2020	10,606	6,815
Loans Payable to State Water Resources Control Board, issued February 9, 2000	1.80**	2022	6,684	4,925
Loans Payable to State Water Resources Control Board, issued March 30, 2001	1.80**	2022	33,720	24,841
Loans Payable to State Water Resources Control Board, issued May 17, 2001	1.80**	2022	7,742	5,702
Loans Payable to State Water Resources Control Board, issued May 17, 2001	1.80**	2021	860	594
Loans Payable to State Water Resources Control Board, issued June 11, 2001	1.80**	2021	2,525	1,743
Loans Payable to State Water Resources Control Board, issued October 3, 2002	1.99**	2020	3,767	2,657
Loans Payable to State Water Resources Control Board, issued October 3, 2002	1.80**	2023	8,068	6,312
Loans Payable to State Water Resources Control Board, issued December 14, 2005	1.89**	2024	10,093	8,729
Loans Payable to Department of Health Services, issued July 6, 2005	2.51**	2026	21,525	19,385
Loans Payable to State Water Resources Control Board, issued October 15, 2006	1.99**	2024	3,858	3,494
Loans Payable to State Water Resources Control Board, issued February 28, 2007	1.89**	2026	11,068	<u>10,578</u>
Total Loans Payable				<u>95,875</u>

Type of Obligation	Interest Rates	Fiscal Year Maturity Date	Original Amount	Balance Outstanding June 30, 2008
Bonds Payable:				
Sewer Revenue Bonds, Series 1993	2.8 - 5.25*	2023	\$ 250,000	\$ 167,955
Sewer Revenue Bonds, Series 1995	3.9 - 6.0*	2025	350,000	265,540
Sewer Revenue Bonds, Series 1997 A	3.7 - 5.375*	2027	183,000	144,060
Sewer Revenue Bonds, Series 1997 B	3.7 - 5.375*	2027	67,000	52,740
Water Certificate of Undivided Interest, Series 1998	4.0 - 5.375*	2029	385,000	254,075
Sewer Revenue Bonds, Series 1999 A	3.5 - 5.125*	2029	203,350	169,665
Sewer Revenue Bonds, Series 1999 B	3.5 - 5.125*	2029	112,060	93,735
Subordinated Water Revenue Bonds, Series 2002	2.0 - 5.0*	2033	286,945	277,675
Total Bonds Payable				<u>1,425,445</u>
Estimated Landfill Closure and Postclosure Care				18,429
Net Other Postemployment Benefits Obligation				8,921
Net Pension Obligation				<u>31,342</u>
Total Business-Type Activities Long-Term Liabilities				<u>\$ 2,075,188</u>

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

** Effective rate

b. Amortization Requirements

Annual requirements to amortize long-term debt as of June 30, 2008, including interest payments to maturity, are as follows:

Year Ended June 30	Capital Lease Obligations		Revenue Notes Payable		Loans Payable		Revenue Bonds Payable	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ 166	\$ 4	\$ 280,830	\$ 18,050	\$ 5,547	\$ 1,889	\$ 45,595	\$ 70,851
2010	-	-	150,000	2,829	5,655	1,780	47,585	68,850
2011	-	-	-	-	5,765	1,670	49,810	66,620
2012	-	-	-	-	5,878	1,557	52,315	64,120
2013	-	-	-	-	5,992	1,443	54,965	61,473
2014-2018	-	-	-	-	31,763	5,413	319,755	262,369
2019-2023	-	-	-	-	28,962	2,253	408,335	172,430
2024-2028	-	-	-	-	6,213	218	341,990	69,803
2029-2033	-	-	-	-	-	-	105,095	9,466
2034-2038	-	-	-	-	-	-	-	-
Unscheduled*	-	-	-	-	100	-	-	-
Total	<u>\$ 166</u>	<u>\$ 4</u>	<u>\$ 430,830</u>	<u>\$ 20,879</u>	<u>\$ 95,875</u>	<u>\$ 16,223</u>	<u>\$ 1,425,445</u>	<u>\$ 845,982</u>

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

c. Change in Long-Term Liabilities

The following is a summary of changes in long-term liabilities for the year ended June 30, 2008. The effect of bond premiums, discounts and deferred amounts on refunding are reflected as adjustments to long-term liabilities.

	Business-Type Activities				
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Arbitrage Liability	\$ 224	\$ 368	\$ (6)	\$ 586	\$ -
Compensated Absences	15,154	11,472	(13,271)	13,355	6,657
Liability Claims	53,555	(14)	(3,302)	50,239	5,913
Capital Lease Obligations	1,006	-	(840)	166	166
Revenue Notes Payable	280,830	150,000	-	430,830	280,830
Unamortized Bond Premiums, Discounts and Deferred Amounts on Refunding	517	-	(517)	-	-
Net Revenue Notes Payable	<u>281,347</u>	<u>150,000</u>	<u>(517)</u>	<u>430,830</u>	<u>280,830</u>
Loans Payable	101,316	-	(5,441)	95,875	5,547
Revenue Bonds Payable	1,469,060	-	(43,615)	1,425,445	45,595
Unamortized Bond Premiums, Discounts and Deferred Amounts on Refunding	(7,189)	-	570	(6,619)	(570)
Net Revenue Bonds Payable	<u>1,461,871</u>	<u>-</u>	<u>(43,045)</u>	<u>1,418,826</u>	<u>45,025</u>
Estimated Landfill Closure and Postclosure Care	16,935	1,494	-	18,429	-
Net Other Postemployment Benefits Obligation	-	8,921	-	8,921	-
Net Pension Obligation	<u>36,418</u>	<u>-</u>	<u>(5,076)</u>	<u>31,342</u>	<u>-</u>
Totals	<u>\$ 1,967,826</u>	<u>\$ 172,241</u>	<u>\$ (71,498)</u>	<u>\$ 2,068,569</u>	<u>\$ 344,138</u>

d. Defeasance of Debt

As of June 30, 2008, principal amounts payable from escrow funds established for defeased bonds are as follows:

Defeased Bonds	Balance
Water Certificate of Undivided Interest, Series 1998	\$ 77,155
Total Defeased Bonds Outstanding	<u>\$ 77,155</u>

e. Long-Term Pledged Liabilities

Business-type activities long-term pledged liabilities as of June 30, 2008 are comprised of the following:

<u>Type of Pledged Revenue</u>	<u>Fiscal Year Maturity Date</u>	<u>Pledged Revenue to Maturity</u>	<u>Debt Principal & Interest Paid</u>	<u>Pledged Revenue Recognized</u>
<u>Pledged Net Sewer Systems Revenue:</u>				
<u>Loans</u>				
Loans Payable to State Water Resources Control Board, issued February 9, 2000	2020	\$ 7,641	\$ 637	\$ 637
Loans Payable to State Water Resources Control Board, issued February 9, 2000	2022	5,617	401	401
Loans Payable to State Water Resources Control Board, issued March 30, 2001	2022	28,346	2,025	2,025
Loans Payable to State Water Resources Control Board, issued May 17, 2001	2022	6,503	464	464
Loans Payable to State Water Resources Control Board, issued May 17, 2001	2021	671	52	52
Loans Payable to State Water Resources Control Board, issued June 11, 2001	2021	1,970	152	152
Loans Payable to State Water Resources Control Board, issued October 3, 2002	2020	3,014	251	251
Loans Payable to State Water Resources Control Board, issued October 3, 2002	2023	7,261	484	484
Loans Payable to State Water Resources Control Board, issued December 14, 2005	2024	10,199	637	637
Loans Payable to State Water Resources Control Board, issued October 15, 2006	2024	4,115	257	257
Loans Payable to State Water Resources Control Board, issued February 28, 2007	2026	12,582	699	699

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<u>Type of Pledged Revenue</u>	<u>Fiscal Year Maturity Date</u>	<u>Pledged Revenue to Maturity</u>	<u>Debt Principal & Interest Paid</u>	<u>Pledged Revenue Recognized</u>
<u>Bonds and Notes</u>				
Sewer Revenue Bonds, Series 1993	2023	\$ 244,779	\$ 16,319	\$ 16,310
Sewer Revenue Bonds, Series 1995	2025	400,912	23,586	23,574
Sewer Revenue Bonds, Series 1997 A	2027	231,386	12,178	12,171
Sewer Revenue Bonds, Series 1997 B	2027	84,710	4,458	4,457
Sewer Revenue Bonds, Series 1999 A	2029	277,294	13,206	12,329
Sewer Revenue Bonds, Series 1999 B	2029	153,433	7,309	7,118
Subordinated Sewer Revenue Notes, Series 2007	2009	235,021	11,440	11,439
Total Pledged Net Sewer Systems Revenue		<u>1,715,454</u>	<u>94,555</u>	<u>93,457</u>
<u>Pledged Net Water Systems Revenue:</u>				
<u>Loans</u>				
Loans Payable to Department of Health Services, issued July 6, 2005	2026	24,079	1,376	1,376
<u>Bonds and Notes</u>				
Water Certificate of Undivided Interest, Series 1998	2029	436,677	21,354	19,984
Subordinated Water Revenue Bonds, Series 2002	2033	442,236	18,031	16,967
Subordinated Water Revenue Notes, Series 2007A	2009	59,308	2,321	2,320
Subordinated Water Revenue Notes, Series 2008A	2010	157,380	-	-
Total Pledged Net Water Systems Revenue		<u>1,119,680</u>	<u>43,082</u>	<u>40,647</u>
Total Pledged Revenues		<u>\$ 2,835,134</u>	<u>\$ 137,637</u>	<u>\$ 134,104</u>

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

Discretely presented component units long-term debt as of June 30, 2008 is comprised as follows:

San Diego Convention Center Corporation

Type of Obligation	Interest Rate	Fiscal Year Maturity Date	Original Amount	Balance Outstanding June 30, 2008	Due Within One Year
Compensated Absences				\$ 1,221	\$ 1,221
Capital Leases			\$ 3,942	2,201	807
Note Payable to San Diego					
Unified Port District, dated 1999	0.00%	2011	10,000	2,500	1,000
Total Long-Term Liabilities				<u>\$ 5,922</u>	<u>\$ 3,028</u>

Annual requirements to amortize long-term debt as of June 30, 2008, are as follows:

Capital Lease		Note Payable	
Fiscal Year	Amount	Fiscal Year	Amount
2009	\$ 931	2009	\$ 1,000
2010	931	2010	1,000
2011	543	2011	500
Total minimum lease payments	2,405	Total	<u>\$ 2,500</u>
Less: amount representing interest	(204)		
Present value of minimum lease payments	<u>\$ 2,201</u>		

San Diego Housing Commission

Type of Obligation	Interest Rate	Fiscal Year Maturity Date	Original Amount	Balance Outstanding June 30, 2008	Due Within One Year
Compensated Absences				\$ 1,249	\$ 1,249
Note Payable to Washington Mutual, dated June 1995	Variable*	2012	\$ 4,725	3,427	149
Note Payable to State of California (RHCP)	0.0	2013	1,405	1,405	-
Note Payable to State of California (RHCP)	0.0	2015	3,149	3,149	-
Note Payable to State of California (CalHELP)	3.0	2013	704	2,306	-
Note Payable to US Bank, dated November 2006	Variable*	2012	20,550	19,468	223
Total Notes Payable				29,755	372
Total Long-Term Liabilities				\$ 31,004	\$ 1,621

* The effective interest rate as of June 30, 2008 was 3.79% for the Washington Mutual Note Payable and 7.54% for the US Bank Note Payable.

Annual requirements to amortize such long-term debt as of June 30, 2008 to maturity are as follows:

Year Ending June 30	Principal	Interest
2009	\$ 372	\$ 1,674
2010	396	1,654
2011	421	1,629
2012	21,707	557
2013	-	69
2014-2018	6,859	67
Total	\$ 29,755	\$ 5,650

8. SHORT-TERM NOTES PAYABLE (In Thousands)

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

Short-term debt activity for the year ended June 30, 2008, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Tax and Revenue Anticipation Notes	<u>\$ 142,000</u>	<u>\$ 116,000</u>	<u>\$ (142,000)</u>	<u>\$ 116,000</u>

The \$142,000 (FY07) TRANs issue, which was a 13 month note obligation, had an interest rate of 4.18% and was repaid on August 3, 2007.

The \$116,000 (FY08) TRANs issue, which was a 13 month note obligation, had an interest rate of 3.90% and was repaid on August 1, 2008.

9. JOINT VENTURE and JOINTLY GOVERNED ORGANIZATIONS (In Thousands)San Diego Medical Services Enterprise, LLC

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

SDMSE was organized on May 2, 1997 to provide emergency medical services and medical transportation services to the citizens of San Diego. Operations began July 1, 1997 under an initial 5 year agreement that was extended on July 1, 2002 and again on July 1, 2005 for an additional three year period. On July 1, 2008 operations were extended until December 31, 2008 under a separate extension agreement, and will continue to be extended during the competitive bidding process which is currently taking place.

The SDMSE partners are the City of San Diego and Rural Metro of San Diego, Inc., a wholly owned subsidiary of Rural Metro Corporation (a publicly traded corporation). The SDMSE governing board is comprised of five members, three of whom are appointed by the City. In accordance with GASB 14, the financial impacts of the joint venture are reported in the General Fund.

The maximum funds which the City is required to contribute to the costs of SDMSE operations are limited to an aggregate of \$8,450 during the term of the third amended agreement. This aggregate includes a \$650 annual subsidy and any other amounts to be paid to the City since 1997 under the original contract, and any losses the City is required to cover under the extended contract, excluding any amount the City contributes for Medicare fee reimbursements. Cumulatively, the City has paid annual subsidies totaling \$5,700 as of June 30, 2008. Effective in fiscal year 2006, the City is no longer required to pay the \$650 annual subsidy and the Medicare fee reimbursements shall not exceed \$250 per fiscal year. Net assets of SDMSE are pro-rated to each partner based on a 50/50 split. In accordance with the operating agreement, profit and loss for each fiscal year is allocated equally to the members, subject to an aggregate limitation on loss to the City of \$8,450 (equal to the amount of subsidies discussed above). For the fiscal year ended June 30, 2008, SDMSE reported a net income of \$1,667, a member distribution of \$1,900, and ending net assets of \$3,962.

Under the terms of an operating agreement between Rural/Metro of San Diego, Inc. and SDMSE, Rural/Metro of San Diego, Inc. has made available a line-of-credit in the initial amount of \$3,500 bearing an interest rate of 9.5%. SDMSE did not have an outstanding balance, nor did it borrow on the line-of-credit at June 30, 2008.

Complete financial statements can be requested from San Diego Medical Services Enterprise, LLC, 8401 East Indian School Rd., Scottsdale, Arizona 85251.

San Diego Workforce Partnership

The City of San Diego and the County of San Diego jointly govern the San Diego Workforce Partnership (Consortium). The Consortium's Board of Directors consists of two members of the City Council, two members from the County Board of Supervisors, and one member of a charitable organization. The purpose of the Consortium is to provide regional employment and training services in order to develop and create job opportunities throughout San Diego County. The Consortium is empowered to make applications for and receive grants from governmental or private sources. The City does not appoint a majority of the Board, is not able to impose its will on the Consortium, and the Consortium is not fiscally dependent on the City. Therefore, it is the City's conclusion that the Consortium is a Governmental Organization with a jointly appointed board and not a component unit of the City.

Complete financial statements can be requested from San Diego Workforce Partnership, Inc. 3910 University Avenue, Suite 400, San Diego, CA 92105.

San Diego Geographic Information Source (SanGIS)

SanGIS was created in July 1997 as a joint powers agreement between the City of San Diego and the County of San Diego. SanGIS objectives are to create and maintain a geographic information system, marketing and licensing compiled digital geographic data and software, providing technical services and publishing geographical and land-related information.

Complete financial statements can be requested from SanGIS, 5469 Kearney Villa Road, Suite 102, San Diego, CA 92123.

10. LEASE COMMITMENTS (In Thousands)

The City leases various properties and equipment. Leased property having elements of ownership are recorded as capital leases and reported as capital assets in the government-wide financial statements, along with a corresponding capital lease obligation. Leased property that does not have elements of ownership is reported as an operating lease and is expensed when paid.

Operating Leases

The City's operating leases consist primarily of rental property occupied by City departments. The following is a schedule of future minimum rental payments required under operating leases entered into by the City for property that has initial or remaining non-cancelable lease terms in excess of one year as of June 30, 2008:

Year Ended June 30	Amount
2009	\$ 12,746
2010	12,429
2011	11,892
2012	12,061
2013	11,904
2014-2018	12,017
2019-2023	245
2024-2028	49
Total	<u>\$ 73,343</u>

Rent expense as related to operating leases was \$11,657 for the year ended June 30, 2008.

Capital Leases

The City has entered into various capital leases for equipment, vehicles and property. These capital leases have maturity dates ranging from September 1, 2007 through July 1, 2015, and interest rates ranging from 2.59% to 7.94%. A schedule of future minimum lease payments under capital leases as of June 30, 2008 is provided in Notes 5 and 6. The value of all capital leased assets as of June 30, 2008 for governmental assets is \$50,359, net of accumulated depreciation of \$85,211, and business-type assets of \$2,504, net of accumulated depreciation of \$8,810.

Lease Revenues

The City has operating leases for certain land, buildings, and facilities with tenants and concessionaires. Leased capital asset carrying values of approximately \$64,591, as well as depreciation, are reported in Note 4 and are consolidated with non-leased assets. Minimum annual lease revenues are reported in the following schedule:

Year Ended June 30	Amount
2009	\$ 33,205
2010	32,093
2011	31,533
2012	30,926
2013	30,178
2014-2018	139,448
2019-2023	124,287
2024-2028	119,135
2029-2033	111,976
2034-2038	101,650
2039-2043	97,038
2044-2048	77,903
2049-2053	15,205
2054-2058	6,160
2059-2063	1,650
Total	<u>\$ 952,387</u>

This amount does not include contingent rentals, which may be received under certain leases of property on the basis of percentage returns. Rental income as related to operating leases was \$82,954 for the year ended June 30, 2008, which includes contingent rentals of \$49,981.

11. DEFERRED COMPENSATION PLAN (In Thousands)

The City, San Diego Convention Center Corporation (SDCCC), San Diego Data Processing Corporation (SDDPC), and San Diego Housing Commission (SDHC) each offer their employees a deferred compensation plan, created in accordance with Internal Revenue Service Code Section 457, State and Local Government Deferred Compensation Plans. These plans, available to eligible employees, permit them to defer, pre-tax, a portion of their salary until future years. Deferred compensation is not available to employees until termination, retirement, death, disability, or an unforeseeable emergency. All assets and income of the deferred compensation plan are held in trust for the exclusive benefit of plan participants and their beneficiaries. The deferred compensation plans are not considered part of the City of San Diego's financial reporting entity.

12. PENSION PLANS (In Thousands)

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

DEFINED BENEFIT PLAN

a. Plan Description

San Diego City Employees' Retirement System ("SDCERS"), as authorized by Article IX of the City Charter, is a public employee retirement system established in fiscal year 1927 by the City. SDCERS administers independent, qualified, single employer governmental defined benefit plans and trusts for the City, the Port of San Diego (the "Port"), and the San Diego County Regional Airport Authority (the "Airport"). As of July 1, 2007, the assets of the three separate plans and trusts are pooled in the SDCERS Group Trust. These plans are administered by the SDCERS Board (the "Board") to provide retirement, disability, death and survivor benefits for its members. Amendments to the City's benefit provisions require City Council approval as well as a majority vote by members. As of January 1, 2007, benefit increases also require a majority vote of the public. All approved benefit changes are codified in the City's Municipal Code.

The plans cover all eligible employees of the City, the Port, and the Airport. All City employees working half-time or greater and full-time employees of the Port and the Airport are eligible for membership and are required to join SDCERS. The Port and Airport are not component units of the City CAFR per GASB 14; however, the financial statements of SDCERS Pension trust do include the Port and Airport activity and are reported in the trust and agency section of the CAFR. The information disclosed in this note however, relates solely to the City's participation in SDCERS. City employment classes participating in the Plan are elected officers, general and safety (including police, fire and lifeguard members). These classes are represented by various unions depending on the type and nature of work performed, except for elected officials, unclassified and unrepresented employees.

City of San Diego Plan Membership as of June 30, 2008 (actual member count)

	General	Safety	Total by Classification
Active Members	5,980	2,507	8,487
Terminated Members	2,255	488	2,743
Retirees, Disabled and Beneficiaries	4,169	2,771	6,940
Total Members, as of June 30, 2008	12,404	5,766	18,170

Source: SDCERS-City of San Diego Actuarial Valuation as of June 30, 2008

As a defined benefit Plan, retirement benefits are determined primarily by a member's class, age at retirement, number of years of creditable service, and the member's final compensation based on the highest salary earned over a consecutive one-year period. The Plan provides cost of living adjustments of 2% to retirees, which is factored into the actuarial assumptions. Increases in retirement benefits due to cost of living adjustments do not require voter approval. The Plan requires ten years of service at age 62, or 20 years of service at age 55 for general members (50 for safety members), which could include certain service purchased or service earned at a reciprocating government entity, to vest for a benefit. Typically, retirement benefits are awarded at a rate of 2.5%

of the employee's one-year high annual salary per year of service at age 55 for general members, and 3% for Safety members starting at the age of 50. The actual percentage of final average salary per year served component of the calculation rises as the employee's retirement age increases and depends on the retirement option selected by the employee. General Plan percentage of final average salary per year served is a maximum of 2.8% for general members and 3% for safety members.

On July 28, 2008, the City Council approved R-303977 which presents modified defined contribution and defined benefit Plans for all non-safety City employees hired on or after July 1, 2009. The new defined benefit Plan includes modified percentages used to determine annual retirement allowance (depending on employees' age at retirement), a pensionable salary calculation used to determine retirement allowances based on a 3-year average, and a maximum annual retiree benefit of 80% of employees' pensionable salary. Additionally, the new defined contribution Plan includes mandatory employee contributions to SPSP (as well as City match) of 1% and the introduction of mandatory employee contribution to a retiree medical trust Plan (as well as City match) of 0.25%. The modified Plans were drafted and agreed upon by the Mayor's Office and related labor unions representing non-safety City employees.

Deferred Retirement Option Program (DROP)

The City also has a Deferred Retirement Option Program (DROP) where participants continue to work for the City and receive a regular paycheck. SDCERS' members electing to participate in DROP must agree to participate in the program for a specific period, up to a maximum of five years. A DROP participant must agree to end employment with the City on or before the end of the selected DROP participation period. A SDCERS member's decision to enter DROP is irrevocable.

Upon entering the program, the DROP participant stops making contributions to SDCERS and stops earning creditable service. Instead, amounts equivalent to the participant's retirement benefit plus earnings and additional contributions are credited to an interest bearing individual account held in the participant's name. On November 21, 2008, the SDCERS Board changed the DROP interest credit rate to 7.75% from 8% to mirror the newly adopted investment return assumption adopted by the Board on September 19, 2008. On February 20, 2009 the Board changed the DROP interest rate again. Effective July 1, 2009, DROP participation interest will be 3.54% and DROP annuity interest will be 5.0%. The DROP benefit is the value of a DROP participant's account at the end of the DROP participation period. Participants select the form of the distribution of the DROP account when they leave employment and begin retirement. The distribution is made as a single lump sum or in 240 equal monthly payments, or as otherwise allowed by applicable provisions of the Internal Revenue Code. Outstanding liabilities for DROP are shown on the Statement of Fiduciary Net Assets in the basic financial statements. During the period of participation, the participant continues to receive most of the employer offered benefits available to regular employees with exception to earning creditable service, as previously discussed.

SDCERS' members who were hired on or after July 1, 2005 are ineligible to participate in the DROP program due to the benefit changes negotiated with the July 1, 2005 Memoranda of Understanding (MOU). However, SDCERS has asserted that due to delays in codification of benefit changes into the Municipal Code, the effective cut off date would instead be February 16, 2007, which is when the Ordinance O-19567 was officially codified in the Municipal Code. As of the issuance of this report, there has been no change in the status of this case [refer to Note 18 for additional information]. Notwithstanding amendments to the municipal code, SDCERS' members who were hired prior to July 1, 2005 are eligible to participate in DROP when they are eligible for a service retirement.

Purchase of Service Credits

Article 4 Division 13 of the City's Municipal Code allows Plan members to purchase years of Creditable Service for use in determining retirement allowances. To purchase Creditable Service, a Member must elect to pay and thereafter pay, in accordance with such election before retirement, into the Retirement Fund an amount, including interest, determined by the Board. No Member will receive Creditable Service under this Division for any service for which payment has not been completed pursuant to this Division before the effective date of the Member's retirement. After review of the purchase of service program, SDCERS' actuary concluded that the service credit pricing structure that was in place prior to November 2003 did not reflect the full cost in the price then charged to SDCERS members. The pricing shortfall of approximately \$146,000, which is included in the Unfunded Actuarial Accrued Liability (UAAL), is reported in this note for the current year and in the RSI of these financial statements for the prior two years. On November 13, 2008, a court ruling stated that the Board's decision to amortize the underpaid purchase of service credits, for certain employees who had yet to retire as of November 20, 2007, through the City's existing unfunded actuarial liability is unlawful and contrary to the Municipal Code and City Charter. Judgment was entered in favor of the City on December 12, 2008 which finalized the November 13, 2008 ruling. The amount of the potential benefit to the City is not known as of the issuance of this report. Additionally, the service credit pricing structure used after November 2003 does cover the full projected cost to the System when members purchased the service credits.

SDCERS' members who were hired on or after July 1, 2005 are ineligible to participate in the Purchase of Service Credit program due to the benefit changes negotiated with the July 1, 2005 MOU. However, SDCERS has asserted that due to delays in codification of benefit changes into the municipal code, the effective cut off date would instead be February 16, 2007, which is when the Ordinance O-19567 was officially codified in the Municipal Code. As of the issuance of this report, there has been no change in the status of this case [refer to Note 18 for additional information]. Notwithstanding amendments to the municipal code, SDCERS' members who were hired prior to July 1, 2005 are eligible to participate the Purchase of Service Credit Program at the full cost to the participant.

Corbett Settlement Benefits and Retirement Factors

In 1998, a lawsuit was filed by retired employees who alleged that the City's definition of compensation subject to the computation of retirement benefits improperly excluded the value of certain earnings. The City and SDCERS settled in May of 2000, which is known as the Corbett Settlement. This settlement provided for a flat increase of 7% in benefits payable to eligible members who retired prior to July 1, 2000, payable annually. The settlement also provided a 10% benefit increase and allows for two options in calculating the service retirement allowance for employees active at the time of the settlement and who joined the Retirement System before July 1, 2000 and who retired after July 1, 2000.

The options for calculating the service retirement allowance are outlined in the San Diego Municipal Code sections 24.0402 and 24.0403 which can be obtained at City of San Diego City Clerks Office 202 C Street, San Diego, CA 92101 or online at www.sandiego.gov.

On July 1, 2002, the City Council increased the retirement factors used for calculating retirement allowances; this action was related to MP-2 (as discussed later in this note). As a result of the Corbett Settlement and other benefit actions taken by the City Council, the service retirement factors for general members (non-safety and non-legislative) range from 2.0% at age 55 to 2.8% at age 65. The service retirement factors for Safety Members (Fire, Police and Lifeguard) range from 2.2% at age 50 to 3.0% at age 50 depending on the Corbett Settlement option selected. Finally, the City also maintains an Elected Officer's Retirement Plan where members are eligible to

receive 3.5% of their final average salary per year of creditable service. Depending on the number of years of service, participants of the Elected Officer's Retirement Plan can retire earlier than the age of 55; however, their retirement allowance is reduced by 2.0% for each year under the age of 55.

Preservation of Benefit Plan

On March 19, 2001, the City Council adopted Ordinance O-18930, adding SDMC sections 24.1601 through 24.1608, establishing the Preservation of Benefit Plan (POB Plan). The POB Plan is a qualified governmental excess benefit arrangement (QEBA) under Internal Revenue Code (IRC) section 415(m), which was created by Congress to allow the payment of promised pension benefits that exceed the IRC section 415(b) limits (and therefore cannot be paid from a qualified retirement plan). On October 28, 2008, the IRS issued a private letter ruling to SDCERS approving the qualified status of the QEBA. As provided in SDMC section 24.1606 and required by federal tax law, the POB Plan is unfunded within the meaning of the federal tax laws. The City may not pre-fund the POB Plan to cover future liabilities beyond the current year as it can with an IRC section 401(a) pension plan. SDCERS has established procedures to pay for these benefits on a pay-as-you-go basis. As of issuance of this report, actuarial liabilities related to retired member benefits that exceeded §415 limits are included in the RSI for the City's core pension Plan for valuation years up to and including fiscal year 2005. In the fiscal year 2006 actuarial valuation, the estimated actuarial accrued liability related to excess benefits for eligible active members of the system, amounting to approximately \$22,800, was removed from the Plan's Actuarial Liabilities (this liability is estimated to be approximately \$30,400 in the fiscal year 2007 actuarial valuation). Additionally, the liability for retired members of the POB Plan, amounting to approximately \$6,400, has been excluded from the fiscal year 2007 actuarial valuation. Estimates related to the actuarial liability for benefits that exceed IRS §415 limits were calculated using actuarial assumptions consistent with those used to perform actuarial valuations for the City's core pension Plan and also pursuant to the Compliance Statement, dated December 20, 2007, and Tax Determination Letter provided by the IRS during Voluntary Correction Program discussions.

The most current estimates related to the POB are that approximately 58 beneficiaries have received benefits of approximately \$2,900 in excess of IRC §415 limits through June 30, 2006; an additional approximate \$900 in benefits were paid in the fiscal year ended June 30, 2007, and approximately \$870 in benefits were paid in the fiscal year ended June 30, 2008 for an estimated cumulative overpayment of \$4,670. No additional Plan payments or repayments are required as a result of the Compliance Statement. The number of Plan participants in any given year for the POB Plan is determined by the number of Plan participants who exceed the current year's IRS §415(b) limitations as calculated by SDCERS' actuary. The maximum annual payment for the calendar year 2008 was \$185 and is adjusted downward depending on the age of the participant when benefits began. Beginning in fiscal year 2008, the City's actuary performed a valuation of the POB Plan which resulted in an ARC of approximately \$2,407. However, expenditures related to the POB Plan in fiscal year 2008 were approximately \$1,000, and therefore, the remaining \$1,407, which represents future Plan liabilities, is included in the City's Net Pension Obligation (NPO). Additionally, financial statements for the Preservation of Benefits Plan are included in the Trust & Agency section of this report.

Charter Amendments

In November 2004, voters changed the City Charter and the mix of Board members requiring that a majority of the Board be independent of the City. Also, the Charter now requires that a 15-year amortization period be used for the UAAL beginning in fiscal year 2009; however, the SDCERS Board, in conjunction with the actuary, is using a 20-year amortization period with no negative amortization and has taken the position that the Board is legally responsible for establishing the valuation parameters, including the amortization period.

On November 7, 2006, the citizens approved an amendment to Article 9, Section 143 of the City's Charter, requiring voter approval of certain increases in retirement system benefits for public employees. Specifically, this amendment requires a majority approval of the public of any ordinance that amends the City's retirement system by increasing the benefits of any employee.

Additional details of retirement benefits can be obtained from SDCERS. SDCERS is considered part of the City of San Diego's financial reporting entity and is reported as a pension and employee savings trust fund. SDCERS issues stand-alone financial statements which are available at its office located at 401 West A Street, Suite 400, San Diego, California 92101 or at www.sdcers.org.

b. **Summary of Significant Accounting Policies – Pension**

Basis of Accounting - The pension trust fund uses the economic resources measurement focus and the accrual basis of accounting. Contributions are recognized as additions in the period in which the contributions are due and a formal commitment to provide the contributions has been made. Benefits and refunds are recognized when due and payable in accordance with the Plan.

Method Used to Value Investments - SDCERS investments are stated at fair value. The SDCERS custodial agent provides market values of invested assets with the exception of the fair value of directly owned real estate assets which are provided by the responsible investment manager and independent third party appraisal firms. Investment income is recognized in accordance with GASB 25 and is stated net of investment management fees and related expenses.

c. **Contributions and Reserves - Disclosure Related to Long - Term Contracts and Other Agreements**

Funding Contracts: Union Agreements

The City has historically picked up a portion of the employee's retirement contributions. The fiscal year 2006 MOUs and the changes to current and future employee benefits therein were introduced to the City Council in June 2005, and the changes in benefit eligibility were approved by Council Resolution 300600.

The agreement in the MOUs (agreements with the police union were not reached) was to reduce the amount of individual employees' pension contributions which are paid for by the City, effective fiscal year 2006. The agreements with labor unions resulted in the reduction of City offset of the employee pension contribution by 3% for the Municipal Employees' Association (MEA), the International Association of Fire Fighters Local 145, and the Deputy City Attorney Association (DCAA) and a unilaterally imposed reduction of 3.2% for the San Diego Police Officers Association (POA). In addition, the American Federation of State and County Municipal Employees (AFSCME) Local 127 negotiated a 1.9% salary reduction in lieu of a City "pick up" contribution reduction and a benefit freeze.

The agreements with the bargaining units explicitly indicate that savings to the City must be used to help address its UAAL within the timeframe of the respective contracts. The labor contract with Local 127 states that "By June 30, 2008, if the City has not dedicated a total of \$600,000,000 or more to the UAAL reduction, including the amount received by leveraging employee salary reduction and pension contribution monies, the AFSCME salary reduction monies with interest will revert to SDCERS Employee Contribution Rate Reserve for benefit of Local 127 unit members to defray employee pension contributions."

In June 2006, the City leveraged a portion of the employee pick up savings by contributing \$90,800 from

securitization of future tobacco settlement revenues, \$9,200 of current tobacco settlement revenues, and \$8,300 from the remaining balance in the employee “pick-up” amount as part of meeting its negotiated commitment. The \$100,000 payment in excess of the ARC from tobacco settlement revenues is 100% backed by general fund revenues, and therefore was directly allocated to reduce the Net Pension Obligation of the general fund only. The additional contribution of \$8,300 in excess of the ARC, however, was allocated Citywide as a reduction to the NPO. In June 2007, the City contributed approximately \$7,000 in addition to the ARC from the savings of the employee “pick-up” reduction, and in July 2007 the City contributed approximately \$27,300 in addition to the ARC. Upon the conclusion of the fiscal year ended June 30, 2008, the City was not able to meet the outstanding commitment in its entirety. As such, the City reached agreements with both MEA and Local 127. The MEA settlement required the City to return prior year savings to MEA members and eliminated 2% of the employee pick-up. The Local 127 settlement required the City to return prior year savings to Local 127 members as well as eliminate the 1.9% salary reduction.

Funding Commitments Related to Legal Settlements

The City employer contributions for fiscal years 1996 – 2003 were not based on the full actuarial rates. Instead, employer contributions were less than the full actuarial rates in accordance with agreements between the City and SDCERS, commonly referred to as Manager’s Proposal 1 (MP-1) and Manager’s Proposal 2 (MP-2). Subsequent to the adoption of MP-2, the City settled a class action lawsuit regarding alleged breaches of fiduciary duty and law regarding the City’s underfunding of the pension system resulting from the adoption of MP-1 and MP-2. The Gleason Settlement Agreement addressed the issues raised regarding the City’s underfunding of the pension system by imposing specific requirements on the City for fiscal years 2005 through 2008 including requirements to contribute \$130,000 in fiscal year 2005, pay its full ARC beginning in fiscal year 2006, repeal Municipal Code Sections that legitimized the City’s contribution obligations related to MP-2, and provide a total of \$375,000 of real property as collateral for payments required under the Gleason Settlement Agreement. The Gleason Settlement also stipulated that certain actuarial assumptions be fixed, notably, that the amortization period be reset to a 29-year closed period commencing with the June 30, 2004 Annual Actuarial Valuation. These assumptions were to remain in place for the duration of the settlement.

On July 1, 2004, the City made the Gleason Settlement-required contribution of \$130,000 for fiscal year 2005 in addition to providing real property totaling \$375,000 as collateral to be returned in annual installments of \$125,000. On July 1, 2005, the City made the annually required contribution of \$163,000 for fiscal year 2006. Additionally, the City made a contribution in excess of the ARC in the amount of \$108,300 on June 30, 2006. On July 3, 2006 the City made its full annually required contribution of \$162,000 as well as an additional \$7,000 contribution in excess of the ARC for fiscal year 2007 and on July 2, 2007, the City made its full annually required contribution of \$137,700 as well as an additional \$27,900 contribution in excess of the ARC for fiscal year 2008. The final installment of \$125,000 of real property collateral was returned to the City on November 9, 2007.

The annual required contributions for fiscal years 2005, 2006, and 2007 did not include the effects of the Corbett Settlement because the SDCERS’ Board viewed those benefits as contingent (see section a. for a description of the Corbett Settlement). Subsequent to those payments, the City determined that the Corbett Settlement liabilities are not contingent. As a result, the ARC for financial reporting was restated from the original ARC calculated by SDCERS’ actuary to include Corbett Settlement liabilities. As a result, the City’s NPO includes the effects of the Corbett Settlement.

In September 2006, the City entered into a settlement of McGuigan v. City of San Diego (the “McGuigan Settlement”) related to the underfunding by the City of the pension system. Under the McGuigan Settlement, the City is obligated to pay into SDCERS \$173,000 no later than June 8, 2011. An additional requirement of the

McGuigan Settlement is that the City provides SDCERS real property collateral totaling \$100,000 (Non-Depreciable Capital Assets – Land). These amounts are in addition to those required by the Gleason Settlement and are to be returned upon the full payment of the settlement. The City provided the real property collateral at the time of the settlement; subsequently, the City provided a cumulative amount of approximately \$143,200 of additional payments to SDCERS in an attempt to meet the terms of the McGuigan Settlement. This leaves an outstanding obligation resulting from the McGuigan Settlement of approximately \$35,000, including interest. The McGuigan Settlement was partially funded through the securitization of future tobacco revenue, transfers of actual tobacco revenue receipts, additional employee “pick up” savings, and City contributions made in addition to the ARC. This contribution is further discussed in the Funding Contracts: Union Agreements section above.

d. **Funding Policy and Contribution Rates**

City Charter Article IX Section 143 requires employees and employers to contribute to the retirement Plan. The Charter section, which was amended in fiscal year 2005, stipulates that funding obligations of the City shall be determined by the Board of SDCERS and are not subject to modification by the City. The section also stipulates that under no circumstances may the City and Board enter into any multi-year funding agreements that delay full funding of the retirement Plan. The Charter requires that employer contributions be substantially equal to employee contributions (SDCERS’ legal counsel has opined that this requirement applies to the normal cost contribution only). Pursuant to the Charter, City employer contribution rates, adjusted for payment at the beginning of the year, are actuarially determined rates and are expressed as a fixed annual required contribution as well as percentages of annual covered payroll. The entire expense of SDCERS’ administration is charged against the earnings and Plan assets of SDCERS.

The following table shows the City’s contribution rates (weighted average of each employee group) for fiscal year 2008, based on the valuation ended June 30, 2006, expressed as percentages of active payroll:

	Employer Contribution Rates	
	General Members	Safety Members
Normal Cost*	11.42%	19.92%
Amortization Payment*	8.07%	15.19%
Normal Cost Adjusted for Amortization Payment*	19.49%	35.11%
City Contribution Rates Adjusted for Payment at the Beginning of the Year	18.77%	33.78%

* Rates assume that contributions are made uniformly during the Plan year.

Normal Cost = The actuarial present value of pension plan benefits allocated to the current year by the actuarial cost method.

Amortization Payment = That portion of the pension plan contribution which is designed to pay interest on and to amortize the unfunded actuarial accrued liability.

Members are required to contribute a percentage of their annual salary to the Plan on a biweekly basis. Rates vary according to entry age. For fiscal year 2008, the City employee contribution rates as a percentage of annual covered payroll averaged 9.87% for general members and 11.87% for safety members. A portion of the employee’s share, depending on the employee’s member class, is paid by the City (commonly referred to as the Employee Offset). In fiscal year 2008, the amount paid by the City ranges from 1.4% to 5.89% of covered payroll for general members and the rate for safety Plan members ranges from 2.4% to 4.3%. Employee contributions paid by the City, amounting to approximately \$16,570 in fiscal year 2008, are made from the City’s operating

budget. The amount paid on behalf of the employees has been renegotiated through the meet and confer process which ultimately reduced the amount of the employee contribution paid by the City.

On September 2, 2008, Council approved O-19781 which amended Chapter 2, Article 4, Division 15 of the San Diego Municipal Code. The intent of the amendment was to eliminate the concept of "Surplus Earnings" (earnings in excess of those earned using the assumed actuarial rate of return) which was the historical term for the funds used to pay for supplemental and contingent benefits. In accordance with these revised SDMC sections, annual distributions of these benefits are paid from Plan assets and take place in priority order. The Plan assets are distributed to various SDCERS system reserves, SDCERS budget, and contingent benefits. The order of distribution and a more detailed discussion of each distribution follows: First, Plan assets are used to credit interest, at a rate determined by the SDCERS Board, which is currently 7.75%, to the Employer and Employee Contribution Reserves and DROP member accounts. Second, Plan assets are used to fund the SDCERS Annual Budget. Third, Plan assets are distributed for supplemental or contingent payments or transfers to reserves. These items include in a priority order: 1) Annual Supplement Benefit Payment ("13th Check") paid to retirees generally equal to approximately \$30 (whole dollars) times the number of years of employment. 2) Corbett Settlement Payment paid to retirees who terminated employment prior to July 1, 2000 (Corbett Settlement payments not paid in any one year accrue to the next year and remain an obligation of SDCERS until paid). 3) Crediting interest to the Reserve for Supplemental Cost of Living Adjustment ("COLA").

e. Funded Status and Funding Progress

The following table summarizes the Plan's funding status as of the most recent valuation date (unaudited):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	UAAL (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
6/30/2008	\$ 4,660,346	\$ 5,963,550	\$ 1,303,204	78.15%	\$ 535,774	243.24%

The actuarial assumptions used for the fiscal year 2008 valuation include an Entry Age Normal actuarial funding method, an Expected Value of Assets smoothing method, a 20-year closed amortization schedule (with no negative amortization), a 7.75% earnings assumption and a 4% inflation rate. The required schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

f. Annual Pension Cost and Net Pension Obligation

Annual Pension Costs

The normal cost (i.e. the actuarial present value of pension Plan benefits allocated to the current year) and the UAAL amortization cost (i.e. the portion of the pension Plan payment designed to amortize the UAAL) were determined using the Projected Unit Credit (PUC) actuarial cost method. The following are the principal actuarial assumptions used for the fiscal year 2006 valuation (additional assumptions were used regarding a variety of other factors):

- a) An 8.0% investment rate of return, net of administrative expenses.**

- b) Projected salary increases of at least 4.25% per year.**
- c) An assumed annual cost-of-living adjustment that is generally 2% per annum and compounded. In addition, there is a closed group of special safety officers whose annual adjustment is equal to inflation (4.25% per year).

**Both (a) and (b) included an inflation rate of 4.25%.

The actuarial value of assets was determined using a methodology that smoothes the effects of short-term volatility in the market value of investments over a five-year period. In fiscal year 2007, the SDCERS Board approved a different asset smoothing method by marking the actuarial value of assets to market value in the fiscal year 2006 actuarial valuation, the result of which caused the UAAL to decrease by approximately \$183,800. The method used by the actuary in fiscal year 2005 was not a commonly used method. The expected actuarial value asset smoothing method commenced with the fiscal year 2007 valuation. The UAAL for funding purposes, pursuant to the Gleason Settlement, is being amortized over a fixed 30-year closed period for the fiscal years 2006, 2007, and 2008. As of June 30, 2006, the valuation year used to compute the fiscal year 2008 annually required contribution, there were 27 years remaining in the amortization period. For valuations effective June 30 2007, SDCERS' Board of Administration decided to use a 20-year closed amortization schedule with no negative amortization. Beginning with the valuation dated June 30, 2007, the normal cost and UAAL amortization cost will be determined using the Entry Age Normal actuarial method, the result of which will cause the UAAL used in the determination of the fiscal year 2009 ARC to increase by approximately \$252,200.

The following table shows the City's annual pension cost ("APC") and the percentage of APC contributed for the fiscal year ended June 30, 2008 and two preceding years (in thousands):

Fiscal Year Ended June 30	APC	Percentage Contributed	Net Pension Obligation
2006	\$ 175,879	154.28%	\$ 194,720
2007	169,762	99.63%	195,356
2008	145,077	114.82%	173,852

Net Pension Obligation

Net Pension Obligation (NPO) is the cumulative difference, since the effective date of GASB 27 (fiscal year 1998, with a 10-year look back), between the annual pension cost and the employer's contributions to the Plan. This includes the pension liability at transition (beginning pension liability) and excludes short term differences and unpaid contributions that have been converted to pension-related debt. As of June 30, 2008, the City's NPO is approximately \$173,852 and is reported in accordance with GASB 27. See table above.

The change to NPO is derived by first calculating the City's Annual Required Contribution ("ARC"). The ARC is calculated by actuarially determining the cost of pension benefits accrued during the year (normal cost) and adding to that the annual amount needed to amortize the UAAL (amortization cost) as reported by the actuary, in accordance with the amortization period and method selected. The ARC is then increased by interest accruing on any outstanding NPO (NPO Interest) and then reduced by the amortization of the UAAL that is related to the NPO (ARC Adjustment).

The following shows the calculation for NPO based on the actuarial information provided to the City (in thousands):

ARC [Fiscal Year 2008]	\$ 140,107
Interest on NPO	15,644
ARC Adjustment	(10,674)
Annual Pension Cost	<u>145,077</u>
Contributions [Fiscal Year 2008]	<u>(166,581)</u>
Change in NPO	(21,504)
NPO Beginning of Year [July 1, 2007]	195,356
NPO End of Year [June 30, 2008]	<u><u>\$ 173,852</u></u>

Components of the NPO and actions taken to address the Pension Liability

Multiple components have contributed to the City's NPO dating back to fiscal year 1988, including the use of pension assets to pay for costs related to retiree healthcare and employee contribution offset liabilities. Additionally, benefit increases resulting from the Corbett Settlement, which were initially considered contingent, were excluded from the actuarially determined ARC and the City's contributions for the fiscal years 1996-2003 were less than the ARC as a result of MP-1 and MP-2.

As part of the agreements with the labor unions, several benefits were altered or eliminated for all employees hired on or after July 1, 2005, including the Deferred Retirement Option Plan (DROP), the 13th Check, the option to purchase years of service credits ("air-time"), and retiree healthcare benefits; however, the retirement formula generally remains 2.5% at 55 for general members and 3.0% at 50 for safety members. Additionally, the City has contributed approximately \$143, 200¹ in excess of the ARC for the fiscal years 2006 through 2008.

DEFINED CONTRIBUTION PLANS

a. Supplemental Pension Savings Plan - City

Pursuant to the City's withdrawal from the Federal Social Security System effective January 8, 1982, the City established the Supplemental Pension Savings Plan ("SPSP"). Pursuant to the Federal Government's mandate of a Social Security Medicare tax for all employees not covered by Social Security hired on or after April 1, 1986, the City established the Supplemental Pension Savings Plan-Medicare ("SPSP-M"). The SPSP and SPSP-M Plans were merged into a single plan ("SPSP") on November 12, 2004 for administrative simplification, without a change in benefits. Pursuant to the requirements of the Omnibus Budget Reconciliation Act of 1990 ("OBRA-90") requiring employee coverage under a retirement system in lieu of coverage under the Federal Insurance Contributions Act ("FICA") effective July 1, 1991, the City established the Supplemental Pension Savings Plan-Hourly ("SPSP-H"). These supplemental plans are defined contribution plans administered by Wachovia Corporation to provide pension benefits for eligible employees. There are no plan members who belong to an entity other than the City. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings, less investment losses. The City's general retirement members and lifeguard members

¹ The ARCs used to calculate the additional payment of \$143,200 are actuarially determined, and therefore, do not include liabilities related to the Employee Offset Liability (fiscal years 2006 & 2007), the Corbett Settlement (fiscal years 2006 & 2007) or the Preservation of Benefits Plan (fiscal year 2008). However, the City has elected to include these liabilities in addition to the actuarially determined ARC when calculating the NPO. Liabilities excluded from the actuarial ARC but included in the City's NPO calculation amount to approximately \$11,545.

of the City's safety retirement members participate in the plan. Eligible employees may participate from the date of employment.

The following table details plan participation as of June 30, 2008:

<u>Plan</u>	<u>Participants</u>
SPSP	8,359
SPSP – H	4,355

The SPSP Plan requires that both the employee and the City contribute an amount equal to 3% of the employee's total salary each pay period. Participants in the Plan hired before July 1, 1986 may voluntarily contribute up to an additional 4.5% and participants hired on or after July 1, 1986 may voluntarily contribute up to an additional 3.05% of total salary, with the City matching each. Hourly employees contribute 3.75% on a mandatory basis which is also matched by City contributions.

Under the SPSP Plan, the City's contributions for each employee (and interest allocated to the employee's account) are fully vested after five years of continuous service at a rate of 20% for each year of service. Hourly employees are immediately 100% vested. The unvested portion of City contributions and interest forfeited by employees who leave employment before five years of service are used to reduce the City's cost.

In fiscal year 2008, the City and the covered employees contributed approximately \$23,254 and \$23,258, respectively. As of June 30, 2008, the fair value of plan assets totaled approximately \$531,876. SPSP is considered part of the City of San Diego's financial reporting entity and is reported as a pension and employee savings trust fund.

b. **401(k) Plan - City**

The City established a 401(k) Plan effective July 1, 1985. The 401(k) Plan is a defined contribution plan administered by Wachovia Corporation to provide pension benefits for eligible employees. Employees are eligible to participate from date of employment. Employees make contributions to their 401(k) Plan accounts through payroll deductions, and may also elect to contribute to their 401(k) account through the City's Employees' Flexible Benefits Program.

The employees' 401(k) contributions are based on IRS calendar year limits. Employees contributed approximately \$25,666 during the fiscal year ended June 30, 2008. There is no City contribution towards the 401(k) Plan.

As of June 30, 2008, the fair value of plan assets totaled approximately \$237,887. The 401(k) Plan is considered part of the City's financial reporting entity and is reported as a pension and employee savings trust fund.

c. **Pension Plan - Centre City Development Corporation (CCDC)**

CCDC has a Money Purchase Pension Plan covering all full-time permanent employees (the "CCDC Plan"). The CCDC Plan is a defined contribution plan under which benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate on the first day of the month following 90 days after their date of employment. During each year, CCDC contributes semi-monthly an amount equal to 8% of the total quarterly compensation for all employees. CCDC's contributions for each employee are fully vested after six years of continuous service. CCDC's total payroll in fiscal year 2008 was approximately \$4,105. CCDC contributions were calculated using the base salary amount of approximately \$3,754. CCDC made the required 8% contribution amounting to approximately \$288 (net of forfeitures) for fiscal year 2008.

In addition, CCDC has a Tax Deferred Annuity Plan covering all full-time permanent employees. The CCDC Plan is a defined contribution plan under which benefits depend solely on amounts contributed to the plan by the employer and the employees, plus investment earnings. Employees are eligible to participate on the first day of the month following 90 days after their date of employment. During each plan year, CCDC contributes semi-monthly an amount equal to 16% of the total semi-monthly compensation for eligible employees. CCDC's contributions for each employee are fully vested at time of contribution. The Tax Deferred Annuity Plan includes amounts deposited by employees prior to CCDC becoming a contributor to the CCDC Plan. CCDC made the required 16% contribution amounting to approximately \$588 for fiscal year 2008.

The fiduciary responsibilities of CCDC consist of making contributions and remitting deposits collected. The City does not hold these assets in a trustee or agency capacity for CCDC; therefore, these assets are not reported within the City's basic financial statements.

d. **Pension Plan - San Diego Convention Center Corporation (SDCCC)**

SDCCC's Money Purchase Pension Plan (the "SDCCC Plan") became effective January 1, 1986. The SDCCC Plan is a qualified defined contribution plan and as such, benefits depend on amounts contributed to the SDCCC Plan plus investment earnings less allowable plan expenses. The SDCCC Plan covers employees not otherwise entitled to a retirement/pension plan provided through a collective bargaining unit agreement. Employees are eligible at the earlier of the date on which they complete six months of continuous full-time service, or the twelve-month period beginning on the hire date (or any subsequent Plan year) during which they complete 1,000 hours of service.

A plan year is defined as a calendar year. SDCCC's balance for each eligible employee is vested gradually over five years of continuing service with an eligible employee becoming fully vested after five years. Forfeitures and SDCCC Plan expenses are allocated in accordance with Plan provisions. A trustee bank holds the SDCCC Plan assets. The City does not act in a trustee or agency capacity for the SDCCC plan; therefore, these assets are not reported within the City's basic financial statements.

For the year ended June 30, 2008, pension expenditures for the SDCCC Plan amounted to \$1,222. SDCCC records pension expenditures during the fiscal year based upon estimated covered compensation.

e. **Pension Plan - San Diego Data Processing Corporation (SDDPC)**

SDDPC has accrued and set aside funds in a money market account to provide employees who transferred from the City to SDDPC with retirement benefits approximately equal to those under the City's retirement plan. As of June 30, 2008, the balance in the account was \$0.

The balance at June 30, 2008 consisted of the total estimated liability plus interest earned on the account since its establishment in fiscal year 1991.

In addition, SDDPC has in effect a Money Purchase Pension Plan (the "SDDPC Plan") covering substantially all employees. The SDDPC Plan is a defined contribution plan, wherein benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. During each plan year, SDDPC contributes monthly an amount equal to 20% of the total monthly compensation for all employees. SDDPC contributions for each employee are fully vested after four years of continuing service. The City does not act in a trustee or agency capacity for the SDDPC Plan; therefore, these assets are not reported within the City's basic financial statements. In fiscal year 2008, SDDPC made the

required 20% contribution, amounting to approximately \$3,694.

SDDPC also administers a Tax Sheltered Annuity Plan, a voluntary defined contribution plan covering all employees of SDDPC who are eligible for membership as defined by the plan document. There are no employer contributions to this plan.

f. **Pension Plan - San Diego Housing Commission (SDHC)**

SDHC provides pension benefits for all its full-time employees through a defined contribution plan (the "SDHC Plan"). In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate on the first day of their employment. SDHC's contributions for each employee (and interest allocated to the employee's account) are fully vested after four years of continuous service. SDHC's contributions for, and interest forfeited by, employees who leave employment before four years of service are used to reduce the SDHC's current-period contribution requirement. SDHC's covered payroll in fiscal year 2008 was approximately \$11,507. SDHC made the required 14% contribution, amounting to approximately \$1,611 for fiscal year 2008. The City does not act in a trustee or agency capacity for the SDHC Plan; therefore, these assets are not reported within the City's basic financial statements.

g. **Pension Plan - Southeastern Economic Development Corporation (SEDC)**

SEDC has a 403(b) Tax Sheltered Annuity Plan covering all full-time permanent employees (the "SEDC Plan"). The SEDC Plan is a defined contribution plan administered by James Kerr & Associates, Inc and Morgan Stanley Dean Witter is the investment advisor. Per provision 210(6) of the SEDC Employee Handbook, employees are eligible to participate six months after their date of employment, and SEDC contributes a monthly amount equal to 12% of the employees' base salary, or 15% of management employees' base salary. Such contributions are fully vested upon contribution. SEDC's total payroll in fiscal year 2008 was approximately \$1,170. SEDC contributions were calculated using the eligible salary amount of approximately \$1,033. SEDC made the required contribution, amounting to approximately \$136 for fiscal year 2008. SEDC Plan members contributed an additional \$4.

13. OTHER POSTEMPLOYMENT BENEFITS (In Thousands)

a. Plan Description

The City provides postemployment healthcare benefits to qualifying general, safety and legislative members, as provided for in San Diego Municipal Code (SDMC) Sections 24.1201 through 24.1204. The Other Postemployment Benefit Plan (the "OPEB Plan") is a single-employer plan, administered by SDCERS, and includes approximately 4,700¹ retirees, 9,300¹ active employees and 600¹ terminated vested members as of June 30, 2008. Postemployment healthcare benefits are primarily for health eligible retirees who were actively employed on or after October 5, 1980 and were otherwise entitled to retirement allowances. Health eligible retirees can obtain health insurance coverage with the plan of their choice, including any City sponsored, union sponsored, or privately secured health plan. In fiscal year 2008, health eligible retirees who were also eligible for Medicare are entitled to receive reimbursement/payment of healthcare premiums, limited to approximately \$7.8 per year, in addition to reimbursement/payment for Medicare Part B premiums, limited to approximately \$1.1 per year. Health eligible retirees who are not eligible for Medicare are entitled to receive reimbursement/payment of healthcare premiums, limited to approximately \$8.3 per year. Reimbursements for health eligible retirees are adjusted annually based upon the projected increase for National Health Expenditures by the Centers for Medicare and Medicaid Services. Annual adjustments may not exceed 10% for any plan year. Non-health eligible employees who retired or terminated prior to October 6, 1980 and who are otherwise eligible for retirement allowances are also eligible for reimbursement/payment of healthcare benefits limited to a total of \$1.2 per year. Reimbursements for non-health eligible retirees are not subject to annual adjustments.

As of July 1, 2005, the City's postemployment healthcare benefit plan is closed to new entrants. However, SDCERS has asserted that due to delays in codification of benefit changes into the Municipal Code, the effective cut off date would instead be February 16, 2007, which is when the Ordinance O-19567 was officially codified in the Municipal Code. As of the issuance of this report, there has been no change in the status of this case [refer to Note 18 for additional information].

Effective July 1, 2009, the City has agreed to establish a trust vehicle for a defined contribution plan to fund retiree medical benefits for employees who are excluded from the current plan. This defined contribution plan requires a mandatory employee contribution of 0.25% of gross salary with a corresponding 0.25% match by the City. Legislative and Safety members are ineligible for this plan. Additionally, as part of the agreements with the labor unions, the new definition of "health-eligible retiree" states that employees must have 10 years of service with the City to receive 100% of the retiree health benefit and five years of service to receive 50% of the retiree health benefit.

b. Summary of Significant Accounting Policies

Basis of Accounting - The postemployment healthcare trust funds use the economic resources measurement focus and the accrual basis of accounting. Contributions are recognized as additions in the period in which the contributions are due and a formal commitment to provide the contributions has been made. Benefits and refunds are recognized when due and payable in accordance with the OPEB Plan.

Method Used to Value Investments - CalPERS investments are stated at fair value. Certain construction projects and alternative investments are reported at cost, which approximates market value. Mortgages are valued on the basis of their future principal and interest payments discounted at prevailing interest rates for similar instruments. The fair value of real estate investments, principally rental property subject to long-term net leases, is estimated based on independent appraisals.

¹ Reported as a whole number.

c. Contributions and Reserves

In accordance with SDMC Section 24.1204, postemployment healthcare benefits are to be paid by the City, directly, from any source available to it other than the Pension Plan. Members of the OPEB Plan do not have contribution requirements related to their own coverage; however, retirees are required to pay for the benefits of their beneficiaries (amounts vary based on coverage elections). In fiscal year 2008, the City contributed \$18,369 to the Post-Employment Healthcare Benefit Plan, which is administered by SDCERS, and used approximately \$5,055 of contributions from prior years to fund the pay-as-you-go expenses for postemployment health benefits.

In addition to current retirees and beneficiaries, the OPEB Plan includes active and terminated vested members, and therefore, the City also pre-funds future expenses related to postemployment healthcare benefits through an investment trust administered by CalPERS. The CalPERS Employers Retirement Benefits Trust (CERBT) requires the City to pre-fund in an amount not less than \$5 annually. An ARC for the OPEB Plan is calculated by the City's actuary on an annual basis. City management plans to continue funding current year postemployment healthcare benefits from the pay-as-you-go trust established with SDCERS until the City is able to pay the ARC in full. Additionally, City management intends to pre-fund the CERBT with approximately \$25,000 on an annual basis, which is also outlined in the City's Five Year Financial Outlook. All contributions to the CERBT become trust assets.

The City contributed approximately \$30,129 and \$23,911 to the CERBT for fiscal years 2008 and 2009, respectively. As of December 31, 2008, the balance in the CERBT was approximately \$39,658. This balance is inclusive of the contributions for fiscal years 2008 and 2009 as well as of investment losses amounting to approximately \$14,366 and administrative expenses of approximately \$16.

d. Funded Status and Funding Progress

The following table summarizes the OPEB Plan's funding status as of the most recent valuation date:

Schedule of Funded Status						
Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as % of Covered Payroll ((b-a)/c)
06/30/08	\$ 29,637	\$ 1,235,707	\$ 1,206,070	2.40%	\$ 556,857	216.59%

The schedules presented as required supplementary information following the notes to the financial statements present information regarding the funding status and employer contributions as of the end of the transition year (multi-year trend information will be included with the basic financial statements following the year of implementation). The Schedule of Funding Progress is intended to present information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. The Schedule of Employer Contributions is intended to present trend information about the amounts contributed to the OPEB Plan by employers in comparison to the ARC determined in accordance with the parameters of GASB 43. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation. Additionally, actuarial calculations reflect a long-term perspective and include methods and assumptions that are designed to

reduce short-term volatility of actuarial accrued liabilities and the actuarial value of assets. The following table summarizes the more significant actuarial methods and assumptions used to calculate the ARC for the fiscal year 2006, 2007 and 2008 valuations:

<u>Description</u>	<u>Method/Assumption</u>
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Dollar
Remaining Amortization Period	30 years, open
Actuarial Asset Valuation Method	Fair Value
Discount Rate	6.68 % - 6.69%*
Inflation Rate	N/A**
Projected Payroll Increases	N/A**
Health Care Cost Trend Rate	10% grading down 0.5% each year to 5%

* Determined as a blended rate based on the City's partial contributions to the Plan.

** Postemployment healthcare benefits are not based on inflation or payroll, but rather are determined based on the Health Care Cost Trend Rate.

Source: Buck Consultants

e. Other Postemployment Benefit Cost and Net OPEB Obligation (NOPEBO)

The following table presents the annual OPEB cost, the percentage of annual OPEB cost contributed during the fiscal year, and the net OPEB obligation at the end of the transition year:

Fiscal Year Ended	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
06/30/08	\$ 91,346	58.63%	\$ 37,793

As the administrator of the OPEB Plan, the City implemented GASB Statements 43 and 45 in fiscal year 2008 and elected to report a zero net OPEB obligation at the beginning of the transition year. The following table shows the calculation of the City's net OPEB obligation of the OPEB Plan for the fiscal year ended June 30, 2008 (based on the valuation ended June 30, 2006):

ARC [Fiscal Year 2008]	\$ 91,645
Interest on NOPEBO	-
Other Adjustments	(299) ¹
Annual OPEB Cost	91,346
Contributions [Fiscal Year 2008]	(53,553)
Change in NOPEBO	37,793
NOPEBO Beginning of Year [July 1, 2007]	-
NOPEBO End of Year [June 30, 2008]	\$ 37,793

¹ Other adjustment represents the Net OPEB Obligation that was not reported in SDCERS' financial statements in fiscal year 2008. This amount, however, will be included in SDCERS' financial statements in fiscal year 2009.

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14. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS (In Thousands)

Interfund Working Capital Advance (WCA) balances are the result of loans between funds that are expected to be repaid in excess of one year. The majority of the advances, approximately \$7,733, are advances from the Housing and Urban Development (HUD) Section 108 and Naval Training Center Section 108 grant funds to RDA. Interfund WCA balances at June 30, 2008 are as follows:

Contributing Fund (Receivable)	Benefitting Fund (Payable)	
	NonMajor Governmental	
NonMajor Governmental	\$	8,333

Interfund receivable and payable balances are the result of loans between funds that are expected to be repaid during the next fiscal year. \$6,710 represents amounts owed to SDDPC for data processing services provided to the City but not paid for until July 2008, and \$6,000 represents a loan from the Main Library Fund to the 6 to 6 grant fund, in order to fund the after school program. Interfund receivable/payable balances at June 30, 2008 are as follows:

Contributing Fund (Receivable)	Benefitting Fund (Payable)						Total
	General Fund	NonMajor Governmental	Internal Service	Sewer Utility	Water Utility	Nonmajor Enterprise	
General Fund	\$ -	\$ -	\$ 1,600	\$ -	\$ -	\$ -	\$ 1,600
Nonmajor Governmental	-	5,963	1,386	-	-	-	7,349
Nonmajor Enterprise	-	4,073	-	-	-	-	4,073
Internal Service	2,479	1,191	311	1,206	1,242	281	6,710
Total	\$ 2,479	\$ 11,227	\$ 3,297	\$ 1,206	\$ 1,242	\$ 281	\$ 19,732

The Sewer Utility Fund has an interfund loan receivable of \$3,487, and the Black Mountain Ranch FBA Fund, a capital projects fund, has a corresponding interfund payable of \$3,487 for advanced FBA project funding. The Sewer Fund agreed to finance the Carmel Valley Trunk Sewer project to facilitate earlier construction, of which a portion was deemed the responsibility of the Carmel Valley area developers and is intended to be reimbursed in fiscal year 2010 from FBA Fund assessment revenue.

PFFA issued pooled financing bonds, Series 2007 A and B for the purpose of making loans to RDA to be used for financing and refinancing redevelopment activities in the Southcrest, Central Imperial, and Mount Hope Redevelopment Project Areas. The PFFA debt service fund has an interfund loan receivable of \$34,115 and the Redevelopment Agency Fund has an aggregate interfund loan payable of \$34,115. Since these loans are between governmental funds, the interfund receivable and payable are eliminated through the government-wide conversion.

Interfund transfers result from the transfer of assets without the expectation of repayment. Transfers are most commonly used to (1) move revenues from the fund in which it is legally required to collect them into the fund which is legally required to expend them, including TOT, Storm Drain, and TransNet funds collected in said funds but legally spent within the General Fund, (2) utilize unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds, in accordance with budgetary authorizations, and (3) move tax revenues collected in the special revenue funds to capital projects and debt service funds to pay for the capital projects and debt service needs during the fiscal year.

During fiscal year 2008 there was a transfer of leased vehicles from the General Fund to Fleet Services (Internal Service). This was the result of a Business Process Reengineering which consolidated the City Fleet for Police and Fire with non-safety. \$21,230 in capital assets was transferred from the General Fund to Fleet Services, as well as \$6,264 in outstanding debt related to the leased assets.

Interfund transfer balances at June 30, 2008 are as follows:

Contributing Fund	Benefiting Fund							Total
	General Fund	Nonmajor Governmental	Sewer Utility	Water Utility	Nonmajor Enterprise	Internal Service	Governmental Capital Asset/ Capital Lease Transfers	
General Fund	\$ -	\$ 46,470	\$ -	\$ -	\$ 188	\$ 5,170	\$ -	\$ 51,828
Nonmajor Governmental	94,562	312,658	7	716	1,180	2,495	-	411,618
Sewer Utility	-	1,745	-	180	-	1,034	3,840	6,799
Water Utility	-	834	-	-	-	93	-	927
Nonmajor Enterprise	1,604	540	-	-	-	237	165	2,546
Internal Service	4,292	1,358	714	398	349	-	6,264	13,375
Governmental Capital Asset/ Capital Lease Transfers	-	-	2	3,151	9	21,230	-	24,392
Total	\$ 100,458	\$ 363,605	\$ 723	\$ 4,445	\$ 1,726	\$ 30,259	\$ 10,269	\$ 511,485

15. RISK MANAGEMENT (In Thousands)

The City is exposed to various risks of loss related to torts, including theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The City has established various self-insurance programs and maintains contracts with various insurance companies to manage excessive risks.

The City maintains an excess liability insurance policy in collaboration with a statewide joint powers authority risk pool, the California State Association of Counties-Excess Insurance Authority (CSAC-EIA) for amounts up to \$50,000. The City's self-insurance retention amount is \$5,000.

The City offers a cafeteria-style flexible benefits plan. For Municipal Employees' Association (MEA) and Local-127 represented employees, this plan requires employees to choose a health and life insurance plan and also gives employees the option of obtaining dental insurance, vision insurance, or catastrophic care insurance. For all other employees, \$50 of City-paid life insurance is automatically provided outside of the flexible benefit credit. Employees can place remaining flexible benefit dollars into IRS qualified dental/medical/vision and childcare reimbursement accounts, into their 401(k), and/or take as cash.

The City is self-insured for workers' compensation and long-term disability (LTD). All operating funds of the City participate in both these programs and make payments to the Self Insurance Fund. Each fund contributes an amount equal to a specified rate multiplied by the gross salaries of the fund. These payments are treated as operating expenditures in the contributing funds and operating revenues in the Self Insurance Fund.

Public liability, workers' compensation, and long-term disability estimated liabilities as of June 30, 2008 are determined based on results of independent actuarial evaluations and include amounts for claims incurred but not reported and adjustment expenses. Claims liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economic and social factors. Estimated liabilities for public liability claims have been recorded in the Self Insurance Fund, Sewer Utility Fund, and Water Utility Fund.

A reconciliation of total liability claims, for all three funds, showing current and prior year activity is presented below:

	Public Liability	Workers' Comp & Long-Term Disability	Total
Balance, July 1, 2006	\$ 85,409	\$ 167,452	\$ 252,861
Claims and Changes in Estimates	50,667	31,753	82,420
Claim Payments	<u>(31,832)</u>	<u>(23,407)</u>	<u>(55,239)</u>
Balance, June 30, 2007	104,244	175,798	280,042
Claims and Changes in Estimates	35,902	17,167	53,069
Claim Payments	<u>(28,043)</u>	<u>(22,381)</u>	<u>(50,424)</u>
Balance, June 30, 2008	<u>\$ 112,103</u>	<u>\$ 170,584</u>	<u>\$ 282,687</u>

The City, in collaboration with CSAC-EIA, maintains an "All Risk" policy which includes flood and earthquake coverage for scheduled locations for amounts up to \$25,000 per occurrence under the primary policy, with a \$25 deductible. Limits include coverage for business interruption losses for designated lease-financed locations. There is no sharing of limits among the City and member counties of the CSAC-EIA pool, unless the City and member are mutually subject to the same loss. Limits and coverage may be adjusted periodically in response to the requirements of bond financed projects, acquisitions, and in response to changes in the insurance marketplace.

Earthquake coverage is provided for designated buildings/structures and certain designated City lease-financed locations in the amount of \$60,000, including coverage for business interruption caused by earthquake at certain designated locations. Earthquake coverage is subject to a deductible of 5% of total values per unit per occurrence, subject to a \$100 minimum. 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 individual earthquake occurrence. 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.

The City is a public agency subject to liability for the dishonest 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 \$10,000 per occurrence, subject to a \$25 deductible.

During fiscal year 2008, there were no significant reductions in insurance coverage from the prior year. For each of the past three fiscal years, the settlements have not exceeded insurance coverage.

See Contingencies, Note 18, for additional information.

16. FUND BALANCE / NET ASSETS (DEFICIT) (In Thousands)

The Grants Fund (Special Revenue) has a net deficit of approximately (\$5,024), due to the large number of reimbursement grants accounted for within this fund. With reimbursement grants, the resources remain the property of the grantor until allowable costs are incurred. The grants revenues are recognized as soon as all eligibility criteria have been met and the amounts become available. This results in a deficit fund balance in these funds.

Development Services (Enterprise) has a net deficit of approximately (\$836), due to a decline in permit revenue as a result of the deteriorating economy and also because of a waiver for wildfire victims allowing them to pull permits without cost. The waiver impact will be reimbursed to Development Services by the General fund in fiscal year 2009.

The Self Insurance Fund (Internal Service) has a net deficit of approximately (\$176,851), which represents unfunded estimated claims and claim settlements related to Public Liability, Workers' Compensation, and Long-Term Disability. It is anticipated that individual claim settlements will be funded through future user charges subsequent to the filing of a claim and prior to its settlement. In addition to user charges, in January 2008 the Mayor's office presented a five-year financial outlook to the City Council that outlines a proposal to fund the Self Insurance Fund by contributing an additional \$5,000 to the Public Liability Reserves in fiscal year 2008, \$10,000 in fiscal year 2009, and an additional \$5,000 to workers compensation in fiscal year 2009. On November 13, 2007, the City Council also approved the formal City Reserve Policy. This policy contains a "Risk Management Reserve Policy" for the self insurance funds. Both the Public Liability and Worker's Compensation funds shall maintain dedicated reserves equal to 50% of the outstanding claims. This is to be achieved no later than fiscal year 2014. However, due to the continued decline in the economy, and a reduction in General Fund revenues, the City will reassess this reserve policy during fiscal year 2009. The Long-Term Disability fund reserve was set to be \$12,000 by fiscal year 2012 as recommended in the actuarial valuation report.

Publishing Services (Internal Service) has a net deficit of (\$750), due to a decline in work production, and outdated pricing for services which are not fully cost recoverable. Publishing Services has restructured their rates to ensure full cost recovery.

Special Engineering (Internal Service) has a net deficit of (\$2,451) which is primarily the result of the net pension costs incurred in the fund. Rates will be restructured to address full cost recovery.

17. COMMITMENTS (In Thousands)

As of June 30, 2008, the City's business-type activities contractual commitments are as follows:

Airports	\$ 1,996
Environmental Services	4,996
Sewer Utility	53,721
Water Utility	86,169
Other	2,382
Total Contractual Commitments	<u>\$ 149,264</u>

The contractual commitments are to be financed with existing reserves and future service charges. In addition, the Sewer and Water Utility Funds intend to finance the contractual commitments with existing reserves, future service charges, and financing proceeds secured by system revenues.

Consent Decree

On April 2, 2001, two environmental groups filed suit against the City alleging that the Municipal System's collection system was deficient as a result of sewer spills from December 1996 to the time of the filing. The complaint sought injunctive relief to prevent illegal discharges, a compliance schedule to upgrade the Municipal System's collection system, and civil penalties of \$27.5 per day for each day of a violation. The City contested the plaintiffs' claims.

The U.S. Environmental Protection Agency (EPA) and the State also filed suits against the City alleging the same collection system violations, seeking unspecified penalties and injunctive relief for collection system improvements. All three cases were consolidated. On March 16, 2005, the City settled the State lawsuit for \$1,200. Of this total, \$1,000 funded three supplemental environmental projects to benefit the local environment, and \$200 was deposited in the State's Cleanup and Abatement Account.

The EPA, the City and the environmental groups reached an agreement on additional requirements to reduce sewer spills, which are set forth in a Consent Decree (the "Consent Decree"). The Consent Decree requires increased sewer spill response and tracking, increased root control, replacement or rehabilitation of 250 miles of pipeline, a canyon economic and environmental analysis, pump station and force main upgrades, and entails court supervision of these upgrades at least through June 2013. The estimated average annual cost of this commitment is \$108,000 per year in capital projects and \$47,000 per year in operational maintenance to the sewer system through the term of the settlement; however, the costs for bidding, constructing and completing the required work will fluctuate depending on variables such as changes in the cost of materials and labor. No civil penalty payment was required, though stipulated penalties ranging from \$375 (in whole dollars) to \$20,000 (in whole dollars) per occurrence are included for subsequent violations of the Consent Decree. The Consent Decree was approved by the Court on October 9, 2007, settling all remaining issues in the case.

Four sewer rate increases were approved for fiscal year 2007 through fiscal year 2010 to partially fund the obligations of the Consent Decree. However, additional rate increases will be necessary (likely beginning in year 2011) to completely fund the Consent Decree. The City funds the Capital Projects in the Consent Decree through the issuance of notes and bonds which are repaid by the sewer system's revenues.

California Department of Public Health Compliance Order

In 1994, the City of San Diego entered into a compliance agreement with the State of California Department of Public Health ("DPH") with the approval of City Council, after the DPH Drinking Water Field Operations Branch conducted a sanitary survey of the City's water system. This agreement required the City to correct operational deficiencies and begin necessary capital improvements. The City was notified in January of 1997 that it was not in compliance with this agreement. At that time, the DPH issued a compliance order. The January 1997 Compliance Order was last amended in May of 2007 ("Amendment 11"), and included additional items that were not in the original Compliance Order. The DPH Compliance Order will remain in effect until the required projects are completed.

Presently, the Water Department is meeting all of the requirements of the DPH Compliance Order, including the ongoing obligation to provide DPH with quarterly progress reports. On February 26, 2007, the City authorized an increase in water rates and charges to continue funding projects mandated in the DPH Compliance Order as well as other Capital Improvement Program projects. In addition, on October 8, 2007 and on November 17, 2008, the City authorized "pass-through" rate increases to account for the higher cost of water purchased from the San Diego County Water Authority. The pass-through rate increases took effect on January 1, 2008 and January 1, 2009, respectively and will help preserve the funds previously committed to DPH Compliance Order projects. In conjunction with the November 17, 2008 approval of the January 1, 2009 pass-through rate increase, the City also approved a rate increase to cover the cost of an indirect potable reuse demonstration project. This increase also took effect January 1, 2009 and is anticipated to sunset on July 1, 2010 at which time sufficient revenue is expected to have been generated to offset the costs of the project.

DPH has the authority to impose civil penalties if the City fails to meet DPH Compliance Order deadlines, although DPH has not imposed such penalties to date. Violation of the DPH Compliance Order may be subject to judicial action, including civil penalties specified in California Health and Safety Code, Section 116725. Section 116725 penalties for violating a schedule of compliance for a primary drinking water standard can go as high as \$25,000 (in whole dollars) per day for each violation; for violating other standards, such as turbidity, the penalties can reach \$5,000 (in whole dollars) per day. There are a number of additional enforcement tools prescribed by law, including mandatory water conservation, litigation and service connection moratoriums.

The costs for bidding, constructing and completing the required work will fluctuate depending on variables such as changes in the cost of materials and labor. As of June 2008, the Water Department's DPH Compliance Order project and DPH related project costs approximate:

<u>Total Projects</u>	<u>FY08 Actuals</u>	<u>FY09 - FY11</u>	<u>FY12 - FY19</u>	<u>TOTAL</u>
DPH & EPA Requirements	\$ 47,089	\$ 254,543	\$ 216,279	\$ 517,911
DPH Related Projects	\$ 602	\$ 133,471	\$ 296,286	\$ 430,359

These commitments are to be financed with existing net assets, present and future revenues, and financing proceeds secured by system revenues.

Convention Center Dewatering

The City is responsible for the disposition and monitoring of the quality of groundwater from the parking structure at the San Diego Convention Center located adjacent to San Diego Bay. The Convention Center includes a subterranean parking garage, which is subject to infiltration of groundwater, much of which originates from the bay. This groundwater must be continually pumped from the parking structure to prevent it from being inundated. Approximately 500,000 gallons of groundwater is pumped daily from the parking structure. Until March 26, 2008, this water was discharged into San Diego Bay. The City held a National Pollutant Discharge Elimination System ("NPDES") permit for the discharge, issued by the Regional Water Quality Control Board ("RWQCB"). The discharge had been failing to consistently meet water quality standards set forth in the permit, potentially exposing the City to fines and penalties of up to \$25,000 (in whole dollars) per day.

Monthly groundwater discharge sample results have not met the standards dictated by the NPDES permit since the end of calendar year 2005. This triggered the implementation of work to cease effluent violations within 27 months (from the end of March 2008), pursuant to an order of the RWQCB.

To achieve compliance with groundwater discharge requirements, the City retained an engineering consultant in fiscal year 2006 to review all previous work and develop the most cost-effective engineering solution to achieve compliance. The consultant's final report was received in August 2007. This report determined that the most cost effective method to comply with the RWQCB Order in the near term was to divert the discharge from the bay to the sewer system. The City's operating costs for implementing this solution is estimated to be \$709,488 (in whole dollars) for fiscal year 2009, with subsequent annual increases for operational and sewer service charges. There is also a one-time sewer capacity charge of \$5,904,930 (in whole dollars) that is due after the first year of diversion to the sewer. Funding is the responsibility of the City's Special Promotional Fund.

The City of San Diego established the diversion to the sewer effective March 26, 2008 in compliance with the RWQCB Order. The City has requested permission from the EPA to make diversion of the groundwater into the sewer system permanent. As of the issuance of this report, the EPA is considering this request.

18. CONTINGENCIES (In Thousands)**FEDERAL AND STATE GRANTS**

The City recognizes as revenue grant monies received as reimbursement for costs incurred in certain Federal and State programs it administers. Although the City's Federal grant programs are audited in accordance with the requirements of the Federal Single Audit Act of 1984, the Single Audit Act Amendments of 1996 and the related U.S. Office of Management and Budget Circular A-133, these programs may be subject to financial and compliance audits by the reimbursing agencies. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. The Single Audit for fiscal year 2007 was completed by Macias Gini & O'Connell LLP and is currently in the process of being received and filed by the City Council. The Single Audit for fiscal year 2008 is in process.

The Office of the Inspector General (OIG) audited the City's Community Development Block Grant (CDBG) program, specifically CDBG loans to RDA, and on December 30, 2008, OIG issued its audit report to HUD, Office of Community Planning and Development (OPD). In addition to other findings, OIG determined that the City failed to execute loan agreements and repayment schedules for the CDBG loans issued to RDA that include a principal balance of \$63,000 and an accumulated interest of approximately \$76,000, totaling \$139,202 in loans outstanding. The OIG audit report recommended that HUD require the City to execute written interagency agreements and loan agreements with RDA for these outstanding loan amounts. The City is currently in discussions with HUD on the audit findings and any actions HUD may require of the City, including the possible repayment by the City of certain CDBG funds. Depending on the outcome of the City's negotiations with HUD, repayment of the loans by RDA could impact RDA's liquidity. These loans are reported as a component of loans payable and accrued interest payable to the City in the long-term liabilities footnote of the Redevelopment Agency Financial Statements with an "unscheduled" maturity date. These loans do not appear in the City's CAFR as they represent interfund loans between two governmental funds in which repayment is not expected in a reasonable amount of time. Therefore, these loans are reported as interfund transfers in the fund level statements, and then eliminated as interfund activity in the government wide statements per GASB 34.

CONTINUING DISCLOSURE OBLIGATIONS

The City, in connection with all bond offerings since the effective date (July 1995) of the continuing disclosure requirements of SEC Rule 15c2-12, has contractually obligated itself to provide annual financial information, including audited financial statements, within certain specified time periods (generally nine months) after the end of each fiscal year. Due to the unavailability of audited financial statements, the City was not able to satisfy its contractual obligations to provide to the national repositories certain annual financial information and operating data for fiscal years 2003 through 2007 on a timely basis. At the time of each deadline, the City, as required by its continuing disclosure contractual obligations, provided to the national repositories a notice of the failure to file the annual financial information and operating data. Each required annual report and the audited financial statement was subsequently filed.

SEC ACTIONS

In November 2006, the Securities and Exchange Commission (SEC) entered an Order sanctioning the City of San Diego for committing securities fraud by failing to disclose, in 2002 and 2003, material information about its pension and retiree health care obligations in connection with disclosures relating to the sale of its municipal bonds. To settle the action, the City agreed to cease and desist from future securities fraud violations and to retain an independent consultant for three years to foster compliance with its disclosure obligations under the federal securities laws. The

SEC's investigation with respect to the City's misleading disclosures may be ongoing as to individuals and other entities that may have violated the federal securities laws.

The SEC Order sanctioning the City of San Diego for committing securities fraud is available at: www.sec.gov

REMEDIATION OF CITY DISCLOSURE DEFICIENCIES

The City adopted the Disclosure Ordinance which created the Disclosure Practices Working Group composed of City officials and outside disclosure counsel to review the form and content of all financial disclosures by the City and its related entities and a finance and disclosure unit within the City Attorney's Office. Pursuant to the Ordinance (as amended), the Chief Financial Officer is required to annually review and report on internal controls within the City. In addition, mandatory training is required for City staff and officials, including the City Council and Mayor, regarding their obligations under federal and state securities laws.

Further reforms were proposed by the Mayor. A monitor, who also serves as the Independent Consultant pursuant to the Order, was appointed on January 26, 2007, to oversee the implementation of the Mayor's remediation plan. Structural changes were made to the City's Finance Department to enhance accountability to the City's Chief Financial Officer. The City Council amended the Municipal Code to create an Audit Committee comprised of three Councilmembers, which provides legislative oversight of the City's accounting and financial reporting processes and internal audit function.

In Fall 2007, an Internal Auditor was appointed by the Mayor, in consultation with the Audit Committee. Proposition C, approved on June 3, 2008, established that the City Auditor will report to a newly restructured Audit Committee. The City has also retained an independent actuary, as needed, to provide periodic analysis of SDCERS' actuarial reporting and of the fiscal impact of pension and benefit related decisions.

An ordinance imposing criminal penalties for City employees who improperly influence the City's outside consultants has not been presented to the City Council for consideration. Changes to the City Charter to enhance the independence of both the Internal Auditor and the Audit Committee were approved with the passage of Proposition C (Prop C) in the June 3, 2008 election and are discussed in more detail in Note 1.

INDEPENDENT CONSULTANT'S REPORTS

The Independent Consultant required by the SEC Order has several specific mandates. Among these are annual reviews, for a three year period, of the City's policies, procedures and internal controls regarding financial disclosures. The Independent Consultant is also required to make recommendations concerning the City's policies, procedures and internal controls and to assess the City's adoption and implementation of these recommendations

On March 25, 2008 the Independent Consultant issued his first annual report to the City of San Diego which was received by the City Council on April 1, 2008. This report focused solely on the City's ongoing disclosure efforts and future compliance with disclosure obligations under federal securities laws. His recommendations are summarized below:

- Reconstitute the Audit Committee to be independent from financial management, which has the requisite expertise to perform its oversight functions, and has a sufficient relationship with the City Council to engender its confidence in view of the Council's role in the City's financial reporting. This recommendation was consistent with the June 3, 2008 Prop C charter revision which approved an Audit Committee

consisting of two Councilmembers, one of whom would be chair, and three public members who must have at least 10 years of professional finance experience.

- Creation of an internal audit department separate from the Auditor and Comptroller's Office which directly reports to the Audit Committee. This recommendation was implemented with the approval of Prop C.
- Significantly increase staffing of the internal audit department.
- Involve the Audit Committee with hotline activity involving improper financial conduct and fraud.
- Establish a clear Chief Financial Officer position in the City Charter. This recommendation was implemented with the approval of Prop C.
- Better integrate and coordinate ERP and Internal Controls over Financial Reporting (ICFR) process to align objective and maximize resources. Devote additional resources to the ICFR process, and develop period end financial reporting routines. Also, report quarterly to the Audit Committee on the progress of these efforts.
- There were also several recommendations regarding the Audit Committee's procedures over CAFR review; consideration of a shelf-like disclosure system with the DPWG; review of the DPWG practices and functions; and others.

The complete report is available at: www.sandiego.gov.

STATUS OF INTERNAL CONTROLS OVER FINANCIAL REPORTING

The plan to improve the City's internal controls over financial reporting includes the implementation of an enterprise resource planning (ERP) system during fiscal year 2010 to improve the way the City manages finances and the processes and internal controls involved in the City's accounting, financial reporting, and human resources functions. As of December 31, 2008, implementation of the internal controls over financial reporting efforts is approximately 4% complete, with much of the balance tied to the implementation of the ERP system. The City has extended the implementation date, initially from November 2008 to April 2009 and most recently to July 1, 2009 for financials and logistics, October 1, 2009 for payroll and December 31, 2009 for accounts receivable.

LITIGATION AND REGULATORY ACTIONS

The City is a defendant in lawsuits pertaining to material matters, including claims asserted which are incidental to performing routine governmental and other functions. This litigation includes but is not limited to: actions commenced and claims asserted against the City arising out of alleged torts; alleged breaches of contracts; alleged violations of law; and condemnation proceedings. The City has received approximately 2,300 notices of claims in fiscal year 2008.

The estimate of the liability for unsettled claims has been reported in the Government-Wide Statement of Net Assets and the Proprietary Funds financial statements. The liability was estimated by categorizing the various claims and supplemented by information provided by the City Attorney with respect to certain large individual claims and proceedings. The recorded liability is the City's best estimate based on available information.

Significant individual lawsuits are described below.

SDCERS v. City of San Diego

In 1996 and 2002, SDCERS, the City and various labor unions entered into agreements wherein the City of San Diego contributed less to the pension system than what was the actuarially required contribution while also increasing pension benefits. SDCERS has filed a complaint claiming the benefits are legal and should continue to be paid by the City. The City Attorney filed a cross-complaint alleging the benefits were not legal; however, that case was dismissed by Judge Barton in January 2007. SDCERS filed a compulsory cross-complaint against the City, seeking damages in an amount equivalent to what the City should have contributed to the pension system in the absent the funding relief granted by earlier management agreements MP-1 and MP-2. The City does not currently have an estimate of the range, if any, potential loss in the event of an adverse ruling.

City v. SDCERS

On October 15, 2007, the City filed a lawsuit concerning the effective date of certain benefit changes arising from the 2005 MOU entered into between the City and four of its collective bargaining units. The City contends the effective date of the benefit changes is July 1, 2005; however, the defendants contend the effective date is February 16, 2007 when the Municipal Code change was codified by O-19567. In the event of an adverse ruling, the liability facing the City is estimated to be in the range of \$0 - \$5,000.

Ernest Abbit, etc. v. City of San Diego

Plaintiffs, residents of the De Anza Mobilehome Park, filed a lawsuit alleging violations of the California Mobilehome Residency laws for management abuses and individual tort claims. In the event of an adverse ruling, the liability facing the City is estimated to be in the range of \$0 - \$19,000.

Wayne Akeson, et al. v. City of San Diego

On August 6, 2006, a lawsuit arose following a water main break which caused flooding along a private street in the Colony Hills Homeowners Association (HOA) in La Jolla. Claimants allege the water main failure caused soil subsidence, hillside failure, road failure and diminished property values of 40 HOA homes. In the event of an adverse ruling, the liability facing the City is estimated to be in the range of \$0 - \$45,000.

Sunroad v. City of San Diego

City filed a nuisance abatement action against Sunroad for construction of 180 foot building into federally controlled airspace. Sunroad filed a cross-complaint claiming inverse condemnation. In the event of an adverse ruling, the liability facing the City is estimated to be in the range of \$0 - \$45,000.

Janet Wood v. City of San Diego

Plaintiff filed suit against the City claiming women and unmarried retirees receive less benefits than others. In the event of an adverse ruling, the liability facing the City is estimated to be in the range of \$0 - \$2,000.

Frazier, Patricia, et al v. City of San Diego

This is an action by former City employees who are now defendants to a civil action by the SEC. Plaintiffs seek a declaratory judgment in the form of an order from the courts for the City to defend and indemnify Plaintiffs. In the event of an adverse ruling, the liability facing the City is estimated to be in the range of \$0 - \$3,000.

San Diego Police Tow operators v. City of San Diego

This case was brought by the towing companies under contract with the City, and alleges that the City is charging them "franchise fees" that exceed the amount permitted to be charged under the California Vehicle Code. In the event of an adverse ruling, the liability facing the City is estimated to be in the range of \$0 - \$14,000.

Weisblat, et al v. City of San Diego

Plaintiffs are rental property owners in San Diego that are claiming a processing fee is in reality an illegal tax because the fee was not approved by the voters as required by Proposition 218. In the event of an adverse ruling, the liability facing the City is estimated to be in the range of \$0 - \$5,000.

California Restaurant Management System Inc. v. City of San Diego

The California Restaurant Management System filed a class action lawsuit seeking refunds of sewer collection fees paid by "Food Service Establishments" as defined by the City's wastewater department. Plaintiff alleges that the City failed to properly calculate the proportional impact of Food Service Establishments' use of the sewer system in determining sewer rates from 1994-2004. In the event of an adverse ruling, the liability facing the City is estimated to be in the range of \$0 - \$5,000.

Timothy Cresto, et al v. City of San Diego and Christopher Smith, et al v. City of San Diego

These two lawsuits brought against the City, and developer, by homeowners in the Santaluz Development of San Diego, California, seek to recover damages for hydrogen sulfide gas exposure alleged to have emanated from the sewer system in the Santaluz development. The City has subsequently cross-complained against the development and construction co-defendants seeking indemnity. In the event of an adverse ruling, the liability facing the City is estimated to be in the range of \$0 - \$20,000.

Richard S. Pearson v. Mission and PB Drive, LLP and City of San Diego

Mission and PB Drive, LLP [MPB] is currently building a mixed-use, residential-commercial development on property which shares a common border with Pearson's residential property in Pacific Beach. The City owns a 6 foot drainage easement along the common border of the Pearson and MPB properties. MPB sued Pearson for trespass and nuisance. Pearson then filed a cross-complaint against MPB for nuisance, trespass and to quiet title to easement/declaratory relief/prescriptive easement. Pearson then amended his cross-complaint to bring the City into the lawsuit claiming nuisance, breach of contract, implied contractual indemnity, invasion of privacy and quiet title to easement/declaratory relief/prescriptive easement. In the event of an adverse ruling, the liability facing the City is estimated to be in the range of \$0 - \$2,500.

Crabbe, et al v. City of San Diego

113 property owners owning 64 separate single family residences filed a lawsuit against the City claiming a landslide which occurred in the 5700 block of Soledad Mountain Road on October 3, 2007 resulted in substantial damages to the property owners' homes, as well as diminished property value and emotional distress. The property owners claim the cause of the landslide was the failure of City Infrastructure. In the event of an adverse ruling, the liability facing the City is estimated to be in the range of \$0 - \$38,000.

Significant regulatory actions are described below (Other regulatory actions are described in Notes 17 and 22).

California Regional Water Quality Board Administrative Proceeding

The City has been named as a "discharger" in San Diego Regional Water Quality Control Board (RWQCB) Tentative Cleanup and Abatement Order No. R9-2005-0126. Five other entities have also been named as dischargers. This tentative order is expected to become final and effective in 2009. It will require cleanup and abatement of polluted sediments near industrial shipyards on San Diego Bay. The City has been named for pollutants (copper, lead, zinc, pesticides) conveyed through storm water to the bay via two storm drain outfalls and Chollas Creek. The legal standard for cleanups in California requires that pollutant concentrations be brought to background levels unless not technologically or economically feasible. The RWQCB staff has recommended alternative cleanup levels of 5 X background for most chemicals of concern. A RWQCB staff estimate based on 2001 figures indicates a cleanup to this level would cost \$96,000. It is difficult at this time to project the total eventual cleanup cost or City's share thereof. It is possible that the RWQCB could enter an order for a cleanup of higher or lower levels. The City has retained consultants to provide technical advice regarding exposure to liability in this matter. The City's discharges were passive compared to the industrial discharges of shipyards, U.S.Navy, and a power plant owner. For this reason the City's share of costs should be proportionately smaller than those of the other dischargers, but this remains to be established. The City has tendered for defense and indemnity on a number of insurance policies and is actively positioning itself relative to the other dischargers. It is foreseeable that litigation will arise from this order.

19. THIRD PARTY DEBT (In Thousands)

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

Mortgage and Revenue Bonds

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

As of June 30, 2008, the status of all third party bonds issued is as follows (in thousands):

	Original Amount	Balance June 30, 2008
Mortgage Revenue	\$ 132,390	\$ 8,105

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

20. CLOSURE AND POST CLOSURE CARE COST (In Thousands)

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

The \$18,429 reported as landfill closure and post closure care liability at June 30, 2008 represents the cumulative amount reported to date based on the use of 74% of the estimated capacity of the landfill. On April 8, 2008, the California Integrated Waste Management Board approved an increase in the maximum elevation of the landfill which increased the capacity of the landfill and extended the expected closure date from 2012 to 2017.

The City will recognize the remaining estimated cost of closure and post closure care of \$6,464 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and post-closure care at June 30, 2008. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

The City is required by state and federal laws and regulations to make annual contributions to finance closure and post-closure care. The City is in compliance with these requirements and at June 30, 2008, cash or equity in pooled cash and investments of \$36,523 was held for this purpose. This is reported as restricted assets on the statement of net assets in the Environmental Services Fund. The City expects that future inflation costs will be paid from interest earnings on these annual contributions. However, if interest earnings are inadequate or additional post-closure care requirements are determined (due to changes in technology or applicable laws or regulations, for example), these costs may need to be paid by charges to future landfill users or from other sources.

21. OPERATING AGREEMENTS (In Thousands)San Diego Data Processing Corporation and Automated Regional Justice Information System

SDDPC has a yearly information technology services contract agreement with a joint powers agency known as the Automated Regional Justice Information System ("ARJIS") whose main purpose is to pursue development of computerized law enforcement systems in the region.

Under the agreement, SDDPC provides information technology services to ARJIS at rates which, on an annual basis, are equivalent to those charged to other governmental agency clients. Included in SDDPC's services revenue is approximately \$3,124 related to ARJIS for the year ended June 30, 2008.

City of San Diego and Padres L.P.

On February 1, 2000, the City entered into a Joint Use and Management Agreement (Agreement) with the San Diego Padres baseball team (Padres) governing the rights and duties of the City and Padres with respect to the use and operation of the new Petco Park Ballpark Facility (Facility). The Facility was completed and operational in April 2004. The City and Padres jointly own the facility; the Padres having a 30% divided interest based upon the original Facility cost estimate of \$267,500 (or \$80,250) with the City owning 70% which is capitalized on the City's books. The City and the Padres have agreed upon the schedule of items and components that constitute the Padres' divided ownership, and the value of that divided ownership may vary from (but does not exceed) 30% due to the calculation of cost overruns for the Ballpark. Following termination of any occupancy agreement for the Ballpark, the Padres' ownership interest will automatically transfer to the City. Under the terms of the Agreement, the Padres are responsible for Facility operation and management, including maintenance, repairs and security required to preserve its condition. The City is responsible for paying certain expenses associated with the operation and maintenance of the Facility, up to a maximum of \$3,500 per year, subject to certain inflationary adjustments.

For information pertaining to the operating agreement with San Diego Medical Services Enterprises, LLC please refer to Note 9, Joint Ventures.

22. SUBSEQUENT EVENTS (In Thousands)

On July 1, 2008, the City privately placed fiscal year 2008-2009 Tax and Revenue Anticipation Notes in the amount of \$135,000 to meet the annual general fund cash flow needs of the City. The fiscal year 2007-2008 Tax Revenue Anticipation Note was repaid on August 1, 2008.

Effective July 1, 2008, the San Diego Transportation Improvement Program Ordinance and Expenditure Plan (TransNet Extension Ordinance) took effect based on the November 4, 2004 ballot approved by voters of San Diego County. The TransNet Extension Ordinance provides that SANDAG, acting as the Regional Transportation Commission, shall approve a multi-year program of projects submitted by local jurisdictions, identifying those transportation projects eligible to use transportation sales tax (TransNet) funds. The five-year period covered by the 2008 Regional Transportation Improvement Program (RTIP) includes fiscal years 2009 through 2013 and requires that annually, the amount of local discretionary funding for streets and roads be budgeted per the most recently established minimum maintenance of effort requirement adopted by SANDAG. The TransNet Extension Ordinance also requires an extraction of two thousand dollars from the private sector for each newly constructed residential housing unit in each jurisdiction to comply with the provisions of the Regional Transportation Congestion Improvement Program (RTCIP). On June 17, 2008, the City Council authorized the Mayor, or his designee, to make a submission for the 2008 RTIP for the City of San Diego.

On July 23, 2008, the Southeastern Economic Development Corporation (SEDC) Board unanimously decided to invoke the 90 day notice clause in the SEDC President's employment contract, this action effectively requested her departure as the President of SEDC. The Board also approved a payment of \$100 (severance payment) at the time of her departure. In September, an audit report was released publicly that documented suspected incidences of fraudulent activity related to, among other things, executive compensation. There currently is litigation regarding the appropriateness of the \$100 severance package that also seeks to recover misappropriated assets. On February 25, 2009 the new SEDC Board rescinded the severance pay, but stated it may consider a new severance amount at a later time.

On July 24, 2008, the President of the Centre City Development Corporation (CCDC) resigned. During the months preceding and also subsequent to the resignation, allegations of misconduct stemming from potential violations of City and State of California conflict of interest laws became public. CCDC has since suspended activity on the projects associated with the alleged conflict of interest violations. Depending on the extent to which the counterparty was aware of conflicts of interest, CCDC could potentially be subject to litigation arising from construction delays or project cancellations. The full nature and extent of the alleged misconduct along with the extent of any possible liability to the City or CCDC is currently unknown. On January 21, 2009 the United States District Court issued a subpoena to CCDC requesting any and all records relating to the President's employment with CCDC and projects she was involved with. The City engaged an audit firm in December 2008 to complete a performance audit of CCDC, this audit is expected to be completed by June, 2009. The audit will include a review of the efficiency and effectiveness of CCDC's operations, whether the goals and objectives of the organization are being met as well as assessing other core competencies.

On August 21, 2008, the City issued \$12,365 of Community Facilities District No. 4 (Black Mountain Ranch Villages) Special Tax Bonds to finance public improvements in connection with the district. The Series 2008A bonds were issued pursuant to the Mello-Roos Community Facilities Act of 1982 and are limited obligations of the district. The bonds were structured as serial and term bonds, and were issued on a fixed rate basis. The fixed rate on the bonds range from 3.125% to 6.0%, and the final maturity date is September 1, 2037.

On September 5, 2008, San Diego State University Foundation (Foundation) filed suit against the City of San Diego's Redevelopment Agency alleging that they were in breach of contract because they did not sell certain properties to the Foundation. In the event of an adverse ruling, the liability facing the RDA is estimated to be in the range of \$0 - \$5,000.

On September 22, 2008 the State passed its fiscal year 2008-2009 budget. This budget included a one-year, one-time ERAF shift of \$350,000 from all California redevelopment agencies. ERAF is the Educational Revenue Anticipation Fund which is used by the County to accumulate property tax amounts shifted from local governments back to the State. These funds will not be repaid. The negative impact to the City of San Diego Redevelopment Agency is projected to be \$11,457.

On November 1, 2008 the Redevelopment Agency (RDA) amended the credit agreement with Bank of America, N.A. to reduce the available Line of Credit from \$10,000 to \$8,530, which is comprised of a tax-exempt component of \$7,534 and a taxable component of \$996. The amendment also extended the expiration date of the borrowing from November 1, 2008 to July 31, 2009 and no prepayments of the Line of Credit are permitted.

On November 4, 2008 the citizens of San Diego approved Proposition C (Prop C) and Proposition D (Prop D). Prop C amended the City Charter by requiring that annual lease revenue generated in Mission Bay Park, exceeding \$23,000 initially and decreasing to \$20,000 after 5 years, be appropriated 75% for capital improvements in Mission Bay Park and 25% for Capital Improvements in Chollas Lake, Balboa Park, Mission Trails and other parks and coastal areas. Prop D amended the Municipal Code to make consumption of alcohol unlawful at City beaches, Mission Bay Park and coastal parks.

In December, 2008 the Environmental Protection Agency (EPA) released its tentative decision to approve the City's request to renew a modified permit for the Point Loma Wastewater Treatment Plant. Point Loma initially received a modified permit (also known as a waiver) in 1995, which was renewed in 2002. This request is the City's second renewal. The tentative decision is subject to a public hearing and comment process that will occur in early 2009. A final decision is expected in the summer of 2009.

On December 19, 2008, the SDCERS Board received Cheiron's actuarial valuation report as of June 30, 2008. This report was approved by the SDCERS Board in January 2009. On January 21, 2009, a mistake was discovered and Cheiron updated their actuarial valuations. The City's revised actuarial value of assets, total actuarial liability, and the unfunded actuarial liability as of June 30, 2008, are now \$4,661,000, \$5,964,000, and \$1,303,000 respectively. This calculates to a 78.1% funding ratio. The Cheiron experience study and the valuation are both available on-line at www.sdcers.org. The June 30, 2008 valuation was prepared using revised assumptions approved by the Board in September 2008 following the receipt of Cheiron's Experience Study in July 2008.

On January 29, 2009, the Public Facilities Financing Authority of the City of San Diego issued \$157,190 of Water Revenue Refunding Bonds to prepay \$57,000 of the outstanding principal on the Public Facilities Financing Authority, Subordinated Water Revenue Notes, Series 2007A and refund \$94,165 of the Certificates of Undivided Interest, Series 1998 in addition to funding the debt service reserve and costs of issuance with respect to the Series 2009A Bonds. The publicly offered Water 2009A Revenue Refunding Bonds are secured by and payable solely from net system revenues of the Water Utility Fund. The interest rates range from 3.0% to 5.25% (interest rates are fixed and reflect the range of rates for various maturities from the date of issuance to maturity), and the final maturity date is August 1, 2038.

As of February 28, 2009 SDCERS has estimated the actuarial value of plan assets to be approximately \$3,710,000, which represents a decrease of \$950,346, or 20.4% (all values are based on available unaudited information). As is the case for most retirement systems, SDCERS is exposed to general market risk. This general market risk is

reflected in asset valuations fluctuating with market volatility. Any impact from market volatility on the Retirement System depends in large measure on how deep the market downturn is, how long it lasts, and the market value as of the date of the actuarial valuation. The resulting market risk and associated realized and unrealized gains and losses could impact the financial condition of the Retirement System and the City's required contribution to the Retirement System. The reader of these financial statements is advised that financial markets continue to be volatile and are experiencing significant changes on almost a daily basis.

On March 20, 2009, the Public Facilities Financing Authority of the City of San Diego sold \$103,000 of Lease Revenue Bonds, Series 2009A, on a private placement basis, for the purpose of financing various capital improvement projects. The Series 2009A bonds are secured from base rental payments and bears interest at a rate of 3.89% through June 1, 2010 and then thereafter the interest rate will be fixed to equal the purchaser's internal cost of funds rate plus a fixed spread of 3.00%, provided that in no event will the interest rate exceed 12% until the final maturity date of December 1, 2018.

Required Supplementary Information (Unaudited)
June 30, 2008

PENSION TRUST FUNDS

Schedule of Funding Progress

The following table shows the funding progress of the City's pension trust funds for the last three fiscal years (in thousands):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	UAAL (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
6/30/2006	\$ 3,981,932	\$ 4,982,700	\$ 1,000,768	79.92%	\$ 534,103	187.37%
6/30/2007 *	4,413,411	5,597,653	1,184,242	78.84%	512,440	231.10%
6/30/2008	4,660,346	5,963,550	1,303,204	78.15%	535,774	243.24%

Source: Cheiron, Inc.

* The actuarial accrued liability was calculated using the Entry Age Normal (EAN) method beginning in fiscal year 2007. Prior to fiscal year 2007, the Projected Unit Credit (PUC) method was used

OPEB TRUST FUND

Schedule of Funding Progress

The following table shows the funding progress of the City's OPEB trust fund for the current year of transition (in thousands):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	UAAL (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
6/30/2008	\$ 29,637	\$ 1,235,707	\$ 1,206,070	2.40%	\$ 556,857	216.59%

Schedule of Contributions from Employer and Other Contributing Entities

The following table shows contributions to the City's OPEB trust fund during the current year of transition (in thousands):

Fiscal Year	Annual Required Contribution	Actual Contribution	Percentage Contributed
6/30/2008	\$ 91,645	\$ 59,711	65.15%

Source: Buck Consultants

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REQUIRED SUPPLEMENTARY INFORMATION - GENERAL FUND

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GENERAL FUND

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

General fund revenues are derived from such sources as: Taxes; Licenses and Permits; Fines, Forfeitures, and Penalties; Use of Money and Property; Aid from Other Governmental Agencies; Charges for Current Services; and Other Revenue.

Current expenditures and encumbrances are classified by the functions of: General Government and Support; Public Safety–Police; Public Safety–Fire and Life Safety and Homeland Security; Parks, Recreation, Culture and Leisure; Transportation; Sanitation and Health; Neighborhood Services; and Debt Service Principal and Interest. Appropriations are made from the fund annually.

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (BUDGETARY BASIS)
YEAR ENDED JUNE 30, 2008
(In Thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES				
Property Tax	\$ 386,412	\$ 386,412	\$ 384,273	\$ (2,139)
Sales Tax	247,886	246,658	235,579	(11,079)
Transient Occupancy Tax	85,185	85,185	83,730	(1,455)
Other Local Taxes	77,157	77,157	71,594	(5,563)
Licenses and Permits	34,458	34,005	33,815	(190)
Fines, Forfeitures and Penalties	34,769	32,217	31,083	(1,134)
Revenue from Use of Money and Property	49,644	49,792	41,840	(7,952)
Revenue from Federal Agencies	2,150	2,734	4,086	1,352
Revenue from Other Agencies	15,178	20,932	14,236	(6,696)
Charges for Current Services	89,105	89,716	87,263	(2,453)
Other Revenue	1,939	2,039	3,597	1,558
TOTAL REVENUES	<u>1,023,883</u>	<u>1,026,847</u>	<u>991,096</u>	<u>(35,751)</u>
EXPENDITURES				
Current:				
General Government and Support	262,208	257,390	245,887	11,503
Public Safety - Police	387,922	385,826	379,118	6,708
Public Safety - Fire and Life Safety and Homeland Security	178,932	188,689	188,144	545
Parks, Recreation, Culture and Leisure	125,781	124,923	123,696	1,227
Transportation	81,541	79,165	78,047	1,118
Sanitation and Health	43,635	51,206	49,519	1,687
Neighborhood Services	19,365	22,026	20,832	1,194
Debt Service:				
Principal Retirement	-	2,204	2,204	-
Interest	5,004	5,785	5,720	65
TOTAL EXPENDITURES	<u>1,104,388</u>	<u>1,117,214</u>	<u>1,093,167</u>	<u>24,047</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(80,505)</u>	<u>(90,367)</u>	<u>(102,071)</u>	<u>(11,704)</u>
OTHER FINANCING SOURCES (USES)				
Transfers from Proprietary Funds	1,604	1,604	5,896	4,292
Transfers from Other Funds	83,502	83,608	94,562	10,954
Transfers to Proprietary Funds	(5,363)	(5,358)	(5,358)	-
Transfers to Other Funds	(39,244)	(46,470)	(46,470)	-
Net Income from Joint Venture	-	-	(116)	(116)
TOTAL OTHER FINANCING SOURCES (USES)	<u>40,499</u>	<u>33,384</u>	<u>48,514</u>	<u>15,130</u>
NET CHANGE IN FUND BALANCE	<u>(40,006)</u>	<u>(56,983)</u>	<u>(53,557)</u>	<u>3,426</u>
Fund Balance Undesignated at July 1, 2007	95,031	95,031	95,031	-
Reserved for Encumbrances at July 1, 2007	33,452	33,452	33,452	-
Reserved for Minority Interest in Joint Venture at July 1, 2007	-	-	2,097	2,097
Reserved for Minority Interest in Joint Venture at June 30, 2008	-	-	(1,981)	(1,981)
Designated for Subsequent Years' Expenditures at July 1, 2007	1,159	1,159	1,159	-
Designated for Subsequent Years' Expenditures at June 30, 2008	-	-	(862)	(862)
FUND BALANCE UNDESIGNATED AT JUNE 30, 2008	<u>\$ 89,636</u>	<u>\$ 72,659</u>	<u>\$ 75,339</u>	<u>\$ 2,680</u>

The accompanying note is an integral part of the financial statements.

**Note to Required Supplementary Information
Year Ended June 30, 2008**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Budgetary Data

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

- **General Fund**
- **Special Revenue Funds:**
 - City of San Diego:
 - Acquisition, Improvement and Operation
 - Environmental Growth Funds:
 - Two-Thirds Requirement
 - One-Third Requirement
 - Police Decentralization
 - Public Transportation
 - Qualcomm Stadium Operations
 - Special Gas Tax Street Improvement
 - Street Division Operations
 - Transient Occupancy Tax
 - Underground Surcharge
 - Zoological Exhibits
 - Other Special Revenue
 - Centre City Development Corporation
 - Southeastern Economic Development Corporation
- **Debt Service Funds:**
 - City of San Diego:
 - Public Safety Communications Project
 - San Diego Open Space Park Facilities District #1
- **Capital Projects Funds:**
 - City of San Diego:
 - TransNet

Public hearings are then conducted to obtain citizen comments on the proposed budget. During the month of July the budget is legally adopted through passage of an appropriation ordinance by the City Council. Budgets are prepared on the modified accrual basis of accounting except that (1) encumbrances outstanding at year-end are considered expenditures and (2) the increase/decrease in reserve for advances and deposits to other funds and agencies are considered as additions/deductions of expenditures. The City budget is prepared excluding unrealized gains or losses resulting from the change in fair value of investments, proceeds from capital leases, and net income from joint venture.

The legal level of budgetary control for the City's general fund is exercised at the salaries and wages and non-personnel expenditures level. Budgetary control for the other budgeted funds, including those of certain component units, is maintained at the total fund appropriation level. All amendments to the adopted budget require City Council approval except as delegated in the Annual Appropriation Ordinance.

Reported budget figures are as originally adopted or subsequently amended plus prior year continuing appropriations. Such budget amendments during the year, including those related to supplemental appropriations, did not cause these reported budget amounts to be significantly different than the originally adopted budget amounts. Appropriations lapse at year-end to the extent that they have not been expended or encumbered, except for those of a capital nature, which continue to subsequent years.

The following is a reconciliation of the net change in fund balance prepared on a GAAP basis to that prepared on the budgetary basis for the year ended June 30, 2008 (in thousands):

	General Fund
Net Change in Fund Balances - GAAP Basis	\$ (7,267)
Add (Deduct):	
Encumbrances Outstanding, June 30, 2008	(43,853)
Reserved for Advances, June 30, 2008	(9)
Designated for Unrealized Gains, June 30, 2008	(2,737)
Reserved for Advances, June 30, 2007	309
Net Change in Fund Balances - Budgetary Basis	<u>\$ (53,557)</u>

b. Encumbrances

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

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

APPENDIX A-2

**ADDITIONAL EXCERPTS FROM THE
COMPREHENSIVE ANNUAL FINANCIAL REPORT
OF THE CITY OF SAN DIEGO FOR FISCAL YEAR 2008**

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THE CITY OF SAN DIEGO

March 26, 2009

Citizens and Interested Parties,

The City of San Diego has faced significant financial challenges over the last several years and has made a determined effort to improve its overall financial condition, as well as the quality of its financial disclosures, including its financial statements, its internal controls and its disclosure controls and procedures. A few of the City's achievements include (1) the release of audited financial statements for fiscal years 2003-2008 within the last two years; (2) the implementation of an annual five-year financial outlook as a prudent planning tool; (3) the strengthening of the City's General Fund reserves; (4) fully funding the Annual Required Contribution (ARC) to the City's pension system; (5) negotiating a new pension plan for non-public safety employees hired on or after July 1, 2009; (6) participation in a California Public Employees' Retirement System (CALPERS) trust for pre-funding of post-retirement healthcare benefits for retired City employees and (7) rating upgrades from the national rating agencies, including, in the case of one agency, the reinstatement of the City's credit rating.

City management and the City's Independent Budget Analyst have identified structural budget deficits for the foreseeable future. These deficits, coupled with the deteriorating local and national economy, have affected the City's revenues, placing strain on the City's ability to fund all of its spending priorities. Areas of funding priorities include deferred maintenance, retiree healthcare costs, self insurance claims, and various state and federal regulatory requirements.

At the present time, the City is experiencing, as are other state and local governments across the country, extraordinary conditions in both the equity and debt markets and responding to revised negative economic forecasts for the local, national and world economies. The City reviewed preliminary first quarter data and forecasted a General Fund budget deficit of approximately \$43 million for fiscal year 2009. The Mayor addressed the projected deficit by presenting to City Council on November 12, 2008 a revised fiscal year 2009 budget proposal that reduced expenditures by \$40.8 million and increased the revenue budget for new revenues by \$2.6 million. City Council adopted a Fiscal Year 2009 revised budget on December 9, 2008 that balanced the General Fund by including most of the proposed expenditure reductions totaling \$36.9 million. City Council added back \$4.2 million in expenditures and funded these costs with one time revenues in Fiscal Year 2009. The projected deficit was primarily the result of reduced revenues in the areas of sales tax, property tax, transient occupancy tax, franchise fees, and interest earnings, as well as higher expenditures in booking fees and property tax administrative fees paid to the County. It also reflected approximately \$8 million of projected expenditures in excess of the adopted budget. The \$43 million deficit represents roughly 3% of the General Fund. Management continues to monitor the City's revenues. Major revenues are trending lower

since the budget revision in December 2008. Management will report on the expected year end expenditures and revenues, and if needed, will report any necessary adjustments and propose a revised fiscal year 2009 budget adjustment to City Council to maintain a balanced budget in fiscal year 2009.

San Diego has no variable rate or auction rate debt outstanding. The City does not foresee the need to issue additional debt or revenue anticipation notes to meet any General Fund liquidity needs in fiscal year 2009. The City treasury holds approximately \$2 billion that is invested primarily in US Treasuries and agencies, and consistent with the City’s investment policy, has sufficient liquidity to meet all currently foreseeable cash demands. The General Fund reserves are currently approximately \$71.5 million, which includes \$55 million set aside in an Emergency Reserve Fund that can be accessed by a two-thirds vote of City Council.

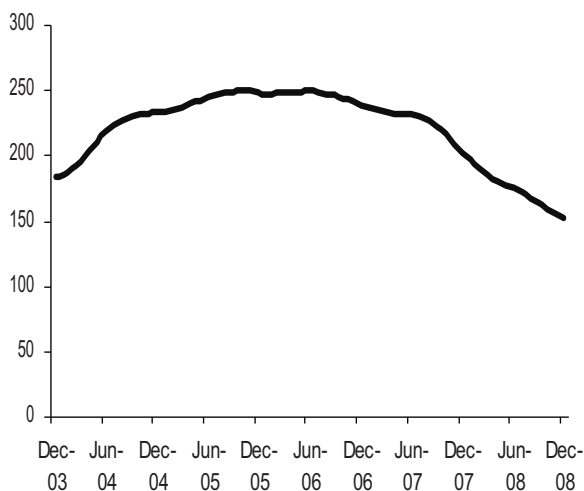
Readers of these financial statements should pay particular attention to Notes 12, 13, 18, and 22, concerning Pension Plans, Other Post Employment Benefits, Contingencies, and Subsequent Events, respectively. The notes, along with the other financial and operational data included in the City’s CAFR, must be read in their entirety to obtain a complete understanding of the City’s financial position as of June 30, 2008.

Our Underlying Fundamentals

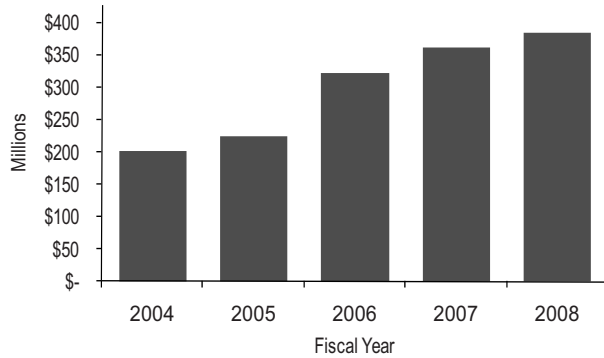
The City has a diversified economy, with the principal employers being government, high-tech industries, particularly biotech and telecommunications, and the tourism industry. The City’s economic base is also anchored by higher education and major scientific research institutions, including the University of California, San Diego, San Diego State University, Scripps Research Institute, the Salk Institute for Biological Studies, and the San Diego Supercomputer Center.

The San Diego area real estate market has been one of the hardest hit during the recent national decline in home prices. The Case-Shiller Home Price Index for December 2008 shows the County of San Diego (County) median home price is down 39.2% from its peak in November 2005. There were 19,577 foreclosures in San Diego County during calendar year 2008. This is a 133% increase over calendar 2007 foreclosures totaling 8,417, which was a significant increase when compared to 2,065 foreclosures in 2006 and 559 in 2005. The total number of housing units through December 2008 was 1,140,349, which means foreclosures represent approximately 1.72% of total units, as compared to a .75% foreclosure rate in 2007.

Case - Shiller Home Price Index for the County of San Diego



**City of San Diego
General Fund - Property Tax Revenue**

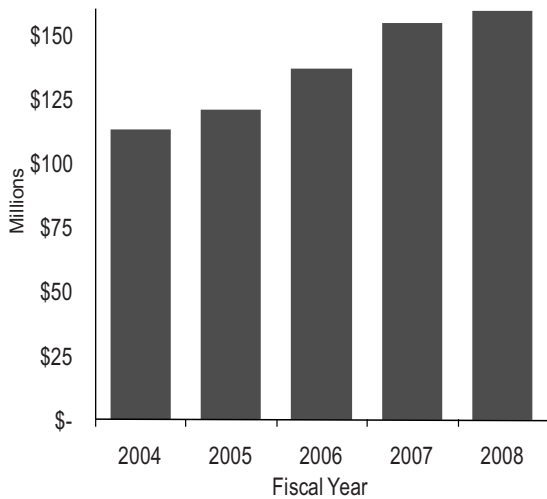


The City’s property tax revenue has continued to grow over the last five years, although at a decreasing rate. In Fiscal Year 2008 General Fund property tax revenues were \$384.3 million compared to \$361.1 million in Fiscal Year 2007, representing a 6.4% growth. However, due to the continued decline in the housing market, the City has reduced property tax growth projections in the General Fund from 5.75% to 3.2% in the Fiscal Year 2009 Revised Budget to account for these economic conditions, resulting in a revised budget of \$396.6 million.

The impact of the deteriorating housing market is widespread, affecting the construction sector, consumer spending on retail goods and automobiles, home improvement purchases, and furnishings. Similarly, the City’s projected growth in sales tax revenue has been reduced from .75% to -5.2%. The City has budgeted \$216.2 million in General Fund sales tax revenue in fiscal year 2009 compared to \$235.6 million in actual sales tax revenue received into the General Fund during fiscal year 2008.

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**City of San Diego
Total Transient Occupancy Tax Revenue**



San Diego remains a top tourist destination due to the region’s natural attractions; however, the tourism industry did not escape the impact of the deteriorating economy. The City is projecting a decline in hotel tax receipts (“Transient Occupancy Tax” or “TOT”). The City’s TOT rate is currently 10.5% and is allocated according to the Municipal Code. As such, the General Fund receives 52% of these revenues to be used for general governmental purposes, and the TOT fund receives the remaining 48% for the purpose of promoting the City as a tourism destination. The General Fund portion of TOT represents approximately 8% of General Fund revenue. The fiscal year 2009 TOT revised budget is \$156.9 million, which represents an approximate 1.5% decline from fiscal year 2008 actual revenues of \$159.3 million.

In calendar year 2008, San Diego had a 5.1% increase in TOT revenue over calendar year 2007. According to the San Diego Convention & Visitors Bureau, in calendar year 2008, a total of 31 million visitors spent approximately \$7.9 billion in San Diego.

Below is a chart of the unemployment rates for the past five years showing how the City has historically compared to the County, State and the nation.

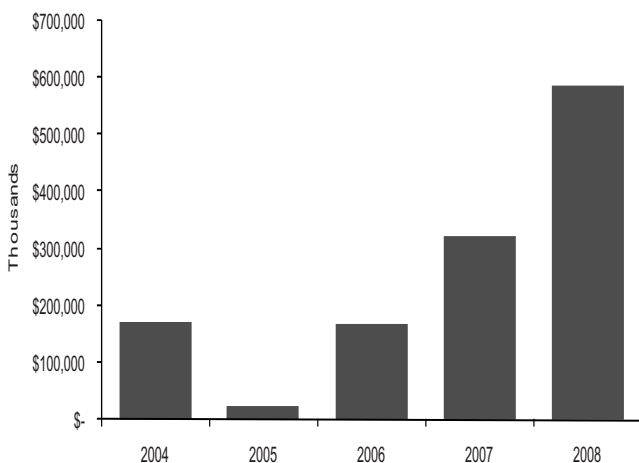
Unemployment Rates	Annual Averaged rates					January 2009
	2004	2005	2006	2007	2008	
City	4.7%	4.3%	4.0%	4.6%	6.0%	8.6%
County	4.7%	4.3%	4.0%	4.6%	6.0%	8.6%
California	6.2%	5.4%	4.9%	5.4%	7.2%	10.6%
United States	5.5%	5.1%	4.6%	4.6%	5.8%	8.5%

Source: State of California Employment Development Department

Financial Health

The City’s total government-wide revenues, which are generated through a combination of governmental and business-type activities, have increased over the past five years by approximately 24%. This increase was primarily driven by the consistent growth, from \$2.156 billion to \$2.672 billion, of general revenues such as property taxes and transient occupancy taxes. The growth of these general revenues has declined recently and is not projected to be as significant in Fiscal Year 2009. Over the last five years, the City’s expenditures have grown approximately 12%. These expenditures supported public services and the significant fiscal obligations of the City, including funding of the City’s pension system, post-employment healthcare benefits, and deferred maintenance.

City of San Diego Government-Wide Unrestricted Net Assets



Government-wide revenues have consistently exceeded expenditures over the past five years and this has had a positive impact on the City’s Total Net Assets, which have increased by approximately \$931 million since fiscal year 2004. Total Net Assets (assets minus liabilities) are presented in three separate components: (1) Net Assets Invested in Capital Assets, net of Related Debt, (2) Restricted Net Assets, and (3) Unrestricted Net Assets. The increase has been almost entirely in the Invested in Capital Assets category; however, because the City was not able to access the public bond markets between 2004 and 2008, a large part of the City’s capital improvements have been funded from cash. This resulted in a deficit in

Governmental Activities’ Unrestricted Net Assets from fiscal year 2004 through fiscal year 2007. The City has been able to improve the Governmental Activities’ Unrestricted Net Asset balances from a negative \$20 million in fiscal year 2007 to a positive \$71 million in fiscal year 2008, primarily due to reserve increases in the Redevelopment project area funds and additional governmental land sales.

Public safety is a primary government responsibility and the provision of public safety services is the largest component of governmental expenses. During 2008, approximately 37% of total governmental activities expenses were for Public Safety. Spending on the remaining functions is as follows: General Government and Support expenses were 20%; Parks, Recreation, Culture and Leisure were 15%; Transportation expenses were 14%; Neighborhood Services expenses were 6%; Debt Service Interest expense was 5%; and lastly, Sanitation and Health expenses represented 3% of total governmental activities expenses in fiscal year 2008.

Pension Funding Progress (Thousands)

Actuarial Valuation Date	Actuarial Value of Assets	UAAL	Funded Ratio
6/30/2005	\$ 2,983,080	\$ 1,452,937	67.25%
6/30/2006	3,981,932	1,000,768	79.92%
6/30/2007	4,413,411	1,184,242	78.84%
6/30/2008	4,660,346	1,303,204	78.15%

The City’s unfunded pension liability remains a significant obligation of the City. The City has aggressively confronted this deficit, fully funding the City’s ARC beginning in fiscal year 2006, as well as making significant additional payments in excess of the ARC into the pension fund. The June 30, 2008 valuation calculated the unfunded pension liability to be

approximately \$1.303 billion and the City’s net pension obligation has been reduced to \$174 million from a high of \$290 million (fiscal year 2005) on a government-wide basis.

Presently, the global financial markets are experiencing significant declines. The effects of the market declines have been wide ranging and impact even the most diversified investment portfolios. The San Diego City Employee Retirement System (SDCERS) investment portfolio is no exception. At the request of the City, SDCERS has undertaken to report monthly an estimated approximate actuarial value of plan assets. As of February 28, 2009 the portfolio had an estimated approximate actuarial asset value of \$3.71 billion (unaudited). Additionally, SDCERS has cautioned against directly comparing these monthly estimates to the June 30, 2007 or June 30, 2008 asset valuations. Due to plan sponsor contributions and benefit payments there are significant cash flows into and out of the fund, the monthly valuations may not accurately reflect the performance of the portfolio. However, for the benefit of the reader, SDCERS reported an actuarial valuation of assets of \$4.41 billion for fiscal year ended June 30, 2007 and \$4.66 billion for June 30, 2008.

SDCERS employs a long-term investment strategy. The City’s ARC is determined using an asset smoothing methodology and the actuarial asset values dampen the volatility in market asset values that can occur due to fluctuations in market conditions. The ARC payment for fiscal year 2010 has been determined by the SDCERS actuary to be \$154.2 million. A decline in the fair value of SDCERS’ plan assets by June 30, 2009 (the date of the actuarial valuation which will determine the ARC payment for fiscal year 2011) will have the effect of increasing the ARC using the assumptions employed by SDCERS. The City has been monitoring the decline in the market value of the pension assets and its projected effect on the future ARC and the funding ratio of the pension system. As of the issuance of this report, management is posting information on the City’s investor website that includes a monthly market value of plan assets, and in addition, makes several assumptions to gauge the potential effect on the ARC and the funded ratio. This information can be viewed at <http://www.sandiego.gov/investorinformation>.

Retiree Healthcare Liabilities (Thousands)

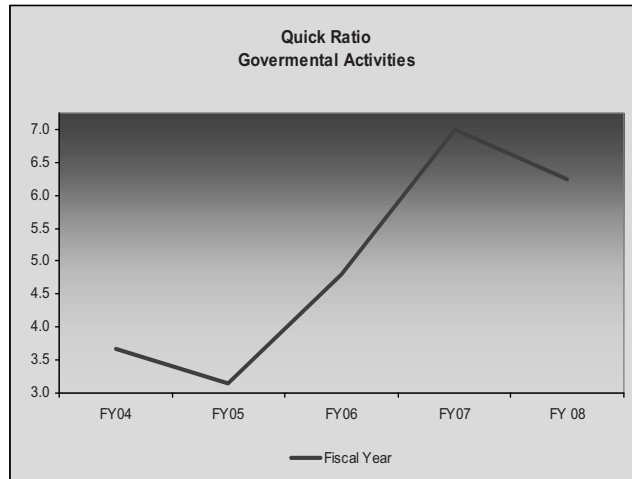
Valuation fiscal year ended 6/30/2008	Full Funding Method (7.75% Earnings Assumption)	Partial Funding (blended)
Actuarial Accrued Liability	\$ 1,061,171	\$ 1,235,707
Annual Required Contribution	98,568	113,426

In fiscal year 2008, Governmental Accounting Standards Board Statement 45 ("GASB 45"), went into effect requiring all municipal governments to report on Other Post Employment Benefits (retiree healthcare costs) in a manner similar to reporting on pension benefits. The City's actuarial valuation for retiree healthcare costs estimated an unfunded actuarial accrued liability of \$1.206 billion as of June 30, 2008. The

City is participating in a trust administered by CalPERS to begin advance-funding this liability and, to date, has contributed \$54 million to the CalPERS trust. The fair value of these assets as of December 31, 2008 was \$39 million. The City is not currently fully funding the ARC for retiree healthcare, which is estimated to be \$113 million for fiscal year 2010. The amount projected to be budgeted for fiscal year 2010 is \$57.1 million, of which \$32.1 million will fund the pay-go portion and \$25 million will be transferred to the CalPERS trust.

**Governmental Funds
(Tax Supported Operations)**

The City established a Reserve Policy in November 2007 to improve the condition of the City's cash reserves. Due to higher than expected revenue and curbed expenditures, the City's liquidity position has improved since 2004. However, the City's liquid assets (cash + investments + receivables), relative to its current liabilities (governmental quick ratio) has decreased from a ratio of 7.1 in 2007 to 6.0 at the end of fiscal year 2008. This is a result of reduced revenue.



The City's General Fund finished fiscal year 2008 with unrestricted cash and investments of approximately \$91 million. During fiscal year 2008, the City established an emergency reserve fund and set aside \$55 million from the General Fund to protect the City against natural disasters or unforeseen events. The General Fund Reserve Policy set a funding goal of 6% of General Fund revenue by the end of fiscal year 2008. The General Fund reserve was actually 7.6% of General Fund revenue at June 30, 2008, resulting in a total reserve balance of \$75.3 million, this balance is reported within the General Fund Balance Sheet as Undesignated Fund Balance. As of the issuance of this report, the total reserve balance is \$71.5 million, comprised of \$55 million in the emergency reserve, \$10 million in the appropriated reserve and the remaining balance in unallocated fund balance. The emergency reserve can only be accessed for qualifying emergencies as declared by the Mayor and/or City Council and ultimately approved by at least a 2/3 vote of the City Council. The reserves are currently cash funded within the City Treasury's pooled cash portfolio. The goal is to establish General Fund reserves at 8% of revenues by fiscal year 2012.

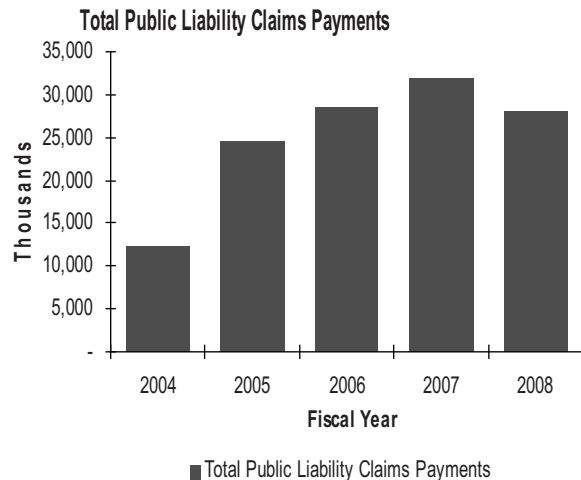
The Fiscal Year 2009 Budget adopted in June 2008 reflected a reduction of personnel expense growth by eliminating budgeted positions and reducing program expenditures. Due to a projected decline in the City's major revenues, management addressed the City's projected budgetary imbalance by proposing, and City Council then adopting, a Fiscal Year 2009 Revised Budget that reduced spending on current services while also attempting to mitigate service level reductions. Council adopted a revised Fiscal Year 2009 Budget in December 2008 that balanced estimated revenues to expenditures. However, the decline in revenues will test the City's ability to maintain a balanced budget. Due to the limited opportunities to increase revenues because of legal requirements to obtain voter approval, additional budget revisions may be needed. Certain service level reductions may be unavoidable absent increased revenues or significant efficiency gains.

During fiscal year 2008, total liabilities of the City's governmental activities increased by \$130 million. This was primarily the result of new Redevelopment Agency debt issued for the Centre City project area of \$69 million, and the new Net Other Post Employment Benefit Obligation (NOPEBO) liability required from GASB Statement 45 of \$29 million for governmental activities (total City NOPEBO is \$38 million). Overall, our annual interest costs for governmental activities were approximately \$82 million in fiscal year 2008, which represents approximately 5% of our total governmental activities expenses (including transfers).

The City's capital assets are essential to providing services to its residents and maintaining the quality of its environment. During fiscal year 2008, total capital assets for governmental activities increased by \$71 million. This was funded by a combination of developer contributions, grant monies, and city-funded capital improvement programs.

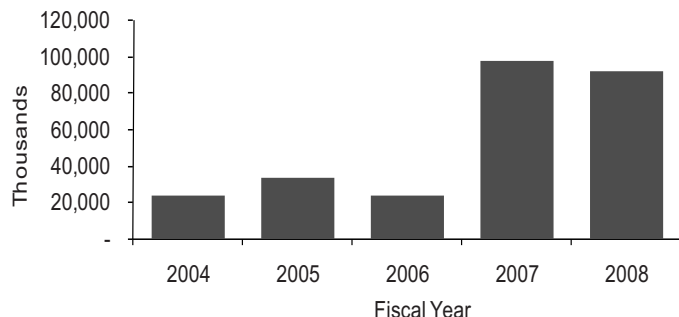
The City's deferred maintenance backlog is estimated to be approximately \$800 to \$900 million, according to the most recent Five Year Financial Outlook. This includes the cost of repairs to City streets, sidewalks, and facilities that have been deferred because the City does not have necessary funding resources. An assessment of facilities maintenance needs is still ongoing and the results may increase the estimated backlog. That assessment is scheduled to be completed by June 2009.

The City's Public Liability Fund, which accounts for all governmental activity-related claims, has a deficit of approximately \$41 million as of June 30, 2008. This fund has seen significantly higher claims since fiscal year 2005, largely as a result of the legal claims and investigations stemming from the pension fund underpayment and related financial disclosure issues. The Workers' Compensation Fund, which accounts for both governmental and business-type claims, has a deficit of \$126 million as of June 30, 2008. This is primarily the result of increased healthcare costs. Per the City Reserve Policy, the City has budgeted funds annually to establish dedicated cash reserves in both funds equal to 50% of the outstanding claims in each fund. While the City is committed to funding reserves in the Worker's Compensation and Public Liability funds, the goal of funding 50% of outstanding claims in both funds by 2014 is being reassessed given the economic downturn and continued decline in General Fund revenues.



Governmental Activities Key Indicators

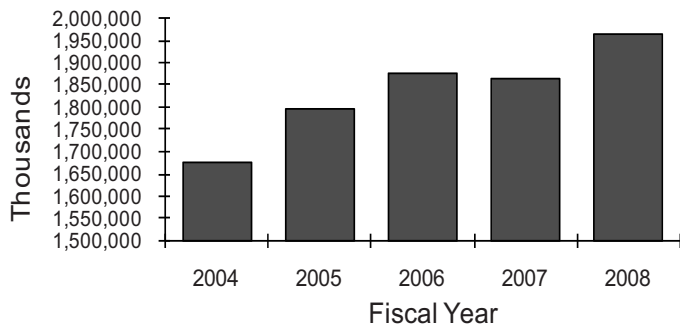
General Fund Cash and Investments



General Fund Cash

Continued expenditure savings due to vacancies and management imposed reductions in discretionary spending have helped the City to maintain an improved liquidity position in the General Fund.

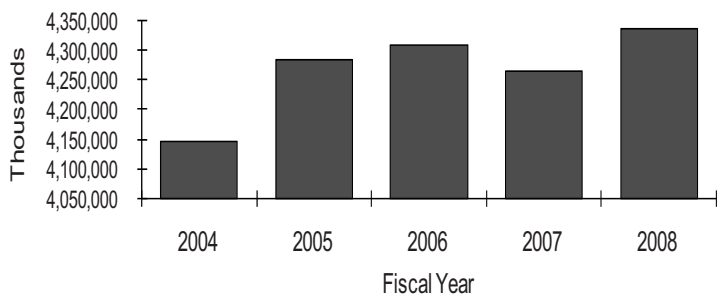
Total Governmental Activities Long-Term Liabilities



Long-term Liabilities

The City issued Redevelopment Agency debt, and had to report, for the first time, its Net Other Post Employment Benefit Obligation (NOPEBO) in accordance with GASB Statement 45. These items were the primary factors which resulted in the 5.5% increase in total governmental long-term liabilities.

Governmental Activities Capital Assets



Capital Assets

Capital asset balances increased in Fiscal Year 2008 by approximately \$71 million. This increase is primarily attributed to equipment purchases by Fleet Services for refuse haulers and police and fire vehicles as well as many capital improvements (for example Soledad Mt. Road repair, Balboa Theatre improvements, and various developer contributed community improvements).

Business-Type Activities

The majority of the City's business-type activities are related to utilities that provide water and wastewater services. Both the Water and Sewer Utility Departments serve several regional agencies outside of the City's boundaries.

The operations of both utilities are mainly supported by fees charged to customers. In 2007, the San Diego County Superior Court approved the settlement of a class action lawsuit affecting sewer rates for the City. The lawsuit alleged that the City had overcharged single family residential customers, while undercharging other customers, for sewer service up until rates were revised in October 2004. A new rate structure was put into place in November 2007 to satisfy the terms of the settlement, with rate reversals and credits to eligible residential customers to correct past overcharges. Once the settlement amount has been raised and distributed (anticipated to be in the fall of 2011) the rate increases due to the settlement, the rate reversals and the monthly credits will cease. Additionally, an independent committee of stakeholders (the Independent Rate Oversight Committee) was created to monitor utility rates and expenditures on behalf of the ratepayers.

The City's Water Utility Fund issued \$157 million of Water Revenue Refunding Bonds, Series 2009A to pay outstanding principal of \$57 million of Subordinated Water Revenue Notes, Series 2007A and refund \$94 million of Certificates of Undivided Interest, Series 1998 on January 29, 2009. The publicly offered Water 2009A Revenue Refunding Bonds are secured by and payable solely from net system revenues of the Water Utility Fund.

For the year ended June 30, 2008, the City's business-type activities closed with restricted and unrestricted cash and investment balances totaling \$891 million. The City's fiscal year 2008 ratio of liquid assets to current liabilities for business-type activities is 1.55, a decrease over the fiscal year 2007 ratio of 3.61. This decrease is the result of all Water and Wastewater notes payable, totaling \$281 million and including the \$57 million Water Revenue Notes referenced above, becoming due within one year at fiscal year ended June 30, 2008. The City plans to issue long term bonds to refund additional outstanding Water and Wastewater notes during fiscal year 2009 which would reclassify this debt to long-term.

The City's liabilities for business-type activities have increased by \$105 million since fiscal year 2007. This increase is related to the issuance of notes payable, offset partially by a decrease in outstanding revenue bonds. On June 30, 2008 the City's business-type activities reported total liabilities of \$2.18 billion. While the City's capital assets for business-type activities have continued to increase in value, deferred maintenance remains a challenge, as does compliance with environmental regulations.

Engineering standards have changed over time and part of the City's water distribution system consists of outdated cast iron pipes. Aging water pipes can lead to infrastructure failures, and the City has addressed this challenge by replacing water pipes funded through a variety of methods including private placement debt and loans from state and federal agencies. Future infrastructure projects are expected to be funded by a combination of financing and cash funding.

Compliance with environmental regulations generally requires infrastructure construction, including the replacement of water distribution systems, the replacement of wastewater collection systems, and improving sewage treatment capacity. The City has agreed to significant infrastructure upgrades and continues to work with regulatory authorities. This includes a December 2007 waiver application to the Environmental Protection Agency (EPA) to renew a modified permit for the Point Loma Wastewater Treatment Plant. A tentative decision to approve the permit was issued by the EPA in December 2008. The EPA and Regional Water Quality Control Board are currently considering and responding to comments received on the tentative decision. A final decision is anticipated by the summer of 2009.

The City is also facing challenges to the future of its water supplies. A persistent regional drought and judicial decisions regarding management of the State Water Project has put significant pressure on San Diego's regional water supplies. The City of San Diego imports as much as 90% of its water supply. That supply may be reduced in the near future as the impact of court decisions, the diminishing availability of stored water, and dwindling supplies of new water are addressed by the City's water wholesalers.

The availability of water has legal implications and could potentially affect City Council findings regarding state mandated water supply assessments for future development. These assessments must demonstrate the long-term availability of water for large projects before those projects can be approved by local jurisdictions. At this time, it is unclear what effect limitations to water supplies would have on the City's economy and its revenues.

In an effort to address concerns regarding the City's water supplies, the City has taken a leadership position in advocating water conservation, general water awareness, and efforts to develop a bond measure necessary to fund improvements to the State's water infrastructure. To that extent, the Mayor declared a local water emergency and implemented a Stage 1 Water Watch for the City. The Water Watch is the first formal step under the City's Municipal Code and may lead to increasingly stringent controls on water use in San Diego. Also, at the direction of the City Council, the City is exploring water recycling systems that may reduce the City's reliance on imported water.

Focus on Governance

In November 2006, the City entered a cease and desist order with the SEC, settling all claims by that agency against the City. Since then, the City has released audited financial statements for fiscal years 2003-2008 and implemented a number of reforms regarding disclosure and internal controls and governance with the intent of establishing best practices in these areas. Internal controls requiring improvement were identified in early reports from the City and in management letters received from its independent auditors. Additionally, various consultants hired to investigate the City's financial reporting and sewer rate setting practices recommended actions to ensure greater accuracy in financial reporting. As of December 31, 2008, the City had implemented approximately 82%, by number, of the recommendations contained in various investigative reports and had established a plan to address the remainder.

The plan to improve the City's internal controls over financial reporting includes the implementation of an enterprise resource planning (ERP) system during fiscal year 2010 to improve the way the City manages finances and the processes and internal controls involved in the City's accounting, financial reporting, and human resources functions. At this time, implementation of the internal controls over financial reporting efforts is approximately 4% complete, with much of the balance tied to the implementation of the ERP system. The City has extended the implementation date, initially from November 2008 to April 2009 and most recently to July 1, 2009 for financials and logistics, October 1, 2009 for payroll and December 31, 2009 for accounts receivable. The ERP system effort is expected to cost \$10.5 million more than the original budget; however, the increased cost includes enhancements and additional post implementation support.

In 2005, voters approved a change to the City's governance structure to a Strong-Mayor form of government. Under this structure, the Mayor has executive and administrative responsibility for the City's day to day operations, and the City Council, as the legislative body of the City, sets policy including approving the City's budget. Voters also created the Office of the Independent Budget Analyst (IBA), whose role is to provide policy and budget analysis and advice to the City Council and the public regarding legislative initiatives that have policy and financial impacts.

In June 2008, voters approved Proposition C amending the City Charter to make permanent the Office of the IBA and changing the City's financial management structure to enhance accountability. The position of Chief Financial Officer was created and placed in charge of all City financial operations. The City Charter was amended to split the Office of the Auditor and Comptroller, effective July 2008. The City Comptroller now reports to the Chief Financial Officer and a newly-created position of City Auditor reports to a new, independent Audit Committee composed of two City Council members and three outside members with expertise in audit and accounting practices. The City Comptroller is responsible for financial reporting, and the City Auditor oversees the City's internal audit function with the oversight and direction of the new Audit Committee.

A Financial Vision for the Future

In November 2008, the City released an updated Five-Year Financial Outlook (the Outlook) for fiscal years 2010 through 2014. This document is an examination of the City's long range fiscal condition and financial challenges. The City intends to update the Outlook periodically to account for changed circumstances. In addition to other issues, the financial outlook concentrates on eight significant areas that must be addressed in order to restore and preserve the fiscal integrity and/or meet the legal obligations of the City. These eight significant areas are discussed below.

Funding for Eight Areas of Focus						
(Thousands)						
	2009*	2010	2011	2012	2013	2014
Pension Plan: Annual Required Contribution ¹	\$ 161,700	\$ 166,000	\$ 236,000	\$ 256,000	\$ 276,000	\$ 291,000
Reserve Contributions	-	5,200	7,700	8,600	3,000	2,900
Deferred Maintenance ²	28,000	3,600	3,600	7,200	7,200	10,800
Post Employment Retiree Health	50,000	57,100	64,500	72,400	80,700	90,000
Storm Water Compliance	27,500	27,500	27,500	27,500	27,500	27,500
ADA Compliance	10,000	10,000	10,000	10,000	10,000	10,000
Workers' Compensation Fund	4,000	-	5,000	5,000	5,000	5,000
Public Liability Fund	10,000	5,000	5,000	5,000	5,000	5,000
Subtotals	<u>\$ 291,200</u>	<u>\$ 274,400</u>	<u>\$ 359,300</u>	<u>\$ 391,700</u>	<u>\$ 414,400</u>	<u>\$ 442,200</u>
Deferred Maintenance Capital Projects ³	77,500	-	108,000	-	108,000	-
TOTALS	\$ 368,700	\$ 274,400	\$ 467,300	\$ 391,700	\$ 522,400	\$ 442,200

* FY 2009 reflects the revised budget; FY 2010-2014 reflect the five year outlook projections as of November, 2008.

¹ The Annual Required Contribution assumes a 20 year time horizon to eliminate the unfunded pension liability with no negative amortization. Also, the outlook presents two scenarios that project the effect of declining asset values on future ARC payments, the scenario shown in this table uses the larger ARC projection.

² In FY 2009, the cash contribution to deferred maintenance was budgeted as follows: \$5.8 million in the General Fund, and the remaining \$22.2 million in the Capital Improvements Program Budget.

³ The deferred maintenance for capital projects is projected to be 100% financed in the amount of \$108.0 million for fiscal years FY 2011 and FY 2013.

Pension Plan

In 2005, the City only funded 68% of its annual required contribution (ARC). Commencing in fiscal year 2006, the City has funded 100% of the ARC and its financial forecast assumes the full funding of the ARC into the future. For fiscal year 2009, the City's annual required contribution is \$161.7 million. Current projections indicate that in fiscal year 2014 the annual required contribution could reach approximately \$291 million.

General Fund Reserves

The establishment of reserves is essential to minimize service level impacts as a result of emergencies and changes in the local economy. It is the City's goal to achieve a General Fund reserve of 8% of budgeted General Fund revenues by fiscal year 2012.

Deferred Maintenance Backlog

As previously discussed, the City's deferred maintenance/capital needs are approximately \$800 to \$900 million excluding those related to the City's Water and Sewer Utilities. Since that estimate was produced, the State passed a bond initiative to fund street and road improvements, which has aided the City's efforts to improve infrastructure. However, the City's goal is to supplement this funding by contributing \$321.5 million in funding for deferred maintenance over the five-year period ending in fiscal year 2014 through a combination of financing and cash funding.

Post Employment Retiree Health

In 2008, the City contracted with the CalPERS Employer Trust Fund to pre-fund the retiree health liability and has contributed approximately \$54 million to date toward advance funding of the benefits. In addition, the City covered the annual (cash basis) cost out of the City's treasury. The City's actuarial accrued liability for retiree health is estimated to be \$1.24 billion in fiscal year 2008. The City's intent is to pay approximately 50% of the ARC over the next five years and to fully fund the ARC thereafter. (See page 21, "Future Challenges".) The June 30, 2008 valuation estimates the ARC to be \$113 million for the fiscal year ending June 30, 2010.

Obligations Related to Storm Water Runoff Permits

Efforts to comply with storm water runoff regulations, including public education, maintenance, and monitoring, has had a significant impact on the City's budget. In fiscal year 2009, \$27.5 million was budgeted. The Outlook includes \$27.5 million for fiscal year 2010 and \$27.5 million annually for fiscal years 2011-2013 for street sweeping, public education, and monitoring requirements.

Americans with Disabilities Act (ADA) Obligations

The Americans with Disabilities Act (ADA) requires public agencies and private companies to make facilities and infrastructure accessible. In fiscal year 2008, a total of \$2.3 million in Community Development Block Grant (CDBG) funds were allocated for ADA improvements and the total citywide allocation for ADA-related purposes was \$12.3 million. The Outlook includes \$10 million dollars in ADA improvements annually.

Workers' Compensation Fund

The City had approximately \$156.1 million in outstanding workers' compensation claims and \$30.7 million in cash reserves at June 30, 2008. The City's Reserve Policy targets a reserve that is 50% of the value of outstanding claims by fiscal year 2014. While the fiscal year 2009 Annual Budget included \$26.1 million to cover the regular projected annual cash payments, the City has allocated an additional \$4 million for the General Fund portion of the reserve in the fiscal year 2009 budget. In order to build reserves, the City plans to contribute \$5 million in fiscal year 2011 and for each year thereafter, in addition to the expected annual cash payments. While the City is committed to funding reserves in the Worker's Compensation Fund, the goal of funding 50% of claims by 2014 is being reassessed given the economic downturn and continued decline in General Fund revenues.

Public Liability Fund

The City had approximately \$48.9 million in outstanding public liability claims and \$10 million in cash reserves at June 30, 2008 (these amounts do not include enterprise fund nor Redevelopment Agency claims). Similar to the Workers' Compensation Fund reserve, the

City's new Reserve Policy targets a reserve equivalent to 50% of the value of outstanding claims by fiscal year 2014. \$10 million has been allocated to this reserve in fiscal year 2009. Beginning in fiscal year 2010, the City's plan is to budget annual allocations of \$5 million per year through the forecast period. All amounts referenced are in addition to the annual budgeted amount to cover the projected annual claims. While the City is committed to funding reserves in the Public Liability Fund, the goal of funding 50% of claims by 2014 is being reassessed given the economic downturn and continued decline in General Fund revenues.

Future Challenges

These are difficult economic times, and the City has set challenging goals for its future. The City believes these goals are achievable with continued fiscal discipline and greater government efficiency. San Diego has relatively low taxes and fees compared to most other large municipalities in the United States. The necessity of correcting past decisions and creating a more fiscally sound city may require tradeoffs. When balanced against our expectations of future revenues and expenses, the Outlook currently projects annual budget deficits that range from \$80 million to \$100 million over the next five years, and accordingly, the Mayor and City Council will need to work together to balance the budget each year. The projections in the Outlook are based on certain assumptions about the downturn in the national and regional economies and the effect on the City's General Fund Revenues. In addition, assumptions were made about the increase in expenditures over a five-year period including the ARC payment. Employees' salary increases are not assumed in the Outlook and raises could occur that would result in increased expenditures. The estimated deficits for the next five years are based on these assumptions and others that may or may not come to pass and the results may be better or worse.

Purpose, Background, and Scope of this Report

San Diego City Charter § 111 requires the City to submit an annual report, including a Statement of Net Assets, and requires that all accounts of the City be audited by an independent auditor. Pursuant to this requirement, the Comprehensive Annual Financial Report ("CAFR") of the City of San Diego ("City") for the fiscal year ended June 30, 2008, is hereby submitted. The audit firm of Macias Gini & O'Connell LLP has issued an unqualified opinion on the City of San Diego's financial statements. The independent auditor's report is located at the front of the financial section of this report.

The CAFR has been prepared in conformance with the principles and standards for reporting as set forth by the Governmental Accounting Standards Board (GASB). Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the management of the City and its related agencies. The City's objective is to provide you with reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements. Additionally, the City continues to construct and improve a comprehensive internal control framework in order to ensure acceptable management of taxpayer funds.

To the best of our knowledge and belief, the data as presented, is accurate in all material respects; it is presented in a manner designed to present fairly the financial position and results of operations of the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining funds of the City and its related agencies; and all disclosures necessary to enable the reader to gain an understanding of the City's, as well as its related agencies', financial activities have been included.

A narrative introduction, overview, and analysis of the financial statements can be found in Management's Discussion and Analysis (MD&A), which immediately follows the independent auditor's report. The MD&A complements this letter of transmittal and should be read in conjunction with it. The CAFR is organized into three sections:

- The introductory section includes information about the organizational structure of the City, the City's economy, and selected other financial information.
- The financial section is prepared in accordance with governmental accounting standards. It includes the MD&A (unaudited), the independent auditor's report, the audited basic financial statements, notes to the basic financial statements, required supplementary information (unaudited), and supplementary information (unaudited).
- The statistical section contains historical statistical data on the City's financial data and debt statistics, as well as miscellaneous physical, demographic, economic, and social data of the City. This section of the CAFR is unaudited.

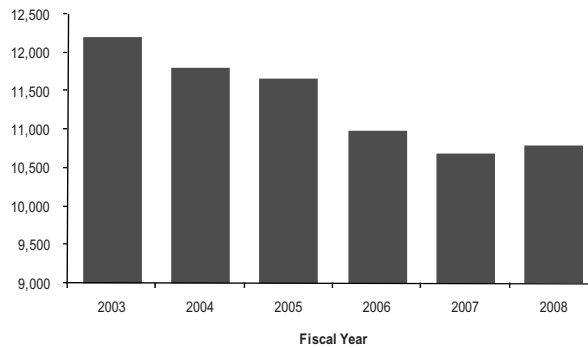
Profile of the City of San Diego

The City of San Diego was incorporated in 1850. The City comprises 342 square miles and, as of January 1, 2008, the California Department of Finance estimates the population to be 1,336,865. The City, with approximately 10,800 employees, provides a full range of governmental services including police and fire protection, sanitation and health services, the construction and maintenance of streets and infrastructure, recreational activities and cultural events, and the maintenance and operation of the water and sewer utilities.

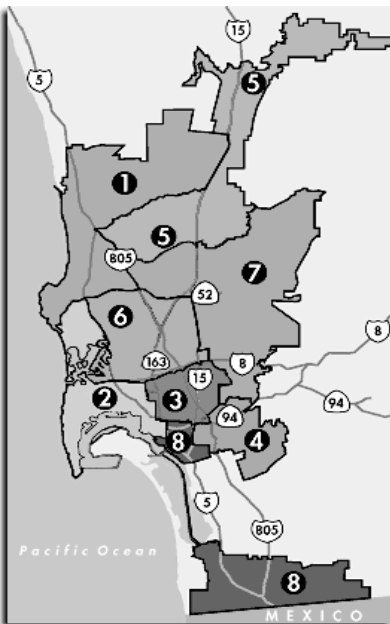
Governing Structure

The City operates under and is governed by the laws of the State of California and its own Charter, as periodically amended since its adoption by the electorate in 1931. The City is currently operating under a Strong-Mayor form of government. The departure from the City's previous Council-Manager form of government was approved by a vote of the public and became effective January 1, 2006. The Mayor is elected at large to serve a four-year term.

City of San Diego
Full-Time and Part-Time Employees



City of San Diego Council
District Map



The charter amendment adopting the Strong-Mayor form of government is in effect for five years, and pending a voter approved extension or modification, sunsets on December 31, 2010. Under the Strong-Mayor form of government, the Mayor is the Chief Executive Officer of the City and has direct oversight over all City functions and services except for the City Council, Personnel, City Clerk, Independent Budget Analyst (IBA), City Attorney, and City Auditor's departments. Under this form of government, the City Council is composed of eight members and is presided over by the Council President, who is selected by a majority vote of the City Council. The Mayor presides over City Council in closed session meetings of the Council. The Council retains its legislative authority; however, all City Council resolutions and ordinances are subject to a veto of the Mayor except for certain ordinances including emergency declarations and the City's annual Salary and Appropriations Ordinances. The City Council may override a Mayoral veto with five votes. The City Attorney, who is elected for a four-year term, serves as the chief legal advisor of and attorney for the City and all departments.

During the County's primary election held on June 3, 2008, voters approved Proposition B which requires City Council to place a measure on the June 2010 ballot to allow voters to decide whether the Strong-Mayor form of government should become permanent effective January 1, 2011. Additionally, Proposition B provides for the public to decide whether the number of City Council districts should increase from eight to nine, and therefore, a corresponding increase of City Council votes required to override the Mayor's veto from five to six. Additionally, voters approved Proposition C which separated the City Auditor's Office from the Comptroller's Office and made the Office of the IBA permanent. Under this amendment, the City Auditor serves a ten-year term and is supervised by an Audit Committee consisting of two Councilmembers and three members of the public, with auditing expertise who are appointed by the City Council. This amendment also provides that the Mayor will appoint, with City Council confirmation, the Chief Financial Officer. In addition, the Mayor's appointment of the City Treasurer no longer requires City Council confirmation.

Current Elected Officials
(As of the issuance of this report)



Mayor Jerry Sanders

District 1
Councilmember Sherri Lightner



District 5
Councilmember Carl DeMaio

District 2
Council President Pro Tem
Kevin Faulconer



District 6
Councilmember Donna Frye

District 3
Councilmember Todd Gloria



District 7
Councilmember Marti Emerald

District 4
Councilmember Tony Young



District 8
Council President Ben Hueso



City Attorney
Jan Goldsmith

Other City Officials

Jay M. Goldstone, Chief Operating Officer

Mary Lewis, Chief Financial Officer

Tracy McCraner, Interim Comptroller

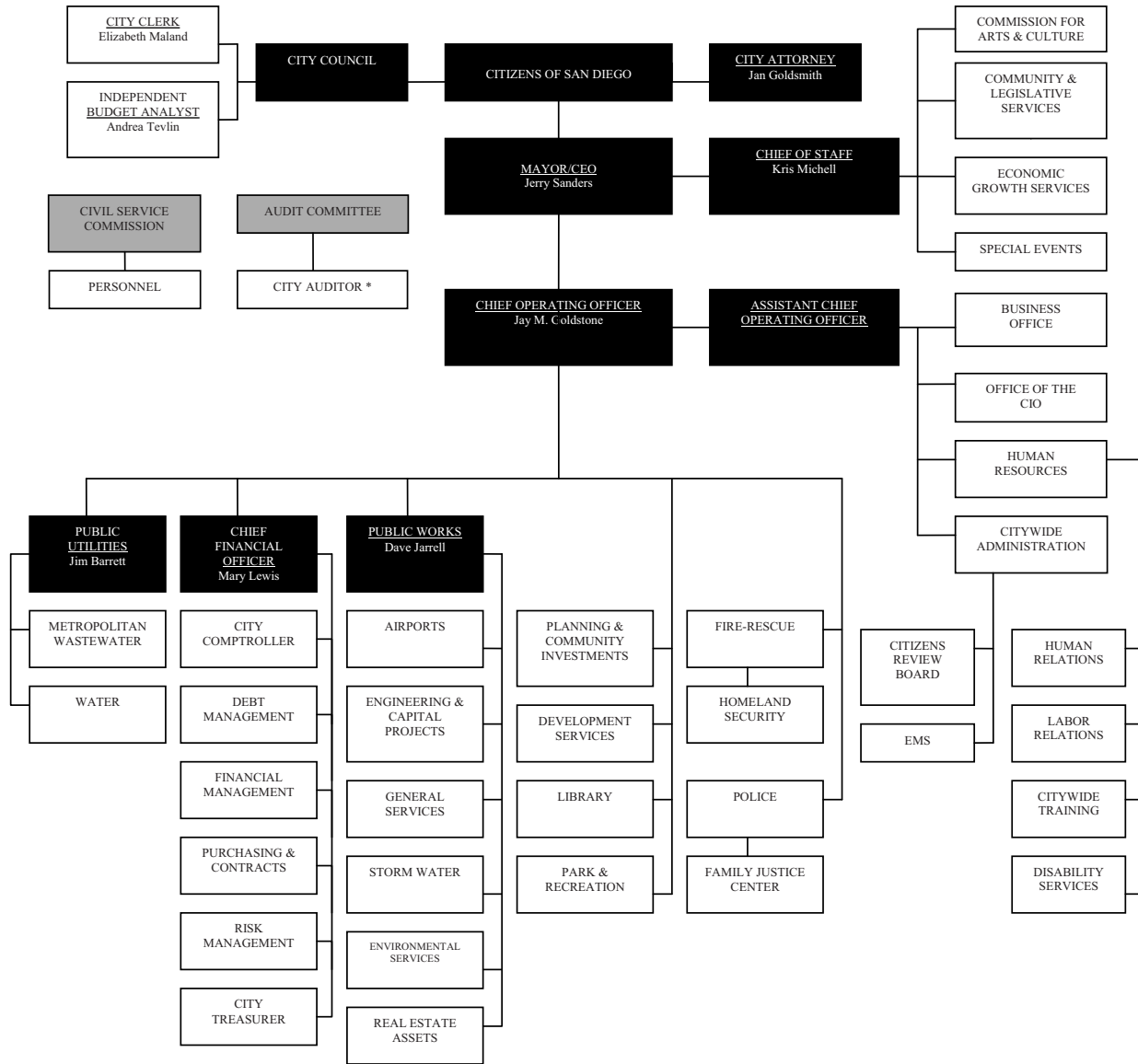
Gail R. Granewich, City Treasurer

Elizabeth Maland, City Clerk

Andrea Tevlin, Independent Budget Analyst

Eduardo Luna, Internal Auditor

City of San Diego Organization Chart (As of the issuance of this Report)



* Proposition C, passed in June 2008, provides that the City Auditor shall report to and be accountable to the Audit Committee. To complete the enacting measure for Proposition C, the City Auditor must be appointed by the City Manager (Mayor), in consultation with the Audit Committee, and confirmed by the City Council. This organization chart reflects the reporting structure called for in Proposition C, which will be in effect following that Council action.

Financial Reporting Entity

In accordance with Governmental Accounting Standards Board (GASB) Statement 14, the following component units are incorporated into the accompanying financial statements:

- Centre City Development Corporation (CCDC)
- City of San Diego Metropolitan Transit Development Board Authority (MTDB)
- Redevelopment Agency of the City of San Diego (RDA)
- San Diego Data Processing Corporation (SDDPC)
- San Diego Housing Commission (SDHC)
- San Diego Open Space Park Facilities District #1
- Community Facilities and Other Special Assessment Districts
- Tourism Marketing District
- Convention Center Expansion Financing Authority (CCEFA)
- San Diego City Employees' Retirement System (SDCERS)
- Public Facilities Financing Authority (PFFA)
- San Diego Convention Center Corporation (SDCCC)
- San Diego Facilities and Equipment Leasing Corporation (SDFELC)
- San Diego Industrial Development Authority (SDIDA)
- Southeastern Economic Development Corporation (SEDC)
- Tobacco Settlement Revenue Funding Corporation (TSRFC)

Additionally, the City participates in a joint venture operation with a private company to provide for emergency medical and medical transportation services. This joint venture is a limited liability company named San Diego Medical Services Enterprise, LLC. The financial impact of the joint venture is displayed in the General Fund within the governmental funds statement of revenues, expenditures and changes in fund balance and in the government-wide statement of activities.

Budgetary Process

Pursuant to the City Charter, an annual budget is presented by the Mayor to the City Council for consideration. Set forth in this budget are the anticipated revenues and expenditures of the General Fund, certain special revenue funds, enterprise funds, and certain debt service funds for the ensuing fiscal year. Additionally, project-length financial plans are presented to and adopted by the City Council for the capital projects funds. The level of budgetary control (the level at which expenditures cannot legally exceed the appropriated amount) is maintained at the fund, department, and object class level. Object classes are defined as salaries and non-personnel expense (including employee benefits). Copies of the City's budgets are available at the Financial Management Office located at 202 C Street, MS8A, San Diego, CA 92101.

The City also maintains an encumbrance accounting system as one technique of accomplishing budgetary control. Encumbered amounts are reported as reservations of fund balances since the commitments are expected to be honored in subsequent periods.

The City continues to look for ways to improve the effectiveness and efficiency of its operations. The focus now is on crafting policy that will ensure a continued commitment to strong financial stewardship.

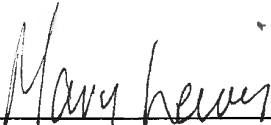
Sincerely,



Jerry Sanders
Mayor



Jay M. Goldstone
Chief Operating Officer



Mary Lewis
Chief Financial Officer



Tracy McCraner
Interim Comptroller

STATISTICAL SECTION [NOT AUDITED]

City of San Diego
Pledged-Revenue Coverage - Sewer Bonds (Unaudited)
Last Ten Fiscal Years (In Thousands)

Fiscal Year Ended June 30	Total System Revenues ¹	Total Maintenance and Operation Costs (Excludes Depreciation)	Net System Revenues ²	Senior Debt Service		
				Principal	Interest	Total
1999	\$ 256,163	\$ 138,880	\$ 117,283	\$ 15,430	\$ 41,108	\$ 56,538
2000	291,238	137,007	154,231	18,300	58,755	77,055
2001	283,228	168,853	114,375	22,150	54,905	77,055
2002	310,392	170,022	140,370	23,045	54,009	77,054
2003	334,551	241,822	92,729	24,000	53,046	77,046
2004	296,169	196,823	99,346	25,030	52,020	77,050
2005	322,542	204,163	118,379	26,120	50,935	77,055
2006	320,288	202,111	118,177	27,390	49,662	77,052
2007	343,921	202,632	141,289	30,250	46,805	77,055
2008	361,511	211,449	150,062	30,250	46,805	77,055

¹ Beginning in Fiscal Year 2004, the City's methodology for reporting Net System Revenues was changed to exclude interest earnings on Acquisition Bond Proceeds from Total Income. The data presented in this Table has been restated to reflect this change.

² Net System Revenues is defined as "System Revenues" less "Maintenance and Operation Costs" of the Wastewater System for the fiscal year.

³ All Obligations include Senior, Subordinate and State Revolving Fund (SRF) Loans.

Source: Comprehensive Annual Financial Reports

Table 14

Senior Debt Service Coverage	All Obligations ³	
	Total Debt Service	Aggregate Debt Service Coverage
2.07	\$ 56,538	2.07
2.00	77,055	2.00
1.48	77,688	1.47
1.82	77,888	1.80
1.20	80,995	1.14
1.29	81,516	1.22
1.54	84,789	1.40
1.53	86,802	1.36
1.83	96,408	1.47
1.95	94,555	1.59

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APPENDIX B

FEASIBILITY STUDY FOR 2009 SERIES WASTEWATER REVENUE BONDS

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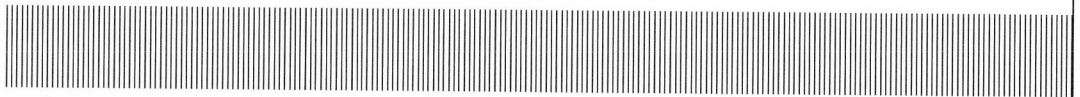
Prepared For:

**The City of San Diego
Metropolitan Wastewater Department**
9192 Topaz Way • San Diego, CA 92123

Feasibility Study for 2009 Series Wastewater Revenue Bonds

FINAL 04-23-09

April 2009



**MALCOLM
PIRNIE**

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EXECUTIVE SUMMARY

This report provides an overview of the City of San Diego Metropolitan Wastewater Department (the Department or MWWD), the regional wastewater treatment and disposal system (the System) operated and maintained by MWWD, and the MWWD Capital Improvement Program (CIP) developed for the System. For the purposes of this report, the System is defined as the combined sewage collection, treatment and disposal facilities, including all related appurtenances and supporting functions, associated with two major sub-systems: the City of San Diego Municipal System (Municipal Sub-System) and the Metropolitan System (Metro Sub-System). The Metro Sub-System receives flows from the Municipal Sub-System as well as the independent collection systems of 15 Participating Agencies (PA) as defined below and in Section 3 of the report. Where in this report a distinction among sub-systems is required, it is delineated with the terms defined above. In general, however, the review incorporated into this document is pertinent for the System, inclusive of the sub-systems.

This report presents conclusions regarding the System's physical and financial viability during the review or forecast period of fiscal years 2009 (FY09) through 2013 (FY13). For the City of San Diego, each fiscal year is defined as July 1st of the prior year through June 30th of the named year. The review detailed in this report is intended to support the issuance of Wastewater System Revenue Bonds (the Series 2009A Bonds) to finance the Wastewater System projects in the City's CIP.

The information and conclusions from each section of this report are summarized below.

Section 1 - Introduction

This section presents the purpose, scope and methodology for the System review as well as the qualifications of Malcolm Pirnie, Inc. and Red Oak Consulting to complete such a review. The review presented in this report, by its very nature, is an assessment of current and recent actions, plans and approaches to the management and operation of the System taking into account future conditions that could impact the management and operation of the System. Certain factors, such as the long-term impact of the current economic conditions in the United States are not yet fully understood, and as such cannot be fully factored into the estimates of the future conditions or the possible courses of action the City may take. Where possible within the financial feasibility review discussed herein, sensitivity analyses have been completed to demonstrate the financial impact of changes in certain assumptions. For technical elements, the projection of future requirements is based on an increase in requirements utilizing published materials.

Section 2 - Organization

The City of San Diego (the City) operates under a Strong Mayor form of government as mandated in the City Charter. The City Council serves as the legislative branch of the City, reviews and adopts both the water and wastewater budgets, establishes water and wastewater rates, and sets overall policy for the City in conjunction with the Mayor. The Mayor serves as the executive branch of the City and is responsible for execution of

policy established by the Council as well as oversight of the City's operations. Administrative authority and responsibility for the Department is derived from ordinances and resolutions adopted by the City Council and executed by the Mayor.

MWWD is responsible for the planning, operations, and maintenance of the System including sewer pipes and associated pump stations, the Point Loma Wastewater Treatment Plant (PLWTP), the North City Water Reclamation Plant (NCWRP), the South Bay Water Reclamation Plant (SBWRP), and the Metro Biosolids Center (MBC). Additional details on these facilities can be found in Section 3. In all, MWWD served a population of approximately 2.1 million people in fiscal year (FY) 2008 over a service area of approximately 450 square miles.

The vision of MWWD is:

“We are a recognized wastewater service leader, committed to continual improvement.”

To accomplish this vision, MWWD is led by the Director of Public Utilities dedicated to management and leadership of MWWD. Reporting to the Director is an Assistant Director who manages five Deputy Directors who divide the organizational responsibilities of the Department. Under an arrangement finalized in 2007, MWWD works closely with the Engineering and Capital Projects Department of the City to plan for and deliver the capital projects required for the maintenance and expansion of the System. The MWWD structure provides for delegation of management authority so that key day-to-day decisions can be made by personnel with the most experience and technical qualifications. Together with the Engineering and Capital Projects Department, MWWD has the requisite staffing, experience and qualifications to plan and execute projects within the CIP.

Section 3 - Wastewater Facilities

The City operates wastewater facilities to transport, treat, reclaim, reuse, and discharge wastewater and its by-products collected from the System. The System provides for conveyance, treatment, reuse, and disposal of wastewater within a 450 square mile service area that includes the City of San Diego, serviced by the Municipal Sub-System, and 15 regional Participating Agencies, as well as the City of San Diego, serviced by the Metro Sub-System. Each Participating Agency is responsible for the wastewater collection system within its boundaries to the point of discharge to the System. Wastewater flows from the Municipal Sub-System comprise approximately 65% of the Metro Sub-System flows. All System facilities are owned by the City of San Diego and are operated by MWWD. A map detailing major facilities in the System and the Participating Agencies is included as Figure ES-1.

The System is a complex system of pipelines and pump stations that collect wastewater and convey it for treatment and disposal or reuse. The PLWTP serves as the terminus for the System and is capable of treating all flows generated within the System. Within the System are two water reclamation plants, the NCWRP and the SBWRP, that pull flow from the sewers for treatment and reuse. The System also includes the MBC which treats and disposes of all treatment process solids material removed by the three treatment plants.



The City of San Diego

Metropolitan Wastewater System Existing and Planned Facilities

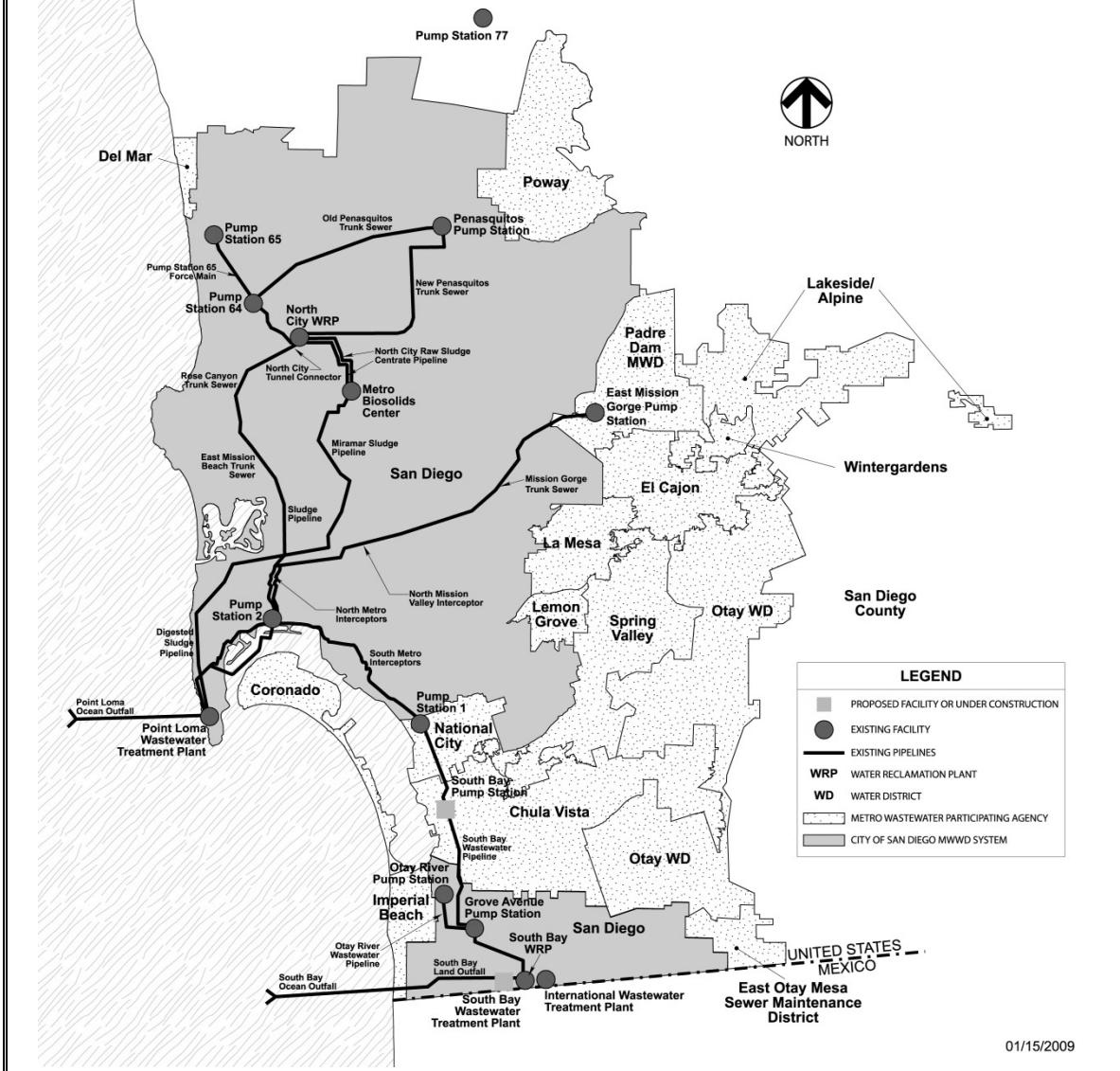


Figure ES-1
Metro System Service Area Map

The PLWTP is the largest of the wastewater treatment plants in the System. The plant has a rated capacity of 240 million gallons per day (mgd) average daily dry weather flow, 432 mgd peak wet weather flow, and operated at approximately 163 mgd in FY08. The NCWRP has a rated capacity of 30 mgd and operated at approximately 23 mgd in FY08. The SBWRP has a rated capacity of 15 mgd and operated at approximately 9 mgd in FY08. The PLWTP is an advanced primary treatment facility and the NCWRP and SBWRP are both tertiary treatment facilities.

The review of the System determined that the technology employed by MWWD within the System is appropriate for its application and is capable of providing adequate wastewater collection and treatment. Critical treatment plant components have standby process units and are equipped with backup power for uninterrupted treatment. The City has also invested in the beneficial reuse of wastewater effluent, as exhibited by the addition of the NCWRP and the SBWRP. Further, operations and maintenance (O&M) personnel and facilities are provided that allow for control and preservation of the System to ensure long-term compliance with regulatory and operational objectives.

Section 4 - Wastewater Service Requirements

The System serves a population of approximately 2.1 million people, as indicated in population projections developed in December 2007 by the City of San Diego and each Participating Agency. The projections are developed independently by each utility on the basis of population forecasts adopted by the San Diego Association of Governments (SANDAG) plus specific data that the utility may consider relevant. An example could be the commissioning of a new wastewater reclamation facility within the utility's jurisdiction that would effectively remove flow from the System.

The review of the projections concluded that the projections for sewage generated within the System were less than the flow treated through the three treatment facilities. While this discrepancy could be partially attributable to inflow and infiltration from the extensive collection system, it is most directly related to the return of treated secondary effluent from the NCWRP, the discharge of SBWRP solids, and the return of post-treatment centrate streams from the MBC. As noted above, the NCWRP operated at approximately 23 mgd during FY08. Throughout the year, however, not all of this flow is required for use in the reclaimed water distribution system. As such, excess secondary effluent from the NCWRP is returned to the collection system for disposal via the PLWTP. Estimates of this return flow based on reclaimed water demand show that this accounts for approximately 13 mgd of return flow to the System. The operation of the NCWRP in this manner provides two advantages to the operation of the System. First, the NCWRP is a biological treatment facility. As such, it must be operated to maintain its biological population in order to continue effective operation for the treatment of sewage to the tertiary effluent standards necessary for the reclaimed water system. Second, the flow that NCWRP is returning to the sewer is substantially lower in solids than the influent flow. These solids are treated at the MBC, and as such operation of the NCWRP reduces the solids load that the PLWTP must treat before discharge to the ocean outfall.

While the SBWRP discharges all of its flow either to the reclaimed water distribution system or to the ocean outfall, it does not treat its own solids and cannot discharge them to the MBC directly. As such, the SBWRP discharges its solids into the sewer system, which flows to the PLWTP for treatment. This flow effectively increases the solids that the PLWTP must treat. Finally, the MBC returns centrate streams to the PLWTP for treatment, which in turn increases the solids load on the PLWTP. The MBC flows, however, are typical of any treatment facility process and have relatively little effect on the perceived or actual capacity of the facility.

The review detailed in this report determined that the PLWTP has sufficient capacity to treat the projected flow and loads. Capacity requirements of the NCWRP and SBWRP are defined based upon performance of the facilities for the desired end use of the effluent since excess flow and load can be bypassed and treated at the PLWTP. Further, the PLWTP has sufficient capacity to treat all System wastewater generation in the event the NCWRP and SBWRP were taken off-line simultaneously. The capacity of these facilities places the System within industry design standards with an appropriate level of treatment capacity and redundancy for continued operations through the planning horizon.

Demands placed on the System will increase as a result of continued growth and anticipated aging of the new or updated components of the System, in particular the treatment facilities. The treatment facilities currently have sufficient capacity to adequately satisfy the wastewater treatment requirements of the System beyond FY13.

Section 5 - Regulatory Requirements

MWWD operations are subject to Federal, State, Regional, County, and City environmental regulations. The Federal regulations that have the most significant effect on the City are derived from the initial legislation and subsequent amendments of: (1) the Clean Water Act (CWA), (2) the Clean Air Act (CAA), and (3) the Resource Conservation and Recovery Act (RCRA). The Federal regulations related to environmental quality are listed in Title 40, Code of Federal Regulations (CFR) – Protection of the Environment.

Currently, MWWD is in compliance with the major elements of the CWA, including the following regulatory programs: National Pollutant Discharge Elimination System (NPDES) Permit, Biosolids, Sanitary Sewer Overflow Management, and Metropolitan Industrial Wastewater Control. MWWD is also currently in compliance with the major elements of the CAA and RCRA, as well as other programs managed by the Federal government and the State of California. Additional information on these regulatory programs is found in Section 5.

In addition to the compliance mandates presented above, the City of San Diego has additional actions that must be taken under the CWA associated with the Final Consent Decree in Case Nos. 03-CV-1349K and 01-CV-0550B filed October 12, 2007 in U.S. District Court, Southern District of California, between the United States of America, local environmental groups, and the City of San Diego. The consent decree results from a lawsuit filed in the year 2001 against the City of San Diego for violation of the CWA

due to sanitary sewer overflows. In response to previous overflows, the MWWD embarked on a significant plan in 2001 to reduce SSOs by developing a system-wide sewer line cleaning schedule; televising and assessing the condition of the oldest and most problematic sewer lines in the municipal collection system; and increasing the number of miles of sewer lines replaced or rehabilitated annually. The Final Consent Decree obligates the City to continue most of these activities and to complete certain capital improvement projects through June 30, 2013. Since these programs have been implemented, the number of SSOs in the City of San Diego has decreased significantly. To date, the City is meeting the targets established as a part of the Final Consent Decree.

Future regulatory changes could impact MWWD. Currently, the PLWTP is one of a limited number of wastewater treatment facilities in the United States that is permitted to discharge advanced primary effluent as opposed to conventional secondary or tertiary effluent. MWWD has taken several steps to maintain compliance and to anticipate additional compliance actions that could be required to continue the discharge of advanced primary effluent from this facility. These actions have not, however, addressed the potential that U.S. EPA or the State of California could elevate the minimum treatment standards to a point that eliminates all discharges that have not received at least secondary/biological treatment. Also, CAA revisions to more closely monitor and manage carbon dioxide emissions, such as a “cap and trade” program, could have a significant impact on management and operations of the System. At this time, assessment of this impact is not feasible. With both of these potential changes to regulations, MWWD will need to continue to closely monitor the regulatory environment and be prepared to pursue planning studies to assess the impact of such changes on the CIP and operations in the event regulators begin to move in this direction.

The City has demonstrated its ability to meet regulatory requirements for effluent from its treatment facilities on a regular basis, and has taken actions to improve the consistency of System operations. The appropriate regulatory permits have been applied for or obtained where required, and MWWD is currently in compliance with these regulations. Where compliance issues have been identified, MWWD has responded to these issues with action plans or entered into agreements with the appropriate regulatory agency to address them in a manner acceptable to the agency.

Section 6 - Operations and Maintenance

The System consists of one wastewater treatment plant (the PLWTP), two water reclamation plants (the SBWRP and NCWRP), a biosolids treatment facility (the MBC), approximately 3,000 miles of sewer pipes, 79 Municipal Sub-System wastewater pump stations, and 4 Metro Sub-System pump stations. In addition, there are 147 permanent flow meters in the System and 10 temporary flow meters.

The System operates around the clock and must be staffed accordingly. Depending on size and significance, some facilities are staffed 24 hours per day while others are staffed for part of each day and monitored remotely when not staffed. There are approximately 290 budgeted positions for administrative, engineering, operations, and maintenance personnel dedicated to operation and maintenance of the treatment and reclamation facilities, the four Metro Sub-System pump stations and four of the large Municipal Sub-

System pump stations. MWWD also has a staff of 241 budgeted positions to maintain the 3,000 miles of sewer, the remaining 75 Municipal Sub-System pump stations, 54 Municipal Sub-System flow meters, the Mission Bay Sewage Interceptor System (MBSIS) and the Coastal Area Low Flow Diversion System.

MWWD maintains a system of computer-based process instrumentation and control equipment throughout its wastewater collection and treatment facilities. Each major treatment facility has a distributed control system that permits monitoring and control of equipment and processes from either a centralized control room or from any number of sites located throughout the facility. MWWD also has a centralized wastewater operation control center known as the Central Operations Management Center (COMC) that integrates monitoring and control of the treatment, storage, metering, and pumping facilities in the System.

Major facilities within the System were reviewed to determine the effectiveness of the City's maintenance efforts. Facilities were found to be well operated and maintained in good, operable condition. Treatment plants are staffed with properly certified operators capable of carrying out their job duties. MWWD has modern computer systems and controls in place to focus on preventive and predictive maintenance and to assist with many aspects of operation, maintenance, and job prioritization. Further, MWWD has located maintenance staff in a manner that provides for routine maintenance and implementation of maintenance best management practices, as well as, continued professional development of new staff.

Section 7 - Financial Feasibility

MWWD must generate sufficient revenue to operate and maintain the System. To assess the adequacy of funding, a comprehensive review and evaluation of the MWWD-prepared multi-year financial forecast was conducted for the five fiscal years from July 1, 2008 through June 30, 2013 (the forecast period). The purpose of the financial review is to provide an independent, third party opinion on the forecast and its underlying assumptions. Assumptions and documents that were reviewed included, but were not limited to: audited financial statements; beginning cash balances; capital improvement expenditures; current debt and debt service; future debt and debt service; operating budgets; historical O&M expenditures; historic, current and projected rates and related revenues; customer account and flow data; and other key data used by MWWD in developing the financial forecast.

The CIP was also reviewed to determine the adequacy of the capital projects incorporated to meet near and long-term regulatory requirements, future capacity requirements associated with growth or customer demand, continued improvement in the collection system mandated under the Final Consent Decree, and capital rehabilitation and replacement. As a component of this review, the related project planning and the capital budgeting processes were also reviewed. The processes used to identify projects were determined to meet the needs of the System and the approach used for capital budgeting of projects in the CIP was found to be adequate.

In general, the feasibility review determined the following with regard to the MWWD-prepared forecast covering the FY09 through FY13 period:

- MWWD's CIP is reasonable to address near and long-term capacity objectives of the System, effect necessary rehabilitation and replacement work, and general compliance with regulatory standards.
- Projections of revenues and expenses were reviewed in comparison with historical data and were found to be reasonable and consistent with the stated assumptions.
- With the anticipated annual rate increases, being those already adopted by the City for FY09 and FY10, and those proposed by MWWD (subject to City Council approval) in the last three years of the forecast, both the MWWD forecast and the sensitivity analyses conducted, demonstrate the reasonableness of the expected financial results including the 1.20 times (x) debt service coverage (DSC) requirement for Parity Obligation debt and cash reserve targets.

The impact of the current economic and financial situation that now exists in the U.S. on state and local governments has yet to be fully understood and hence, cannot be fully detailed in a single analysis or projection. The City will need to continue its efforts to monitor financial conditions and the potential effect those conditions may have on MWWD financial management.

Section 8 - Summary and Conclusions

Malcolm Pirnie completed an overall assessment of the MWWD organization, physical facilities, regulatory compliance record, O&M practices, the capital improvements planning process and the MWWD-prepared financial forecast. The investigations revealed that MWWD compares favorably in those areas with similar municipally-operated utilities. The organizational structure is designed to provide appropriate oversight and allows for delegation of authority. The physical facilities are meeting the current demands placed on the wastewater system, and MWWD is addressing current and future requirements through the projected CIP. Operations and maintenance of the facilities meet or exceed industry standards for municipally-operated wastewater treatment operations. MWWD also has a good overall record of regulatory compliance. Finally, MWWD has established an adequate plan to secure the future CIP funding and revenues necessary to repay planned borrowings and to manage future expenses necessary to maintain the System through the forecast period.

Conclusions from this review are summarized below.

- MWWD is organized in a manner which provides satisfactory and reliable wastewater management services that meet public needs. The organizational structure provides for appropriate delegation of management authority. Positions are staffed with qualified and trained personnel.
- The technology employed by MWWD at its wastewater treatment facilities meets or exceeds that of most other comparable utilities, is appropriate for its application, and results in adequate wastewater treatment.

- Together with the Engineering and Capital Projects Department, MWWD has the requisite staffing, experience and qualifications to plan and execute and to operate the System projects within the projected CIP.
- Generally, facilities were found to be well-maintained and properly staffed.
- The System satisfies current Federal, State, Regional, County, and City regulations. However, future regulations may require operational modifications and additional capital improvements. The CIP has provisions for planned and unplanned improvements to meet these regulations. The CIP also has items incorporated into it that will allow MWWD to meet the requirements of the Final Consent Decree related to sanitary sewer overflows. MWWD has obtained or has applied for the required wastewater system permits. MWWD also has an outstanding environmental compliance record for effluent quality.
- The wastewater treatment facilities have adequate capacity to meet customer requirements and anticipated future requirements through the forecast period. Furthermore, the CIP incorporates projects to improve effluent quality from the water reclamation facilities, thus providing for future customer requirements.
- MWWD is addressing the near-term physical needs of the wastewater system during the CIP planning process as well as planning for future needs. The CIP planning process represents a prudent capital planning process that reflects industry standards.
- The CIP is reasonable to address near and long-term capacity objectives of the System, effecting necessary rehabilitation and replacement work, and general compliance with regulatory standards.
- Projections of revenues and expenses reviewed in comparison with historical data were found to be reasonable and consistent with the stated assumptions.
- With the anticipated annual rate increases, being those already adopted by the City for FY09 and FY10 and those proposed by MWWD (subject to City Council approval) in the last three years of the forecast, the assumptions utilized for this forecast period are reasonable. Further, both the MWWD forecast and the sensitivity analyses prepared (see Table 7-24) demonstrate the reasonableness of the expected financial results including the 1.20x DSC requirement on Parity Obligation debt, the 1.10x DSC requirement on current State Revolving Fund (SRF) loans, the 1.00x DSC requirement on subordinate debt, and established cash reserve targets.
- Application of the ABT requirements to the Series 2009A Bonds, as stated in the Master Installment Purchase Agreement (MIPA) and the Rate Covenant, indicate that Net System Revenues are sufficient to achieve a debt service coverage ratio of 1.20x on Parity Obligation debt.

1.0 INTRODUCTION

1.1 PURPOSE

This report provides a general overview of the City of San Diego Metropolitan Wastewater Department (the Department or MWWD), the regional wastewater treatment and disposal system (the System) operated and maintained by MWWD, and the Capital Improvement Program (CIP). For the purposes of this report, the System is defined as the combined collection, treatment and disposal facilities, including all related appurtenances and supporting functions, associated with two major sub-systems: the City of San Diego Municipal System (Municipal Sub-System) and the Metropolitan System (Metro Sub-System). The Metro Sub-System receives flows from the Municipal Sub-System as well as the independent collection systems of 15 Participating Agencies as defined below and in Section 3 of the report. Where in this report a distinction among sub-systems is required, it is delineated with the terms defined above. In general, however, this review incorporated into this document is pertinent for the System, inclusive of the sub-systems.

This report also presents conclusions regarding the System's physical and financial viability during the review of forecast period of fiscal years 2009 (FY09) through 2013 (FY13). For the City of San Diego, each fiscal year is defined as July 1st of the prior year through June 30th of the named year. The review detailed in this report is intended to support the issuance of Wastewater System Series 2009A Revenue Bonds (Bonds or 2009A Bonds) and the refunding of the Subordinate Sewer Revenue Notes, Series 2007. The Bonds are expected to finance a portion of wastewater system projects in the City's FY09 and FY10 Wastewater CIP.

1.2 SCOPE

This report addresses: (1) the organization and functional management of the MWWD to accomplish its objectives, (2) the existing System's physical condition, capacity, and adequacy, (3) regulatory requirements and compliance records, (4) MWWD O&M practices and staffing levels, and (5) the financing of the proposed CIP and operations.

The work conducted to prepare this report included:

- Examination of current engineering reports, MWWD reports and records and data on existing and proposed Federal, State, Regional, County, and City regulations as related to wastewater conveyance and treatment.
- Reviews of the existing wastewater facilities and their operation and maintenance practices, and interviews with MWWD staff responsible for planning, operations, maintenance, and regulatory compliance of the facilities.
- Site inspections of each wastewater treatment facility and selected collection system facilities.
- Review of the proposed CIP and financing plan.

1.3 METHODOLOGY

The review of the System facility capacities and physical conditions and MWWD O&M practices were based on information obtained through site visits, discussions with MWWD staff, and from planning documents, reports, and studies prepared by others. Current and projected wastewater flows and loadings through 2013 were obtained from information presented in various documents prepared by consultants for the MWWD, documents developed by MWWD, and from discussions with MWWD staff.

The review presented in this report is an assessment of current and recent actions, plans, and approaches to management and operation of the System with calculated estimates of potential future conditions that could impact the management and operation of the System. Certain factors, such as the long-term impact of the current economic conditions in the United States, are not yet fully understood, and as such cannot be fully factored into the estimates of the future conditions. Where possible within the financial feasibility review discussed herein, sensitivity analyses have been completed to demonstrate the financial impact of changes in certain assumptions. For technical elements, the projection of future requirements is based on an increase in service level requirements utilizing published material.

1.4 MALCOLM PIRNIE QUALIFICATIONS

Malcolm Pirnie, Inc., along with its Red Oak Consulting division, is a consulting engineering firm specializing in partnering with clients to deliver major environmental capital projects and in providing utility management services for clients across the United States. Malcolm Pirnie has over 100 years of water and wastewater engineering, operational and management experience and expertise, and over 1,750 staff to assist clients in the delivery of projects and in the improvement of services for their customers.

Using the strong engineering talents of Malcolm Pirnie staff and the financial expertise of the Red Oak Consulting Division, Malcolm Pirnie has extensive experience in preparing reports evaluating the financial and engineering feasibility of a wide variety of projects. The management and staff who completed the work underlying this report are experienced in the preparation of engineering and financial reports for bond issuances. Malcolm Pirnie's experience in financial and engineering feasibility studies includes studies for: the Puerto Rico Aqueduct & Sewer Authority, the City of Phoenix, AZ, the City and County of Denver, CO, the Buffalo Sewer Authority, NY and Greater New Haven Water Pollution Control Authority, CT. This listing is not all-inclusive but merely a sample of representative studies.

The information in this report is an independent evaluation based on information provided to Malcolm Pirnie by MWWD. Currently, Malcolm Pirnie and its subsidiaries, are not engaged in other projects with MWWD, and no information from Malcolm Pirnie led projects associated with the City of San Diego has been used in the conduct of this review or the completion of this report.

1.5 APPENDICES

This report contains three appendices. Appendix A contains information related to the CIP review including information on selected projects from the five year CIP. Appendix B includes the proposed schedule of rates for the fiscal years reviewed as part of this report. Appendix C contains a listing of abbreviations and acronyms utilized in this report.

2.0 ORGANIZATION

2.1 INTRODUCTION

The City of San Diego was incorporated in 1850 and operates under a Charter approved by the voters. The basic form of government upon which the Charter is based is known as a “Council-Manager” form of government; however, effective January 1, 2006, the City began a five-year pilot program of a “Strong Mayor” form of government. Under a Council-Manager form, the City Council, elected by districts with a Mayor elected at large, serves as the policy making body with the responsibility for execution of Council policies falling to a manager hired by the Council. Under a Strong Mayor form of government, the Council serves principally as the legislative body of the City with the Mayor serving as the Chief Executive in charge of the execution and enforcement of all laws, ordinances, and policies of the City. The pilot period for this new government form is scheduled to expire on January 1, 2011, unless it is made permanent by a formal Charter amendment prior to this date. MWWD reports to the Public Utilities Group that ultimately reports to the Mayor through the City’s Chief Operating Officer.

2.2 MWWD ORGANIZATIONAL STRUCTURE

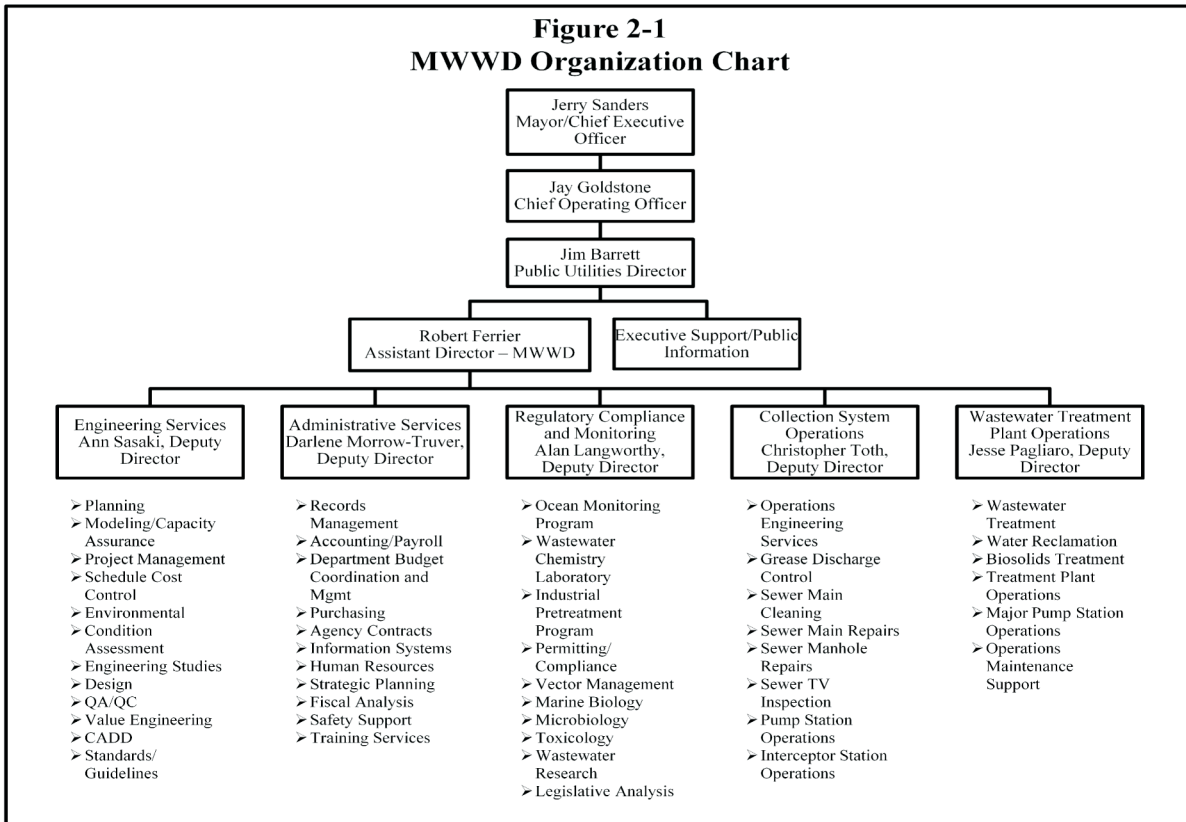
The organizational chart for the MWWD is shown in Figure 2-1. The vision of MWWD is:

“We are a recognized wastewater service leader, committed to continual improvement.”

To accomplish this vision, the MWWD is led by an Assistant Director of Public Utilities. Reporting to the Director is an Assistant Director who manages five deputy directors who divide the organizational responsibilities of the department into the following functional groups:

- Engineering and Program Management Division (EPM) – Responsible for activities related to planning, management, and oversight of projects necessary to maintain MWWD’s service levels and vision.
- Administrative Services Division (AS) – Responsible for activities, such as human resources, departmental budgetary coordination and management, and information systems, necessary to facilitate the efficient operation of MWWD.
- Environmental Monitoring and Technical Services Division (EMTS) – Responsible for activities necessary to maintain compliance with environmental monitoring and regulatory permits, as well as implementation of the Industrial Source Control Program.
- Wastewater Collection Division (WWC) – Responsible for activities associated with the efficient operation and maintenance of collection system facilities associated with the System.
- Wastewater Treatment and Disposal Division (WWTD) – Responsible for activities associated with the efficient operation and maintenance of the MWWD

wastewater treatment and water reclamation facilities and biosolids facilities, as well as the operations of certain major pump stations in the System.



2.3 ORGANIZATIONAL FUNCTIONALITY

MWWD is responsible for the planning, operations, and maintenance of the System as well as the Point Loma Wastewater Treatment Plant (PLWTP), the North City Water Reclamation Plant (NCWRP), the South Bay Water Reclamation Plant (SBWRP), and the Metropolitan Biosolids Center (MBC). Additional details on these facilities can be found in Section 3. In all, MWWD served a population of approximately 2.1 million people in calendar year 2008 over a service area of approximately 450 square miles. Under an arrangement approved in 2007, MWWD works with the Engineering and Capital Projects Department, under the City’s Public Works Group, for planning and delivery of its capital projects.

MWWD leadership defined as staff at the deputy director and assistant director levels, are experienced in their areas of oversight and authority, and are knowledgeable about the System and the MWWD facilities under their direction, as well as current and potential regulations that impact their divisions. MWWD has 840 budgeted staff positions to carry out the leadership and implementation activities of the department and its five divisions. In general, this staffing is consistent with departments responsible for oversight of systems with similar size and complexity.

As noted above, MWWD utilizes the services of the Engineering and Capital Projects Department for execution of capital projects within the CIP. The Engineering and Capital Projects Department has been involved in the design and construction of Municipal projects for many years. In October 2007, this arrangement was expanded to include all System projects. MWWD serves as Engineering and Capital Projects' "client" establishing each project's budget and overall objectives during the initial project planning and engineering completed by MWWD. MWWD oversees the project throughout the delivery to ensure that the project maintains the stated objectives during execution, and takes over control of the finished facility upon completion of the work.

The City opted to change the manner in which capital projects are managed in an effort to standardize the approach to project execution for all major capital projects throughout the City. This consolidation is targeted at ensuring best management practices with respect to project management are consistently implemented across all projects and standardized processes are developed for the City. Due to the magnitude and complexity that is often associated with wastewater collection and treatment projects and the associated skills required to manage these issues, the Engineering and Capital Projects Department has established a team that focuses on MWWD projects. This team assists MWWD in the detailed estimating for projects, project management during the design and construction phases, and in coordination with other departments and stakeholders during project execution.

The approach to delivery of capital projects employed by the City is a standard practice in the industry, although utility departments, as an organization within a City, routinely manage capital projects internally as well. Malcolm Pirnie interviewed the staff in MWWD and in the Engineering and Capital Projects Department related to this new arrangement. Staff in both departments noted that this approach is an extension of delivery services that have worked successfully in the past, and were positive about improving the City's ability, as a whole, to consistently deliver quality capital projects. Staff also noted that procedures for planning and delivery of projects are well documented and are reviewed on a regular basis for improvement opportunities. Further, objectives of projects are formalized through the execution of service level agreements that are enforced by each department. While time under this approach for all MWWD projects is still required to adequately assess its effectiveness, the delineation of responsibilities and the approach to coordination of the departments is appropriate for successful execution of capital projects.

2.4 SUMMARY

MWWD is organized and empowered to provide satisfactory and reliable wastewater management services that meet the public's needs. The MWWD structure provides for delegation of management authority so that key day-to-day decisions can be made by personnel having appropriate experience and technical qualifications. Positions are staffed with qualified and trained personnel. Together with the Engineering and Capital Projects Department, MWWD currently has the requisite staffing, experience and qualifications to plan and execute and to operate the System projects within the projected CIP.

3.0 WASTEWATER FACILITIES

3.1 FACILITY OVERVIEW

MWWD operates the following wastewater treatment facilities to transport, treat, reclaim, reuse, and discharge wastewater and its by-products. These facilities are described in subsequent sections and include:

- PLWTP and Point Loma Ocean Outfall (PLOO)
- NCWRP
- SBWRP and South Bay Ocean Outfall (SBOO)
- MBC and sludge conveyance facilities
- Wastewater conveyance facilities including pump stations
- Maintenance facilities

3.2 SERVICE AREAS AND CAPACITIES

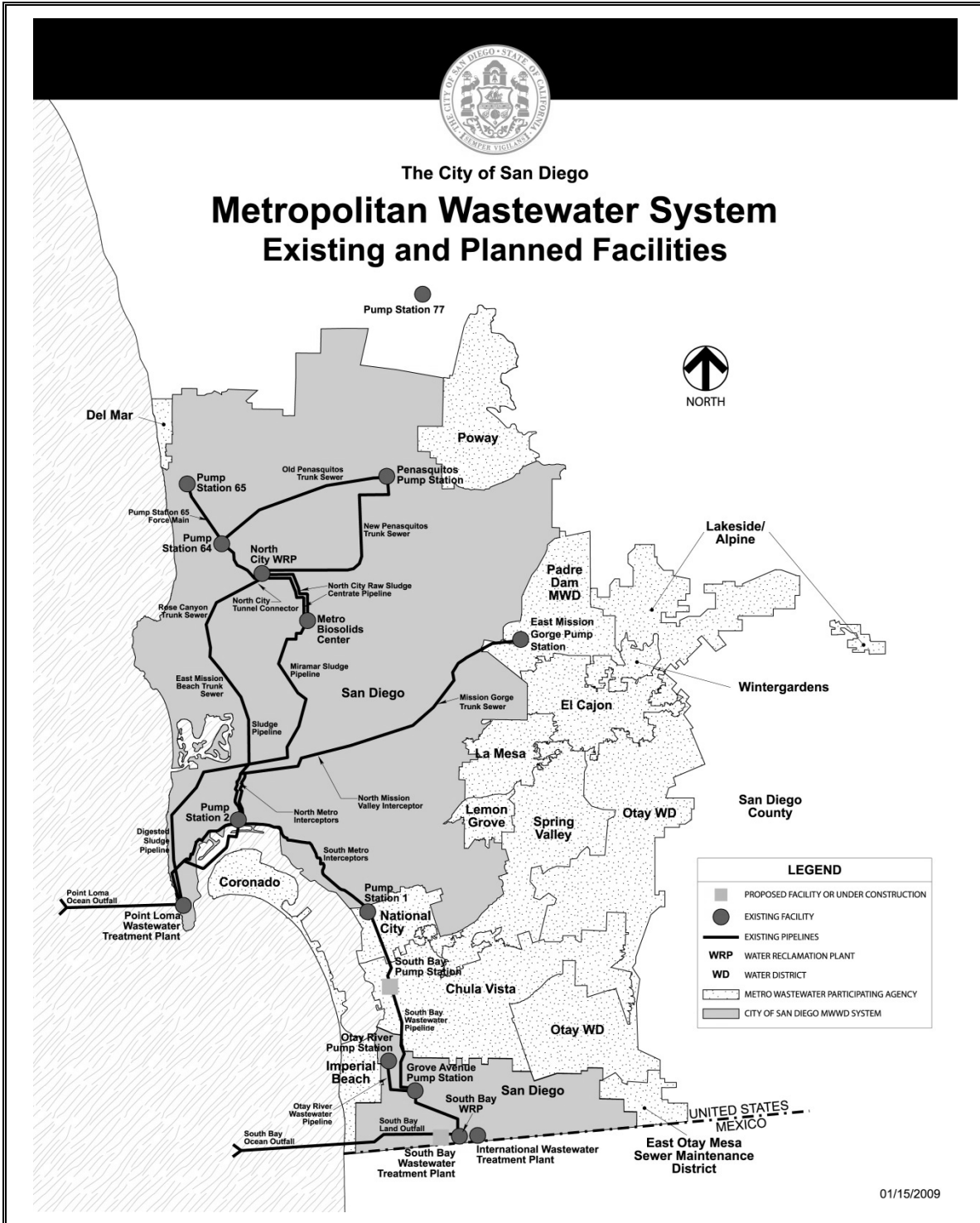
The System provides for conveyance, treatment, reuse, and disposal of wastewater within a 450 square mile service area that includes the City of San Diego and 15 regional Participating Agencies. Table 3-1 is a listing of the Participating Agencies, including the contribution to Metro System flow for FY08, and Figure 3-1 presents a map of the Metro System service area with the boundaries of the Participating Agencies. Approximately 35% of the total Metro System flows come from the Participating Agencies.

Table 3-1 Metro System Participating Agencies		
Municipalities (flow: 25.8%)	Water/Wastewater Districts (flow: 2.0%)	Sanitation/Maintenance Districts (flow: 7.3%)
City of Chula Vista City of Coronado City of Del Mar City of El Cajon City of Imperial Beach City of La Mesa City of National City City of Poway	Otay Water District Padre Dam Municipal Water District	Lakeside/Alpine Sanitation District Lemon Grove Sanitation District Spring Valley Sanitation District East Otay Sewer Maintenance District Winter Gardens Sewer Maintenance District



The City of San Diego

Metropolitan Wastewater System Existing and Planned Facilities



01/15/2009

Figure 3-1
Metro System Service Area Map

Each Participating Agency is responsible for the wastewater collection system within their boundaries to the point of discharge to the System. Wastewater flows from the City of San Diego comprise approximately 65% of the total System flows. System facilities are owned by the City of San Diego and are managed by the MWWD. The System is a complex network of pipelines and pump stations that collect wastewater and convey it to one of three treatment facilities; NCWRP, SBWRP and PLWTP. The PLWTP serves as the terminus for the System and is capable of treating all flows generated within the System. The System also includes the MBC which treats and disposes of all treatment process solid material removed by the three treatment plants.

The PLWTP is the largest of the wastewater treatment plants in the System. All System flows are capable of being directed toward this facility. The plant has a rated capacity of 240 mgd average daily flow and 432 mgd peak wet weather flow. In FY08, the average daily flow rate to the plant, including return flows from the MBC, NCWRP, and SBWRP, was approximately 163 mgd.

The remaining two treatment plants are facilities that divert flow within the System for reclamation purposes. The NCWRP takes flow that is collected from the City of Del Mar, City of Poway, and northern City of San Diego communities including Mira Mesa, Rancho Peñasquitos, Scripps Ranch, and Rancho Bernardo. The plant has a rated capacity of 30 mgd and operated at a flow rate of approximately 23 mgd during FY08. The SBWRP diverts a portion of the wastewater flow that is collected in the southern City of San Diego communities of San Ysidro, Otay Mesa, and Palm City as well as the City of Chula Vista, and the East Otay Sewer Maintenance District. The plant is rated at 15 mgd and operated at approximately 9 mgd during FY08.

3.3 WASTEWATER TREATMENT PLANTS

As noted above, all three wastewater treatment plants treat flow generated within the System with the NCWRP treating a portion of the flow generated in the northern part of the service area and the SBWRP treating a portion of the flow originated in the southern part of the service area. Flow not treated by the two reclamation plants is treated at the PLWTP. In the case of NCWRP, depending upon the time of year, a significant portion of the flow treated through the plant is returned to the System for treatment at the PLWTP. The PLWTP can also provide redundant capacity for the two reclamation plants in the event the facilities must be taken off-line for maintenance purposes.

3.3.1 Point Loma Wastewater Treatment Plant (PLWTP)

The PLWTP is located near the southern tip of Point Loma in the City of San Diego. The facility is located on a 40 acre site on the Fort Rosecrans military reservation and adjoins the Cabrillo National Monument. The plant was first put into operation in 1963 discharging primary treated wastewater 2.5 miles off the coast of Point Loma. In 1993, the existing outfall was lengthened to 4.5 miles which extends 320 feet below the surface in a Y-shaped diffuser to provide for a wide dispersal of effluent into ocean waters. Presently, the plant is an advanced primary treatment plant capable of removing 85% to 90% of the influent solids. These solids are treated in anaerobic digesters before being pumped to the MBC. The current plant configuration can treat up to 240 mgd average daily flow and 432 mgd peak wet weather flow.

Almost all the inflow to the PLWTP is conveyed via Pump Station No. 2 which is the terminus for the North Metro and South Metro Interceptor pipelines. Preliminary treatment consists of screening at Pump Station No. 2 (coarse screens) and at the treatment plant (fine screens). Screenings collected at the plant are compacted before discharging to a roll-off truck container which can be transported to a landfill for final disposal.

The PLWTP influent flow rate is measured downstream of the screens by six parallel Parshall flumes, four of which are typically in operation. Under normal operations, the wastewater is then distributed to four of six aerated grit removal chambers. Ferric chloride is added prior to entering the grit chamber to enhance solids removal. Accumulated grit is pumped to a facility where the grit is separated, washed and conveyed to a hopper for truck loading and transport to final disposal at a landfill.

Under normal operations, wastewater exiting the grit chambers is treated with anionic polymers and distributed to eight of the twelve sedimentation tanks that comprise the primary treatment process. Anionic polymer is added to the influent flumes to each sedimentation basin to aid in the flocculation process thus enhancing the primary treatment process. Solids that settle out in the sedimentation tanks are scraped by chain and flight collectors to hoppers located at one end of the tank from where they are pumped to a sludge holding tank. Scum is also skimmed off the surface and routed to a holding tank that is transported to an offsite disposal facility.

After primary treatment, the flow can be routed to the ocean outfall through the north or south effluent circuit. Each circuit has a bank of four 30-mm effluent screens followed by control valves and a vortex structure to break head before discharging to the ocean outfall.

All process tanks are covered to reduce odor emissions. Foul air from beneath the covers is drawn off and conveyed to multiple odor control systems. The odor control systems consist of two stage scrubbers; the first stage being packed tower wet chemical (caustic soda and sodium hypochlorite) scrubbers followed by activated carbon adsorption.

Accumulated sludge collected by the primary sedimentation tanks is pumped to eight high rate anaerobic digesters on site where it is reduced in volume through heat and bacterial processes. Methane gas produced during the digestion process is fed to a City owned and operated cogeneration plant where it is converted to electricity and used to provide power to operate the plant. Excess energy is sold back to the local electrical power grid. The remaining digested sludge from the PLWTP is then pumped to the MBC through 17 miles of pipeline for dewatering and disposal.

Treatment plant processes are provided with a level of redundancy consistent with industry standards. Each pumping station has at least two or three pumps so that one is on standby at all times. Typically, the average dry weather flow can be handled through 8 of the 12 primary sedimentation tanks. There are six available odor scrubbers for the primary sedimentation tanks of which one odor scrubber must operate for every three primary sedimentation basins in service, resulting in three scrubbers normally being in operation.

Plant operations are monitored and controlled from a distributed, computer-based control system located in the plant control center where plant operations and status can be monitored and controlled. Local control stations are also strategically located around the plant and can be used to access the entire plant control system. In addition, operational information is sent to a central facility in Kearny Mesa known as the Central Operations Management Center (COMC) where operation of most facilities in the Metro System can be monitored and controlled. The plant also has an operations laboratory on site for bench testing and conducting analyses useful for operational control and monitoring. Laboratory tests required for effluent monitoring and compliance are conducted on site as well as at a central facility operated by the City.

The PLWTP operational performance consistently meets effluent regulatory objectives. In 2008, the facility received its fifth Platinum Peak Performance Award in the past five years from the National Association of Clean Water Agencies (NACWA) for compliance with Federal and State regulations.

3.3.2 North City Water Reclamation Plant (NCWRP)

Put in service in 1997, the NCWRP is a modern facility that was designed to treat up to 30 million gallons of wastewater per day in order to supply reclaimed water to northern regions of San Diego. The plant site is master planned to be able to treat 45 mgd at buildout. The NCWRP is located east of the I-805 freeway north of Miramar Road.

Untreated wastewater from Pump Station 64 enters the plant through an 84-inch pipeline, routed beneath the I-805 freeway, and flows into the influent pump station. Four pumps lift this influent approximately 90 feet above to the headworks facility. From the headworks facility, the wastewater continues by gravity flow to the various plant process structures. In addition to the influent received from Pump Station 64, the headworks facility also receives flow from the Peñasquitos Pump Station.

The influent from both sources flows through the facility's preliminary treatment processes of screening and grit removal. First, "climber-type" bar screens remove large solid debris that could otherwise damage mechanical equipment at the plant. Two units are installed with room provided for a third. Normally one screen is in operation with the second in standby. Next, the screened wastewater enters one of two aerated grit chambers where heavier inorganic solids such as grit and sand are removed. The second grit chamber is typically off line as a standby tank. The grit chambers are provided with three air compressors, of which one compressor is required for normal operations. Screenings and grit are temporarily stored in hoppers and then loaded onto trucks for disposal at a sanitary landfill.

Effluent from the grit chambers then flows into the primary sedimentation tanks where accumulated sludge that settles to the bottom of the tanks is removed by a chain and flight mechanism and pumped to the raw sludge pump station. The plant has six primary sedimentation tanks which are continuously operated. In the event of scheduled maintenance or emergency repairs, the plant can be operated at design conditions with five of the six primary sedimentation basins. The sludge is pumped through sludge grinders before discharging to the raw sludge pump station where sludge and scum from the primary and secondary processes is blended before being pumped to the MBC for further processing. The raw sludge pumps are installed so that there are three pumps

available for use between two tanks, thus providing one standby unit for each battery of two tanks.

Following primary sedimentation, the wastewater is conveyed into two equalization tanks to attenuate diurnal flow fluctuations and maintain a constant flow rate through the secondary and tertiary treatment processes. From the tanks, the wastewater flows to aeration basins where microorganisms consume organic material in the wastewater. There are seven aeration basins and six are in operation at all times. The basins are split into anoxic and aerobic zones for nitrogen removal. There are four aeration blowers of which two are required for operation and two are standby.

Exiting the aeration tanks, the wastewater enters a battery of 14 secondary sedimentation tanks of which 10 or 11 are in operation at all times. The tanks remove the sludge created in the aeration process. Settled sludge is either re-circulated to the front of the aeration basins as return activated sludge where it co-mingles with the effluent from the primary sedimentation tanks or is wasted to the raw sludge pump station and pumped to the MBC. The pumping arrangement for the return activated sludge and the waste activated sludge is similar to the primary sludge pumps in that each pair of tanks shares three pumps so that the third pump is in standby.

Next, the secondary sedimentation effluent flows to the tertiary filters. While typically not required, coagulants can be added to the secondary effluent during periods of high turbidity to enhance solids removal by precipitation. There are six monomedia (activated carbon) filters of which four are normally in operation. A portion of the filter's effluent is conveyed to the demineralization facility which utilizes Electro Dialysis Reversal units (EDR) to decrease the salinity of the water. Afterwards, the effluents of both the EDR and the filters are blended and the mixed flow is chlorinated within chlorine contact tanks to reduce pathogens in the final effluent product. Flow then exits the NCWRP through the effluent pump station which conveys the treated effluent to the reclaimed water distribution system. Reclaimed water is also used inside the treatment plant and pumped to the MBC for use as plant water.

Excess reclaimed water (during the irrigation season) and secondary effluent (during the non-irrigation season) is discharged by gravity to the Metro Sub-System to be treated and discharged at the PLWTP. Other waste streams produced inside the plant are also returned to the sewer for further treatment downstream.

All equipment and processes (except for the tertiary filters) are contained inside buildings or in covered tanks. All covered and enclosed facilities are ventilated and the foul air is exhausted through two-stage wet chemical packed tower/activated carbon scrubbers before being discharged to the atmosphere.

Plant operations are monitored and controlled from a distributed, computer-based control system located in the plant control center where plant operations and status can be monitored and controlled. Local control stations are also strategically located around the plant and can be used to access the entire plant control system. In addition, operational information is sent to the COMC. The plant also has an operations laboratory on site for bench testing and conducting analyses useful for operational control and monitoring. Laboratory tests required for effluent monitoring and compliance are conducted on site as well as at a central facility operated by the City.

As noted in Section 5, the NCWRP operational performance consistently meets effluent regulatory objectives, with the exception of the removal of Manganese. This constituent is regulated on the basis of a secondary drinking water standard for discharge to the reclaimed water system. Through 2008, the NCWRP had not received a Notice of Violation for Manganese exceedances; and as such, the water reclamation plant received its fifth Platinum Peak Performance Award in five years in 2008 from NACWA for compliance with Federal and State regulations. In February 2009, MWWD did receive a Notice of Violation for Manganese exceedances at this facility, however, this is an issue that MWWD is actively reviewing with regulatory officials.

3.3.3 South Bay Water Reclamation Plant (SBWRP)

The SBWRP is located at the intersection of Dairy Mart and Monument Roads in the Tijuana River Valley. The plant opened in May 2002 and has a wastewater treatment capacity of 15 mgd. The plant is currently operated at approximately 9 mgd. The plant design incorporates modern wastewater treatment technologies and meets strict odor control standards.

Untreated wastewater is pumped to the plant's headworks from the Otay River Pump Station and the Grove Avenue Pump Station which divert flow from the South Metro Interceptor. At the headworks, the wastewater passes through one of two "climber-type" bar screens to remove solid debris and floating material that may damage the plant's mechanical equipment. The captured debris is collected in a hopper and trucked to a landfill. The screened wastewater then passes through aerated grit chambers. There are two aerated grit chambers with only one required for normal operations. The grit tanks each have two grit pumps that are cross connected to allow one pump to be in standby. The grit pumps force the grit to grit concentrators where it is dewatered before being taken to a sanitary landfill for disposal. The truck loading station for the grit and the screenings is located inside a building that is ventilated. Foul air from inside the building is exhausted to a two-stage wet chemical packed tower/activated carbon odor scrubber before it is discharged to the atmosphere.

Effluent from the grit chambers flows to the primary sedimentation tanks where accumulated sludge that settles to the bottom of the tanks is removed by a chain and flight mechanism and pumped to the Sludge Transfer Pump Station. The plant has five primary sedimentation tanks of which three are required for normal operations. The primary sludge is pumped to the South Metro Interceptor and conveyed to the PLWTP for further treatment. Primary effluent flow is metered and the flow to the aeration basins is controlled to maintain equalized flow. Excess primary effluent flows to the flow equalization pump station from where it can be returned to the plant for treatment during periods of low influent flow. The flow equalization pump station has two storage tanks that are kept in service at all times.

There are a total of eight aeration basins of which five are required for normal operations. The basins are split into anoxic and aerobic zones for nitrogen removal. Nitrification occurs in the aerobic portion and the nitrified mixed liquor is returned to an anoxic zone at the influent end of the basin for denitrification. Aeration is provided from a battery of five aeration blowers of which two are reserved for standby operation.

Exiting the aeration tanks, the wastewater enters a battery of nine secondary sedimentation tanks of which six are required for normal operations. The tanks remove the sludge created in the aeration process. Settled sludge is either returned to the aeration process as Return Activated Sludge or discharged as Waste Activated Sludge to the South Metro Sub-System Interceptor for treatment at the PLWTP. There are three return activated sludge (RAS) pumps for every two adjacent secondary tanks. The third RAS pump is reserved as a standby for either of the two tanks. There are two pumps for waste activated sludge (one on standby).

The secondary sedimentation effluent then flows to the tertiary filters. While not typically required, coagulants can be added to the secondary effluent during periods of high turbidity to enhance solids removal by precipitation. There are seven monomedia (activated carbon) filters of which six are typically in operation, depending on recycled water demand. After filtration, the tertiary effluent is disinfected using ultraviolet irradiation and discharged to the reclaimed water system. Sodium hypochlorite is added upstream of the ultraviolet (UV) disinfection system at a low dose to inhibit algae growth in the UV channel and lamps. With the exception of the tertiary filters and secondary sedimentation tanks, all process tanks at the SBWRP are covered and ventilated so that foul air is discharged to two-stage wet chemical packed tower/activated carbon adsorption odor scrubbers before being released to the atmosphere.

SBWRP flows in excess of recycled water demand are treated to secondary effluent requirements and discharged through the South Bay Land Outfall (SBLO) and SBOO. The SBLO/SBOO is shared with the International Boundary and Water Commission's Wastewater Treatment Plant (WWTP) located east of the SBWRP. Each treatment plant has its own dedicated NPDES permit for discharge to the SBOO and samples to measure compliance with each of these permits are taken before the effluents are co-mingled in the Outfall.

Plant operations are monitored and controlled from a distributed, computer-based control system located in the plant control center where plant operations and status can be monitored and controlled. Local control stations are also strategically located around the plant and can be used to access the entire plant control system. Operational information is also sent to the COMC. The plant also has an operations laboratory on site for bench testing and conducting analyses useful for operational control and monitoring. Laboratory tests required for effluent monitoring and compliance are conducted on site as well as at a central facility operated by the City.

The SBWRP operational performance consistently meets effluent regulatory objectives. The water reclamation plant received its first Platinum Peak Performance Award in 2007, in addition to the four Gold Awards received since the year 2003, from NACWA for compliance with Federal and State regulations.

3.3.4 Metro Biosolids Center

The MBC is the City of San Diego's regional biosolids treatment facility located on 39 acres adjacent to the Miramar Landfill, north of State Highway 52 and between Interstate Highways 805 and 15. Biosolids are a nutrient-rich, organic material produced from material collected in the wastewater treatment process. The facility, which began operation in 1998, is an essential component of the region's wastewater treatment system.

Prior to the MBC, digested solids (biosolids) from the PLWTP digesters were dried in open fields or dewatered through belt filter presses on Fiesta Island in Mission Bay and then trucked to landfills. The location of the MBC required the construction of two pipelines to feed the facility; a 17-mile pipeline from the PLWTP and a 5-mile pipeline from the NCWRP.

The MBC provides two treatment operations to support the PLWTP and NCWRP: thickening and digestion of the raw solids (raw biosolids) generated at the NCWRP; and the dewatering of the wet digested biosolids from the PLWTP. Untreated biosolids from the NCWRP are pumped into one of two raw biosolids receiving tanks at the MBC where the solids are dewatered to remove grit and other abrasive materials. There are three dewatering units of which one is on standby. The grit is dried and disposed of off-site. Raw solids are thickened in five centrifuges (three in operation; two on standby) before being pumped into one of three anaerobic digesters where organic matter is converted to methane gas, carbon dioxide, and stabilized biosolids material. The digesters are currently arranged so that one tank is in service, one on standby, and the third is used for wet weather storage. The MBC has a privatized cogeneration plant that converts the methane gas from the digester gas stream and landfill gas from the Miramar Landfill gas stream into electricity and thermal energy. MWWD has a long-term agreement with a private firm that uses the methane gas to power the MBC and the NCWRP, as well as the power grid with excess power generated.

Once the biosolids have been digested, the biosolids are sent to a digested biosolids storage tank where they are blended with biosolids from the PLWTP in order to create a uniform feed to the dewatering process. The mixed biosolids are piped to eight dewatering centrifuges (six duty, two standby) that use centrifugal acceleration to remove water from the biosolids. Water removed from the centrifuges is returned to the Metro Sub-System for treatment at the PLWTP while dewatered biosolids are pumped into eight storage silos before being trucked off-site.

The facility produces dewatered biosolids that are approximately 30% solids and 70% water, the consistency of wet plaster. The plant has the capacity to produce 700 wet tons per day of dewatered biosolids and currently produces about 365 wet tons per day. Approximately 10% of the biosolids are trucked to agricultural sites in Arizona and the remaining 90% are used in local landfills where it is mixed with green waste and utilized as alternative daily cover.

The MBC also has a bulk chemical storage facility for receiving and storing process chemicals including ferric chloride, anionic polymer, sodium hypochlorite, and caustic soda. Each storage tank is inside containment walls and the tanks are piped using dual wall piping to the chemical handling facility. The facility houses dilution tanks and metering pumps for the different chemicals. Due to the nature of the operations at the MBC, the facility employs extensive odor control facilities to treat the foul air from the major treatment processes. Odor control at the facility is provided through two-stage wet chemical packed tower/activated carbon units.

3.4 WASTEWATER RECLAMATION AND REUSE

Wastewater treatment plant effluent can be used for beneficial purposes. Examples of such uses are watering golf courses, power plant cooling water, industrial process water, and the irrigation of agricultural lands. Both the NCWRP and the SBWRP are water reclamation plants that take wastewater from the sewage collection system and treat it to water reclamation standards. Their combined capacity for reclamation is 45 mgd (16,425 MG per year) although their current demand is lower (about 3,800 MG per year). Demand varies from winter to summer but continues to grow as new users are identified. Both facilities discharge their reclaimed water effluent to the reclaimed water distribution system operated by the City of San Diego Water Department.

The NCWRP currently has approximately 440 retail end users (primarily landscape application) and two wholesale users who resell the reclaimed water for landscape irrigation as well. Some facilities in the northern part of the City also purchase reclaimed water for end users with dual plumbing, a system where non-potable uses can be fed from the reclaimed water system independently from potable water uses which are fed from the water system. The SBWRP's primary end user is the Otay Water District which resells the water mostly for landscape irrigation. Caltrans is also a landscape end user and some of the water is used to support construction projects.

3.5 COLLECTION SYSTEM

The collection system is a complex combination of gravity sewers, pump stations, force mains, and flow meters subdivided into the Municipal Sub-System and the Metro Sub-System. For purposes of this section, discussion of the Metro Sub-System will focus on the wastewater collection interceptors and pumping facilities. The Municipal Sub-System consists of the piping and pumping facilities that service the City of San Diego and ultimately discharge into the Metro Sub-System.

3.5.1 San Diego Municipal Collection System

Each Participating Agency in the System is responsible for the collection of wastewater within their agency boundaries. The collection system in the City of San Diego, the Municipal Sub-System, consists of approximately 3,000 miles of collection system pipes ranging in size from 4-inches to 78-inches in diameter, 79 pump stations (including four large pump stations) and 54 permanent flow meters. The meters are utilized for multiple purposes including strength-based billing, facility planning, sewer modeling, criticality evaluation, infiltration/inflow (I/I) analysis, and spill detection. The Municipal Sub-System sewer collection system pipe ages are listed in Table 3-2.

Built (or Retrofitted)	Age	Length (Miles)	Percent of Total
Before 1960	47+ years	409	14%
1960 - 1969	38-47 years	512	18%
1970 - 1979	28-37 years	530	18%
1980 - 1989	18-27 years	390	13%
1990 - 1999	8-17 years	282	10%
2000 - Present	0-8 years	444	15%
Unknown	Unknown	351	12%
Total		2,918	100%

(1) Data is current as of September 10, 2008, from City of San Diego Metropolitan Wastewater Department.

In addition to the sewer collection system, the City operates two stormwater interceptor systems that divert dry weather flows from the stormwater collection system into the wastewater collection system. The Mission Bay Sewage Interceptor System (MBSIS) protects the water quality of the Mission Bay and the San Diego Flood Control Channel and consists of 31 gravity sewer interceptors and 14 interceptor pump stations. The Coastal Low Flow Diversion System (CLFDS) is designed to protect the water quality of adjacent City of San Diego Pacific Ocean coastal communities. The CLFDS consists of 36 diversion sites. Both systems are equipped with rain sensors that shut down the diversion during wet weather and allow the stormwater to discharge to Mission Bay or the Pacific Ocean.

Seven of the pump stations in the Municipal Sub-System are associated with beach shower/toilet facilities which are not provided with emergency generators. These facilities are equipped with controls to shut off the water supply if there is a loss of power to the pump station. There are only two of the remaining 68 pump stations that do not have on-site emergency power. One is scheduled in the CIP to have a generator installed, and the other does not require emergency power as it is too small and in a non-critical location. Almost all of the pump stations have a supervisory control and data acquisition (SCADA) system that transmit data to the COMC where operations staff can respond to any malfunction.

MWWD maintains efforts to eliminate odors from reaching nearby residents from the operations of its pump stations and the collection system, with 34 pump stations and three non pump station sites equipped with odor control scrubbers consisting of activated carbon. Pump Station 77 has a packed tower wet chemical scrubber. MWWD also manages odors by use of chemical additives throughout the system at six active chemical addition points.

3.5.2 Metropolitan Collection System

The Metro Sub-System consists of 121 interceptor pipes ranging in size from 12-inch diameter to 114-inch diameter that collect and route wastewater toward the PLWTP from the Municipal Sub-Systems of the City of San Diego and the 15 Participating Agencies. The total length piping in the Metro Sub-System is approximately 100 miles.

The Metro Sub-System can be divided into three distinct regions: the north, central, and south. The north region serves the northernmost 87 square miles of the System service Area, including the cities of Del Mar and Poway. The key facilities include the Rose Canyon Trunk Sewer, and the North Metro Interceptor (NMI). Key Municipal Sub-System facilities are also located in the area, including Pump Station 64, the Peñasquitos Trunk Sewer and Pump Station 65, all of which collect wastewater and discharge it via Pump Station 64 to the Rose Canyon Trunk Sewer. The Rose Canyon Trunk Sewer conveys wastewater approximately five miles to the NMI that discharges into Pump Station No. 2, the main pump station for the PLWTP. A substantial portion of the NCWRP influent is drawn off the Rose Canyon Trunk Sewer and waste streams from both the NCWRP and the MBC are returned to the same. The remaining portion of the NCWRP influent is drawn off the Peñasquitos Trunk Sewer and pumped from the Peñasquitos Pump Station in Sabre Springs via the Peñasquitos Pump Station Force Main on Miramar Road.

The key facilities in the central area include the East Mission Gorge Pump Station, located in east San Diego in the Padre Dam Municipal Water District that discharges to the East Mission Gorge Trunk Sewer and the North Mission Valley Interceptor. This pump station is located approximately 14 miles from the discharge location of both interceptors into the NMI.

The key facilities in the south area include the South Metro Interceptor (SMI) and Pump Station No. 1. The upstream portion of the SMI extends 7.6 miles from Imperial Beach to Pump Station No. 1, located on the north side of National City. The Grove Avenue Pump Station and the Otay River Pump Station, located at the southerly end of the SMI redirect flow to the SBWRP. The SMI collects wastewater from the southern region and portions of the central region of the System service area. Flow from Pump Station No. 1 is directed to Pump Station No. 2 through 6.7 miles of force main and trunk sewers ranging in size from 72-inch diameter to 108-inch diameter. With one pump on standby, the pumping capacity for Pump Station No. 1 is approximately 131 mgd. The current average pumping rate is approximately 70 mgd. There are three constant speed and three variable speed pumps, all rated at 30,000 gpm and driven by 600 horsepower motors. The pump station is equipped with 2 climber type screens and a trash rack on the influent side of the pump station. Normally, both screens are in operation and the trash rack is used strictly for emergency purposes. The station has a wet chemical mist type scrubber and two separate 5 kVA power feeds to maintain continuous operation.

Pump Station No. 2 is the terminus for the SMI and the NMI. Virtually all inflow to the PLWTP is conveyed via Pump Station No. 2. The pump station is located at the north end of San Diego Bay, just west of the San Diego International Airport and houses eight dry pit pumping units, each rated at 50,000 gpm. Six pumps are driven by 2250-horsepower electric motors and the other two by 2400-horsepower natural gas fueled

engines. With one pump on standby, the pumping capacity of Pump Station No. 2 is 432 mgd. The average pumping rate is approximately 170 mgd which typically can be met by 3 to 4 of the 8 pumping units, giving 100% redundancy to Pump Station No. 2. There are three separate 5 kVA power feeds to the pump station. Normally, only one is needed to operate the pump station. Wastewater enters the pump station through two influent channels. Each channel has two travelling type bar screens. The pump station is also equipped with a 25,000 cubic feet per minute (cfm) mist type odor scrubber plus five individual activated carbon towers. There are two force mains that leave the pump station. One, 87 inches in diameter, is 2.7 miles long and follows a land route. The second is 72 inches in diameter and 2.7 miles long is constructed under San Diego Bay. The force mains tie into the 108-inch Point Loma Tunnel that extends 0.8 miles under the Point Loma peninsula before connecting into the 1.5 mile long, 114-inch Point Loma Interceptor that enters the PLWTP.

3.6 MAINTENANCE FACILITIES

The System's treatment plants, pump stations, and collection pipes are operated and maintained by MWD. Operations staff is typically assigned to one facility, the Municipal Sub-System, or the Metro Sub-System and are not rotated to other facilities/sub-systems. The staff are well trained. Operations staff is certified by the California Water Resources Control Board. Maintenance Staff are certified voluntarily by the California Water Environment Association. The System has well-equipped maintenance and electrical/instrumentation shops to support facilities. The System also has a database driven maintenance management system to assure all facilities are properly maintained. Each treatment plant and each major pump station have their own maintenance, electrical, and instrumentation staff that are further supported by a central shop at the Metropolitan Operations Center (MOC). Maintenance personnel are capable of performing complete overhauls of mechanical equipment and fabricating special devices for field and plant equipment. The City utilizes commercial mechanical and electrical service shops for specialized services and some repairs on large equipment.

3.7 SUMMARY AND CONCLUSIONS

Technology at the City's wastewater collection, pumping, and treatment plants meets or exceeds industry standards, is appropriate for its application, and is capable of providing adequate wastewater collection and treatment. Critical plant components have standby units and are equipped with backup power to ensure uninterrupted treatment. The City is focused on the beneficial reuse of wastewater effluent, as exhibited by the addition of the NCWRP and the SBWRP. Further, O&M facilities are provided that allow for control and preservation of the System to ensure long-term compliance with regulatory and operational objectives.

4.0 WASTEWATER SERVICE REQUIREMENTS

4.1 SERVICE AREAS AND TREATMENT FACILITIES

The System's service area comprises over 450 square miles, and currently consists of several utility service areas including the City of San Diego and the 15 Participating Agencies. Wastewater treatment for the System is provided at the NCWRP, the SBWRP, and the PLWTP with solids treatment and handling provided at the PLWTP and the MBC. The City of San Diego contributes approximately 65% of the flow in the System via the Municipal Sub-System with the remainder coming from the Participating Agencies. The wastewater service areas are shown on Figure 3-1 in the previous section.

The largest facility providing wastewater treatment for the System is the PLWTP. The PLWTP is an advanced primary treatment WWTP that uses chemical addition to increase performance of the primary clarifiers. The facility serves as the terminus of the System, and discharges effluent through the PLOO. As an advanced primary treatment WWTP, performance is not measured entirely by effluent quality, but also against the California Ocean Plan and the San Diego Regional Basin Plan which address the water quality and beneficial uses of the Pacific Ocean.

The other two facilities, the NCWRP and the SBWRP are scalping plants that divert water from the System and treat it for reclamation purposes. Both plants currently operate as secondary treatment plants and reclaim water to tertiary standards to meet demand. Demand will fluctuate depending on the time of year and the type and number of customers. The NCWRP returns all secondary effluent that is not reclaimed back to the System for treatment at the PLWTP. However, the solids that are removed, either by sedimentation or biological oxidation, are pumped to the MBC for further treatment. The SBWRP discharges excess secondary effluent to the SBOO and returns all solids removed from the sewage to the System for transport to the PLWTP. Performance of both water reclamation plants is measured by each facility's ability to treat reclaimed water to the required standards when discharging to the reclaimed system. Performance of the SBWRP is also measured via secondary treatment standards, as defined in the facility's NPDES permit, when discharging to the SBOO.

The MBC processes primary and secondary solids from the NCWRP through anaerobic digestion and dewatering and digested biosolids from the PLWTP through dewatering. The dewatered biosolids are used as cover at a local landfill or used as a soil amendment for agricultural purposes. The centrate from the centrifuges is returned to the sewer and treated at the PLWTP. Performance of this facility is measured by the quality of the solids product generated for use or disposal.

4.2 POPULATION PROJECTIONS

The most recent population figures compiled for the System were compiled in December 2007 by MWW and each Participating Agency. The projections are developed independently by each PA on the basis of population forecasts adopted by the San Diego

Association of Governments (SANDAG) plus specific data that the PA may consider relevant. For example, adjustments to the SANDAG projections could be made on the basis of detailed planning estimates for growth within the PA’s jurisdiction or the commissioning of a new wastewater reclamation facility within the PA’s jurisdiction that would effectively remove flow and people served from the System, as is the case with the Padre Dam Municipal Water District in FY12. Given data on the average wastewater flow generated by resident, population projections can be used to estimate wastewater flows into the future. The population projections utilized for this analysis are presented in Table 4-1.

Table 4-1 Population Served by Metropolitan Wastewater System⁽¹⁾ City of San Diego and Participating Agencies				
Fiscal Year				
FY09	FY10	FY11	FY12	FY13
2,103,774	2,127,778	2,151,373	2,134,866	2,160,812

(1) Projection data presented is for the fiscal year referenced.

The population projections provided by MWWD show relatively low growth, approximately 0.67% per year on average, through FY13. One anomaly in this growth rate is FY12, where the population served by MWWD reflects a reduction from FY11. As noted above, Padre Dam Municipal Water District anticipates to begin operation of an expanded water reclamation facility that will double its current water reclamation capacity in FY12. Padre Dam has reflected this impact with not only a reduction in flow discharges to the System, but also a reduction in the population served by the System even though Padre Dam is not expecting an actual reduction in population. Because of the low population growth anticipated within the System, this reduction in population served yields a one year reduction in overall System population.

4.3 WASTEWATER FLOW AND STRENGTH PROJECTIONS

Wastewater flows vary continuously by hour, day, week, month, and year. Wastewater treatment designs must accommodate these variations. Typically, wastewater treatment plants are designed with a nominal capacity to accommodate the average daily flow expected to occur during the month with the highest dry weather flow with a series of peaking factors to accommodate daily and wet weather flow conditions. The designs of MWWD treatment plants follow these conventions. As such, the facilities are conservatively designed to treat flows and loads above their nominal treatment capacities, assuring that the plants can treat the daily and seasonal peaks in wastewater flow.

Flow volume is defined in units of mgd. The wastewater strength is typically defined using two parameters, biochemical oxygen demand (BOD or BOD₅) and total suspended solids (TSS), which are typically measured as concentrations in mg/L or parts per million (ppm). The product of flow and each strength parameter gives the parameter “load,”

typically measured in pounds per day (ppd). Flow and strength measurements are important because regulatory criteria require each treatment facility to treat not only the flow that is received, but also the load of BOD and TSS in the wastewater flow prior to discharge. Therefore, wastewater treatment plant capacity is defined in terms of flow and load capacity. The flow capacity, however, is typically used as the metric to present the overall capacity of the facility.

Table 4-2 presents the projections for daily average flow and load generated in the System. The flow projections were developed from data submitted by all the utilities that participate in the System. The load projections are calculated based on data provided by MWWD with respect to anticipated waste strength through FY16. It is notable that the projected flow for the five year period ending FY13 is less than the sum of the influent flow measured at each of the treatment facilities in FY08. While this discrepancy could be partially attributable to inflow and infiltration from the extensive collection system, it is most directly related to the nature of these projections. The projections are based on sewage generated, not the operation of the system which includes the return of treated secondary effluent from the NCWRP, the discharge of SBWRP solids, and the return of post-treatment centrate streams from the MBC to the PLWTP for treatment and disposal. The effect of these return flows is discussed in more detail in Section 4.4 below.

The trend in the flow and load projections is similar to the trend in the population growth projections, but the average annual growth rate over the period ending FY13 is slightly higher at approximately 1% per year. In the case of these projections, FY11 and FY12 flow data are shown as flat due to the additional capacity of the anticipated Padre Dam Municipal Water District facility coming on-line and reducing the associated flow to the system. The load within the system is anticipated to continue to increase as this facility will not have its own solids treatment facilities. Review of these projections compared to data from the previous five year period (FY03 – FY07), where average growth in flow and strength was negligible, indicates that a 1% annual growth moving forward is a conservative planning estimate.

Table 4-2					
Daily Average Flow and Load Projections for the System					
	Fiscal Year				
	FY09	FY10	FY11	FY12	FY13
Flow (mgd) ⁽¹⁾	182	185	187	187	188
BOD Load (ppd) ⁽²⁾	439,000	447,000	451,000	456,000	460,000
TSS Load (ppd) ⁽³⁾	431,000	439,000	443,000	448,000	452,000

(1) Flow projections presented in this table are derived from data provided by MWWD and each of the Participating Agencies.

(2) Based on flow projections and the projected BOD waste strength (approximately 290 mg/L) published by MWWD in May 5, 2008, memorandum on projected strength of sewage generated in the system. For FY12 and FY13, projection incorporates estimate of solids returned to sewer from expanded Padre Dam Water Reclamation Facility assuming a 2 mgd flow capacity.

(3) Based on flow projections and the projected TSS waste strength (approximately 285 mg/L) published by MWWD in May 5, 2008, memorandum on projected strength of sewage generated in the system. For FY12 and FY13, projection incorporates estimate of solids returned to sewer from expanded Padre Dam Water Reclamation Facility assuming a 2 mgd flow capacity.

4.4 WASTEWATER TREATMENT CAPACITY

The flow and load projections assessed in this review are System-wide generation data points. However, with the exception of the PLWTP, the treatment facilities in the System do not treat system-wide flow and load. Further, as the terminus of the System, the PLWTP must maintain the capacity to treat the flow and load it receives from the collection system which includes the residuals flows from the NCWRP, the SBWRP, and the MBC. Typically, excess secondary effluent from the NCWRP and residual solids from the SBWRP are treated at the PLWTP; as well as recycle streams from the MBC, such as the centrate from the operation of dewatering centrifuges. Even though they are metered as influent to the PLWTP, the significant majority of the return streams from MBC are not considered a significant impact to the capacity of PLWTP since these streams are usually captured within the plant (i.e. would not be considered in the presentation of the plant's rated influent capacity). The component of these flows that is attributable to the NCWRP, which would traditionally be viewed as outside the rated capacity of PLWTP, is considered negligible in comparison to the rated capacity of PLWTP.

The NCWRP treated effluent return flows and SBWRP residual solids sent to PLWTP are significant, however, and must be addressed independently in a system-wide capacity analysis. To properly compare the flow and load generation projections within the System to the effective capacity of the System, these discharges must be characterized as a reduction in the flow and load capacity of the respective facilities. For the NCWRP, this capacity reduction is determined from the return of secondary effluent to the System for treatment and discharge through the PLWTP; estimated at approximately 13 mgd of the 23 mgd treated by NCWRP during FY08 operations. As such, the flow that NCWRP removes from the system, for planning considerations is approximately 10 mgd. For the SBWRP, this capacity reduction is determined from the return of all influent BOD and TSS residual solids to the PLWTP for treatment under full reclaimed water operation. Therefore, the SBWRP solids treatment capacity used for this evaluation is zero ppd.

The capacity of the PLWTP is not only determined by the influent flow that must be treated but also by effluent quality as measured in pounds of TSS (TSS mass emission rate or (MER)) discharged into the Pacific Ocean. The present NPDES permit for the PLWTP has established an MER limit of 13,599 metric tons (mt) for the final year of the permit and 15,000 metric tons per year for the first four years of the permit period. The tentative PLWTP NPDES permit renewal sets this discharge limit at 13,598 metric tons for each of the five years in the permit.

The effective wastewater flow and load capacities, on an annual average day basis, for each of the treatment facilities in the System have been consolidated in Tables 4-3 through 4-5. As detailed in the tables, the System WWTP capacity for flow, BOD Load, and TSS Load is sufficient to treat the projected wastewater generation within the collection system. Notably, the PLWTP has sufficient capacity to treat all wastewater generated in the System in the event the NCWRP and SBWRP were taken off-line simultaneously. While such a condition is considered highly unlikely given the redundancy incorporated into the two facilities and their reclamation objectives, the capacity of the PLWTP provides the MWWD with flexibility to optimize operations of

the two reclamation plants and to take elements of the plants out of service for routine maintenance or major rehabilitation. Further, since the PLWTP capacity is greater than that of the system generation, any potential effect of recycle streams within the system to PLWTP is effectively accounted for by its capacity. These capacities place the System within industry design standards with the appropriate level of treatment capacity and redundancy for continued operations through the planning horizon.

**Table 4-3
Projected Daily Average Flow and Capacity (mgd)**

Fiscal Year	NCWRP Capacity⁽¹⁾	SBWRP Capacity⁽²⁾	PLWTP Capacity	Flow Capacity	Total Projection⁽³⁾
2009	10	9	240	259	182
2010	10	9	240	259	185
2011	10	9	240	259	187
2012	10	9	240	259	187
2013	10	9	240	259	188

- (1) Capacity presented herein is a conservative estimate of effective capacity representing historic usage of reclaimed water flows from the facility developed from feedback from MWW staff. The NCWRP design flow capacity is 30 mgd. Flows that are treated through the facility and not utilized for reclaimed water or conveyance of solids to the MBC are discharged to the System for treatment at the PLWTP.
- (2) Capacity presented herein is an estimated of the effective, operational capacity of the SBWRP through FY13, based on anticipated discharge to the System within the SBWRP sewershed. The design capacity of this facility is 15 mgd. It is anticipated that this full capacity will be used in the future as growth in the facility's sewershed provides more flow to the facility.
- (3) Projection from Table 4-2.

**Table 4-4
Projected Daily Average BOD Loading and BOD Capacity (ppd)**

Fiscal Year	NCWRP Capacity⁽¹⁾	SBWRP Capacity⁽²⁾	PLWTP Capacity⁽³⁾	Total BOD Capacity	Total Projection⁽⁴⁾
2009	62,600	-	560,000	622,600	439,000
2010	62,600	-	560,000	622,600	447,000
2011	62,600	-	560,000	622,600	451,000
2012	62,600	-	560,000	622,600	456,000
2013	62,600	-	560,000	622,600	460,000

- (1) Based on influent BOD concentration of 250 mg/L and design flow of 30 mgd.
- (2) The SBWRP only removes solids from the System when discharging to the SBOO. In this case, the solids removed from the System by SBWRP operations is estimated by product of the potential 15 mgd discharge at a BOD secondary discharge standard of 30 mg/L, or 3,753 ppd. The value incorporated in this table assumes a conservative condition where all flow is either bypassing the plant (i.e. no load is being treated) or the plant is not discharging to the SBOO, in which case a negligible mass of solids would be discharged with the reclaimed water effluent.
- (3) Based on influent BOD concentration of 280 mg/L and design flow of 240 mgd.
- (4) Projection from Table 4-2

**Table 4-5
Projected Daily Average TSS Loading and TSS Capacity (ppd)**

Calendar Year	NCWRP Capacity⁽¹⁾	SBWRP Capacity⁽²⁾	PLWTP Capacity⁽³⁾	Total TSS Capacity	Total Projection⁽⁴⁾
2009	62,600	-	548,000	610,600	431,000
2010	62,600	-	548,000	610,600	439,000
2011	62,600	-	548,000	610,600	443,000
2012	62,600	-	548,000	610,600	448,000
2013	62,600	-	548,000	610,600	452,000

- (1) Based on influent TSS concentration of 250 mg/L and design flow of 30 mgd.
- (2) The SBWRP only removes solids from the System when discharging to the SBOO. In this case, the solids removed from the System by SBWRP operations is estimated by product of the potential 15 mgd discharge at a TSS secondary discharge standard of 30 mg/L, or 3,753 ppd. The value incorporated in this table assumes a conservative condition where all flow is either bypassing the plant (i.e. no load is treated) or the plant is not discharging to the SBOO, in which case a negligible mass of solids would be discharged with the reclaimed water effluent.
- (3) Based on effluent treatment objective of 13,598 mt/yr TSS MER with average 85% removal of influent TSS.
- (4) Projection from Table 4-2.

4.5 SUMMARY AND CONCLUSIONS

The review of the projections concluded that the FY09 through FY13 projections for sewage generated within the System were less than the flow treated through the three treatment facilities in FY08. While this discrepancy could be partially attributable to inflow and infiltration from the extensive collection system, it is most directly related to the return of treated secondary effluent from the NCWRP, the discharge of SBWRP solids, and the return of post-treatment centrate streams from the MBC. For example, the NCWRP operated at approximately 23 mgd during FY08. Throughout the year, however, not all of this flow is required for use in the reclaimed water distribution system. As such, excess secondary effluent from the NCWRP is returned to the collection system for disposal via the PLWTP. Estimates of this return flow based on reclaimed water demand show that this accounts for approximately 13 mgd of return flow to the System. The operation of the NCWRP in this manner does provide two advantages to the operation of the System. First, the NCWRP is a biological treatment facility. As such, it must be operated to maintain its biological population in order to continue effective operation for the treatment of sewage to the tertiary effluent standards necessary for the reclaimed water system. Second, the flow that NCWRP is returning to the sewer is substantially lower in solids than the influent flow. These solids are treated at the MBC, and as such operation of the NCWRP reduces the solids load that the PLWTP must treat before discharge to the ocean outfall.

While the SBWRP discharges all of its flow either to the reclaimed water distribution system or to its ocean outfall, it does not effectively treat its own solids and cannot discharge them to the MBC directly. As such, the SBWRP discharges its solids to the PLWTP for treatment. This flow effectively increases the solids that the PLWTP must

treat. Finally, the MBC returns centrate streams to the PLWTP for treatment, which in turn increases the solids load measured at the PLWTP. The MBC flows, however, are typical of any treatment facility process and have relatively little effect on the perceived or actual capacity of the facility. Since all of these flows are measured via the PLWTP influent system, they are effectively counted twice.

Demands placed on the System are expected to increase based on a projection of continued growth. The System treatment facilities currently have sufficient capacity to adequately satisfy the wastewater treatment requirements beyond FY13. Currently, the PLWTP has sufficient capacity to support O&M of the SBWRP, NCWRP, and the MBC; bypassed, returned, and residual flows from these three facilities; and the wastewater generated within its independent service areas. This capacity is in keeping with industry standards for an “end-of-the-line” wastewater treatment facility.

5.0 REGULATORY REQUIREMENTS

5.1 INTRODUCTION

MWWD must effectively manage a complex structure of laws, rules, and regulations that encompass the regulatory framework under which the System must operate. This section discusses the regulatory issues governing the System and its current level of regulatory compliance.

5.2 REGULATORY OVERVIEW

Wastewater operations are subject to Federal, State, Regional, County, and City environmental regulations. The Federal regulations that have the most significant effect on the System are derived from the initial legislation and subsequent amendments of:

- the Clean Water Act (CWA)
- the Clean Air Act (CAA)
- the Resource Conservation and Recovery Act (RCRA)

All the Federal regulations related to environmental quality are listed in Title 40, Code of Federal Regulations (CFR) – Protection of the Environment.

The State of California (State) regulates wastewater operations through the State Water Resources Control Board (SWRCB) and the Regional Water Quality Control Boards (RWQCB), which administer the National Pollutant Discharge Elimination System (NPDES) program mandated by the CWA. It is the responsibility of the SWRCB and RWQCB to preserve and enhance the quality of the State's waters through the development of water quality control plans and the issuance of waste discharge requirements (WDRs). WDRs for discharges to surface waters also serve as NPDES permits.

The SWRCB establishes policies and regulations that help protect and restore the water quality in California. The SWRCB also coordinates with and supports RWQCB efforts, and reviews RWQCB actions. The RWQCB monitors and enforces State and Federal plans, policies, and regulations. Each RWQCB issues WDRs to regulate the discharge of waste to surface and ground waters and makes critical water quality decisions for its region; including setting standards, determining compliance with WDRs, and taking appropriate enforcement actions. While the SWRCB has issued a few NPDES permits, the vast majority of NPDES permits are issued by the RWQCB.

Specific RWQCB programs that impact the MWWD include the NPDES program, the Stormwater NPDES Permit Program, sanitary sewer overflow (SSO) program, and the biosolids permitting program. The County of San Diego, through its mandate to protect public health has the delegated authority to administer the State's CAA compliance program and RCRA compliance.

In general, Federal environmental regulations supersede State environmental regulations and State regulations supersede County regulations. However, subordinate governmental entities may be designated as the lead agency for certain environmental programs and may establish more stringent environmental requirements than those of higher governmental entities. This relationship requires MWW to comply with the strictest of all of Federal, State, and County regulations. Table 5-1 summarizes the significant current regulations that impact the System.

**Table 5-1
Wastewater System Regulatory Requirements Overview**

Regulation	Description	Affected Facilities	Compliance Status
Clean Water Act ➤ National Pollutant Discharge Elimination System Permit Program	<ul style="list-style-type: none"> • Controls discharge of pollutants into surface waters. • Administered by Regional Water Quality Control Board 	PLWTP, South Bay WRP	In Compliance
➤ Biosolids Regulations 40 CFR Part 503 California Water Code - Section 13274 General Order 2004-12-DWQ California Title 22 Hazardous Waste Arizona Administrative Code R18-9-1005	<ul style="list-style-type: none"> • Regulates chemical and biological pollutants in land applied biosolids. • Administered by RWQCB • Administered by Arizona Department of Environmental Quality 	PLWTP and Metro Biosolids Center	In Compliance
➤ Sanitary Sewer Overflows SWRCP Order No. 2006-003-DWQ RWQCB Order No. R9-2007-0005	<ul style="list-style-type: none"> • Establishes waste discharge requirements for sanitary sewer systems. • Requires Sanitary Sewer Overflows reporting and collection system management • Administered by RWQCB 	Wastewater collection system	In Compliance
➤ Metropolitan Industrial Wastewater Control Program (IWCP)	<ul style="list-style-type: none"> • Controls industrial discharges to Publicly Owned Treatment Works (POTWs). • Applies to the industries that discharge to the System 	Industries discharging to the Sewer System	In Compliance
➤ Stormwater NPDES Permits	<ul style="list-style-type: none"> • Prevents pollution associated with stormwater runoff • Applies to the entire storm drain system of the City and includes stormwater control at the appropriate MWW facilities and construction sites exceeding one acre. • Administered by RWQCB 	Municipal Separate Stormwater Systems (MS4), applicable MWW facilities and applicable construction sites.	In Compliance

Table 5-1 (continued)
Wastewater System Regulatory Requirements Overview

Regulation	Description	Affected Facilities	Compliance Status
<ul style="list-style-type: none"> ➤ Section 404 Permits 	<ul style="list-style-type: none"> • Regulates construction-related activities along the waterways of the U.S. • Administered by the Corps of Engineers 	Applicable construction projects	In Compliance if necessary
<p>Recycled Water Program</p> <ul style="list-style-type: none"> ➤ California Water Code - Section 13267 ➤ Waste Discharge Requirements 	<ul style="list-style-type: none"> • Regulates the quality of reclaimed wastewater for a variety of uses. • Users at the point of application must obtain permit. • Administered by RWQCB 	NCWRP and SBWRP	In Compliance
<p>Clean Air Act (CAA)</p> <ul style="list-style-type: none"> ➤ Title I – Maintenance/Attainment of National Ambient Air Quality Standards (NAAQS) ➤ Title III – Air Pollutants ➤ Title V – Operating Permits 	<ul style="list-style-type: none"> • Regulates criteria, hazardous and toxic air emissions. • Regulates stand-by engine generators • Regulates combustion sources. • Administered by San Diego County Air Pollution Control District. 	The PLWTP, NCWRP, SBWRP, and MBC. Most pump stations.	In Compliance
<p>Resource Conservation and Recovery Act</p>	<ul style="list-style-type: none"> • Regulates management of hazardous wastes. • Administered by the United States Environmental Protection Agency (U.S. EPA) Region IX, California Department of Toxic Substances Control, and the County of San Diego Department of Environmental Health, Hazardous Materials Division 	City plants and pump stations that store and feed chemicals in bulk and perform chemical analyses leading to production of hazardous wastes.	In Compliance
<p>Emergency Preparedness and Community Right-To-Know Act (EPCRA)</p>	<ul style="list-style-type: none"> • Establishes reporting requirements to inform the public of the types of hazardous chemicals in their communities • Administered by U.S. EPA Region IX 	Facilities that are required to prepare or have available material safety data sheets for hazardous chemicals.	In Compliance

Most regulatory permits include concentration and/or mass limits for pollutants. Treatment facilities may exceed these limits occasionally due to isolated incidents, factors beyond normal operational control, or anomalous laboratory data. While exceedance of a permit limit may constitute a violation of the permit conditions or regulations, it does not necessarily result in enforcement. Regulatory agencies identify permit violations by issuing a Notice of Violation (NOV) for an event or series of events that clearly indicate a plant’s inability to comply with permit limits, conditions, or unauthorized discharges. An NOV is typically not issued for each exceedance of a permit limit unless the appropriate response actions outlined in the permit conditions are

not followed. Further, an NOV for circumstances beyond the plant's control, such as construction related events, typically do not require a corrective action even though enforcement of the permit provisions is required. The RWQCB has discretion to issue a less formal staff enforcement letter for minor permit condition violations.

The National Association of Clean Water Agencies is an industry trade organization (formerly the Association of Metropolitan Sewage Agencies) that recognizes wastewater plants with a track record of compliance with environmental regulations. NACWA issues Platinum Awards to plants with zero violations of NPDES permitted effluent limits for five consecutive years and Gold Awards to plants that do not have permit violations during a calendar year. In addition, NACWA issues a Silver Award to plants that exceed operating limits no more than five times each year. The PLWTP and the NCWRP have received the NACWA Platinum Award every year for the past five years. The SBWRP has received the NACWA Gold Award four times in that same period and most recently received a Platinum Award in 2007.

5.3 CLEAN WATER ACT – NPDES REGULATIONS

Regulations established by U.S. EPA and SWRCB pertaining to wastewater management deal primarily with the quality of effluent discharged from wastewater plants, sludge disposal, and pretreatment requirements for industrial wastewater discharges to the wastewater collection system and treatment systems.

The main NPDES requirements and programs discussed below include:

- NPDES/Waste Discharge Requirements Permit Compliance
- WWTP Biosolids Disposal
- Commercial and Industrial Wastewater Pretreatment Program
- Stormwater NPDES Programs
- Sanitary Sewer Overflow
- Future NPDES Regulations

5.3.1 NPDES/Waste Discharge Permit Compliance

NPDES discharge permits are complex and address numerous aspects of plant operations. WDRs and effluent limitations include technology-based requirements which measure plant performance and water quality-based requirements of the receiving water. Both types of limits are expressed as concentration and mass loading.

The SWRCB has overall responsibility for setting State-wide policy on the administration of water rights and water quality control in California. The State is divided into nine regions, each with its own RWQCB, for the purposes of administration of California's water quality program. Each RWQCB has adopted a Water Quality Control Plan, or Basin Plan, which recognizes and reflects regional differences in existing water quality, the beneficial uses of the Region's ground and surface waters, and local water quality conditions and problems. The SWRCB has also adopted several statewide Water Quality Control Plans, such as the California Ocean Plan, that also affect NPDES permit requirements.

The PLWTP and the SBWRP discharge to the Pacific Ocean through deep ocean outfalls, and are subject to the requirements in the Ocean Plan. The plan sets forth water quality objectives for ocean water which impose limits on bacteriological, physical, chemical, biological, toxic, and radioactive characteristics for ocean waters, as well as effluent quality requirements for systems discharging to the ocean. Since the year 2006, the SBWRP also produces recycled water and is subject to water recycling regulatory requirements.

The NCWRP does not discharge effluent to a surface body of water or the ocean, and therefore does not have a NPDES permit. Effluent from the NCWRP is used as recycled water, and effluent in excess of the recycled water demand is disposed of to the PLWTP through the Rose Canyon Trunk Sewer. The NCWRP must comply with waste discharge and water recycling requirements. The MBC does not have a NPDES or WDRs permit. All process waste streams produced at MBC are discharged to the PLWTP.

5.3.1.1 Point Loma Wastewater Treatment Plant

The PLWTP discharges treated wastewater to the Pacific Ocean and is regulated by a joint NPDES permit issued by the RWQCB (San Diego Region) and the U.S. EPA in September 2002 which became fully effective on June 15, 2003. The current permit expired in June 2008 and the plant continues to operate under the expired permit while the renewal application is under review. An application for the NPDES permit renewal was submitted to the U.S. EPA in December 2007. On December 2, 2008, the U.S. EPA issued a tentative decision and draft permit granting the City's application to renew the NPDES permit. Public comment on the tentative decision and draft permit was heard at a joint hearing of the U.S. EPA and the RWQCB on January 21, 2009. The deadline to file written comments was January 28, 2009. It is anticipated that the U.S. EPA and RWQCB will hold a second joint hearing in May or June 2009 to decide whether to approve, deny, or modify the tentative decision and draft permit. Currently, the final permit is anticipated to be issued in either July or August of 2009.

In accordance with provisions of Section 301(h) of the CWA, the existing five-year PLWTP NPDES permit establishes modified secondary treatment standards. Section 301(h) of the CWA recognizes that, in certain circumstances, secondary wastewater treatment may not be required to ensure a high level of protection for the ocean environment. Rather than relying solely on a "one size fits all" level of treatment, MWW facilities and operations provide a high level of environmental protection for the PLWTP ocean discharge through the following four elements:

- Effective industrial and non-industrial control of toxics
- Wastewater treatment at multiple treatment facilities
- A deep ocean outfall that discharges effluent far offshore
- A comprehensive monitoring program that assesses effluent quality, receiving water quality, and impacts to marine aquatic life

For the PLWTP to renew its NPDES permit with the modified secondary treatment standards, the MWWD must demonstrate to the EPA that the plant has met all of the criteria stipulated in Section 301(h) of the CWA, including:

- Existence of and compliance with water quality standards
- Protection and propagation of a balanced indigenous population of fish, shellfish, and wildlife
- Allowance of recreational activities
- Establishment of a monitoring program
- Satisfactory toxics control programs, including an approved pretreatment program. For each toxic pollutant introduced by an industrial discharger, the applicant must demonstrate that it has in effect either (1) an applicable pretreatment requirement or (2) a program that achieves secondary removal equivalency. To fulfill the urban pretreatment requirement, POTWs must also demonstrate that industrial sources are in compliance with all pretreatment requirements and that the requirements are enforced.
- No additional treatment requirements for other sources as a result of the waiver
- No increase in effluent volume or amount of pollutants discharged above the limits of the 301(h) modified permit
- Protection of public water supplies
- Primary or equivalent treatment to remove at least 30% of BOD and 30% of TSS

MWWD has a comprehensive program for complying with these criteria, including:

- An industrial and non-industrial toxics control program (Urban Area Pretreatment Program) to prevent harmful constituents from entering the sewer system
- Development and marketing of recycled water supplies at the 30 mgd NCWRP to lessen solids loads directed to the PLWTP and to reduce the amount of wastewater discharged to the ocean
- Development and marketing of recycled water supplies at the 15 mgd SBWRP to lessen PLWTP hydraulic loads and to reduce the amount of wastewater discharged to the ocean
- Advanced primary treatment at the PLWTP to achieve a minimum of 80% removal (System-wide) of TSS and 58% removal (System-wide) of BOD
- Comprehensive monitoring to assess PLWTP influent and effluent quality
- Discharge to the ocean through an ocean outfall that achieves a high initial dilution, discharges the wastewater far offshore (beyond the three-nautical-mile limit of State of California waters), and discharges the wastewater at a sufficient depth to trap the waste plume below the surface
- Comprehensive monitoring of ocean receiving waters, sediments, fish, and benthic invertebrate species

Table 5-2 lists the effluent limitations for the 301(h) and non-301(h) regulated pollutant parameters from the PLWTP NPDES permit, along with the wastewater effluent measured values and the number of permit exceedances. The PLWTP also tests for numerous toxic materials for the protection of marine aquatic life and human health. Concentration limits for the toxic substances are based on the California Ocean Plan. In addition to concentration limits, the PLWTP tracks the effluent mass emissions for toxic and carcinogenic materials and compares them to mass emission benchmarks, which are not enforceable effluent limitations. If an annual mass emission benchmark is exceeded, an antidegradation analysis for that pollutant will be conducted to determine if effluent limitations need modification.

**Table 5-2
Point Loma Wastewater Treatment Plant
NPDES Compliance Assessment for Conventional Pollutants
(Order No. R9-2002-0025/NPDES No. CA0107409)**

Parameter	NPDES Permit Limits		Measured Values Years 2003 - 2008	# of Permit Exceedances in the Years 2003 - 2008
BOD ₅	Mean Annual % Removal	≥ 58 %*	61 – 70	0
TSS	Mean Monthly % Removal	≥ 80 %	84.1 – 92.7	0
	Monthly Average	75 mg/L	24.8 – 46.9	0
	Mass Emissions	13,599 mt/yr ⁽¹⁾	7,266 – 10,371	0
Oil and Grease	Monthly Average	25 mg/L	6.83 – 18.0	0
		34,000 lbs/day	9,181 – 25,995	0
Oil and Grease	Weekly Average	40 mg/L	6.0 -23.2	0
		68,000 lbs/day	8,070 – 32,615	0
	Maximum at any time	75 mg/L	2.9 – 35.4	0
		130,000 lbs/day	3,866 – 49,446	0
Settleable Solids	Monthly Average	1.0 ml/L	0.1 – 0.9	0
	Weekly Average	1.5 ml/L	0.1 - 3	6
	Maximum at any time	3.0 ml/L	Not detected – 7.5	4
Turbidity	Monthly Average	75 NTU	36.6 – 56.2	0
	Weekly Average	100 NTU	32 -62.4	0
	Maximum at any time	225 NTU	23.4 - 125	0

(1) Mass emissions limits in the permit are developed over a five-year period. As such, within the current permit, the emission limits for the first four years are established at 15,000 mt/yr with the final year, which controls current operations, at 13,599 mt/yr. For the current permit application, the limits are established at 13,598 mt/yr for each of the five years.

For the years 2003 to 2008, the effluent discharge to the PLOO has achieved 100 percent compliance with the 301(h) modified BOD and TSS limits established in Order No. R9-2002-0025. However, in the year 2004, two grab samples for settleable solids exceeded the daily maximum limits, and another sample exceeded the chlordane and heptachlor limits. The cause of the June 8, 2004, exceedance is unknown, but the sample value was high enough that it raised the 7-day running average to over the 1.5 mg/L limit for the

next 6 days. The second settleable solid exceedance occurred on August 21, 2004, and was attributed to cleaning activities occurring in the plant at the time the sample was taken. A single grab sample on July 24th, 2004, caused the chlordane and heptachlor permit exceedances and pushed the 30-day running averages for both chemicals over the limits for the next four weekly samples, leading to eight separate exceedances. Chlordane and heptachlor are constituents of a pesticide no longer available in the United States. The amount present in the PLWTP effluent was the equivalent of one gallon of pesticide. As a result of the permit excursions in the year 2004, MWWD received an Administrative Assessment of Civil Liability for Minimum Mandatory Penalties (Order No. R9-2005-0229) and paid a fine of \$42,000. While not a NOV, MWWD responded to these issues, and these conditions have not presented themselves in the subsequent years of data reviewed for this report.

The final two instances where samples exceeded permit limits occurred in November and December 2007. On one day in both months, the settleable solids grab sample exceeded the instantaneous maximum limit. The high settleable solids value in November was attributed to an interruption in the ferric chloride feed due to maintenance operations. No cause was determined for the December high value, but a second sample collected 2.5 hours later was below the permit limit. The PLWTP did not receive any formal Notices of Violation for effluent limits during the years 2003, 2004, 2005, 2006, or 2007.

5.3.1.2 South Bay Water Reclamation Plant

The SBWRP discharges secondary treated wastewater to either the Pacific Ocean or tertiary effluent as recycled water. As a result, the SBWRP operates under two permits, a NPDES permit with WDRs for discharge to the Pacific Ocean via the SBOO and a permit with waste discharge and water recycling requirements for the production and purveyance of recycled water. The NPDES permit was last renewed in November 2006 and expires in January 2012. The WDR permit for recycled water was issued in November 2000, amended once in both 2004 and 2006, and does not expire.

Table 5-3 lists the NPDES permit limits for conventional pollutants and the compliance record for the SBWRP. The SBWRP also monitors the effluent for trace metals and organic compounds for comparison to performance goals based on the California Ocean Plan. The trace compounds are monitored for information purposes only.

**Table 5-3
South Bay Water Reclamation Plant
NPDES Compliance Assessment for Conventional Pollutants
(Order No. R9-2006-0067/NPDES No. CA0109045)**

Parameter	NPDES Permit Limits		Measured Values Years 2003 - 2008	# of Permit Exceedances in the Years 2003 - 2008
BOD ₅	Monthly Average	30 mg/L	0 – 70.5	3
	Weekly Average	45 mg/L	0 – 124.4	15
	Instantaneous Max	50 mg/L	Not Detected – 147	44
	Average Monthly % Removal	85 %	79.2 - 100	3
TSS	Monthly Average	30 mg/L	0 – 29.5	0
	Weekly Average	45 mg/L	0 – 43.3	0
	Instantaneous Max	50 mg/L	Not Detected – 64	4
	Average Monthly % Removal	85 %	90.3 - 100	0
Oil and Grease	Monthly Average	25 mg/L	0 – 9.0	0
	Weekly Average	40 mg/L	0 – 18.5	0
	Maximum at any time	75 mg/L	Not detected – 18.5	0
Settleable Solids	Monthly Average	1 ml/L	0 – 0.1	0
	Weekly Average	2 ml/L	0 – 0.25	0
	Maximum at any time	3 ml/L	Not detected -0.25	0
Turbidity	Monthly Average	75 NTU	0.59 – 44	0
	Weekly Average	100 NTU	0.45 – 113.6	1
	Maximum at any time	230 NTU	0.465 - 218	0
pH	Range	6.0 – 9.0	6.92 -8.11	0
Total Chlorine Residual	Max Daily	760 µg/L	NA	0
		96 lb/day	0 – 113.4	1
	Instantaneous Max	5,700 µg/L	Not detected – 2,850	0
		720 lb/day	0 – 113.4	0
	6-Month Median	190 µg/L	Not detected – 0.04	0
		24 lb/day	Not detected – 0.029	0
Copper, Total Recoverable	Max Daily	960 µg/L	4.35 – 116	0
		120 lb/day	0.1 – 4.2	0
	Instantaneous Max	2,700 µg/L	4.35 - 116	0
		330 lb/day	0.1 – 4.2	0
	6-Month Median	97 µg/L	6.6 – 78.6	0
		12 lb/day	0.2 – 2.7	0

In the years 2003 to 2008, the SBWRP had 70 exceedances of NPDES effluent permit limits. Three of the exceedances occurred in the year 2003, when the plant was in its second year of operation. The remainder of the exceedances occurred in 2008 during low effluent flow discharge periods. In April of 2003, the effluent daily average chlorine residual was exceeded due to a leaking valve on a tertiary filter that was being dosed with sodium hypochlorite for filter maintenance. The two other 2003 permit exceedances were for daily maximum BOD₅ - one occurrence in October 2003 and one occurrence in November 2003. Both were caused by a temporary failure of the plant Distributed Control System (DCS). When the DCS was brought back online, the aeration rates were reset to “default” pre-operation settings, which were inadequate for proper treatment. The problem was not detected for several days due to the five-day incubation period for the BOD test. To prevent similar events from occurring in the future, the DCS system was examined to fix any underlying problems. The staff also implemented a practice of analyzing chemical oxygen demand (COD) tests, which have a faster response time, when problems are suspected to detect potential issues sooner.

In 2006, the SBWRP began producing tertiary treated wastewater for use as recycled water. Table 5-4 lists the waste discharge and water recycling permit requirements and the SBWRP compliance record. Since recycled water production started, there have been 22 instances of exceedances of the recycled water requirements permit. 21 of these permit exceedances occurred in the years 2006 and 2007: 11 were exceedances of the total coliform limits and 10 were for missed samples. The coliform exceedances occurred in August 2006 and January through April 2007 and were traced to algae growth on the walls of the UV disinfection cells, which reduced disinfection effectiveness. Since that time, low dose chlorine (~0.5 mg/L) has been used to inhibit algae growth in the channel and UV lamps. With this, the consistency of the disinfection process has improved substantially. That being said there was one exceedance of the coliform permit limit in November 2008 when two samples exceeded the limitation.

Currently, the majority of the effluent plant flow is used for recycled water, leaving minimal flow to be discharged out of the outfall. As a result, effluent from the International Wastewater Treatment Plant (IWTP), which shares the SBOO with the SBWRP, can back up in the outfall to the SBWRP sampling point. Since the IWTP discharges primary effluent instead of secondary effluent, this has led to an extensive number of exceedances of permit limitations when the SBWRP was not discharging flow or was discharging a minimal flow. No violations for these exceedances have ever been cited as these exceedance are due to monitoring location opposed to operations. To improve the accuracy of sampling for SBWRP effluent even when the majority of treated wastewater is being used as recycled water, MWWD is currently working to install a new sampling location. The SBWRP did not receive any formal Notices of Violation for exceeding effluent limits to the ocean outfall for each of the years 2003 through 2008. The SBWRP has received formal Notices of Violation for exceeding its waste discharge and water recycling requirements, however. In these events, MWWD has responded with corrective actions, as noted above.

Table 5-4
South Bay Water Reclamation Plant
Waste Discharge and Water Recycling Requirements
(Order No. 2000-203)

Parameter	Permit Limits		Measured Values Years 2006 - 2008	# of Permit Exceedances in the Years 2006 - 2008
BOD ₅	Monthly Average	30 mg/L	0.58 – 5.1	0
	Daily Maximum	45 mg/L	Not detected - 19.9	0
Total Dissolved Solids (TDS)	Monthly Average	1,200 mg/L	776 - 969	0
	Daily Maximum	1,300 mg/L	659 - 1190	0
Sulfate	Monthly Average	250 mg/L	146 - 214	0
	Daily Maximum	300 mg/L	146 – 214	0
MBAS	Monthly Average	0.5 mg/L	0.13 – 0.46	0
	Daily Maximum	0.7 mg/L	0.13 - 0.51	0
Iron	Monthly Average	0.3 mg/L	Not detected – 0.125	0
	Daily Maximum	0.4 mg/L	Not detected - 0.125	0
Fluoride	Monthly Average	1.0 mg/L	0.305 – 0.608	0
	Daily Maximum	1.2 mg/L	0.305 - 0.608	0
Coliform	7-day median, excluding days when no recycled water was distributed	2.2/100 mL	<1.8 – 8 ⁽¹⁾	8
	Any 30-day period	Not to exceed MPN of 23/100 mL in more than one sample	⁽²⁾	4
Turbidity	24-hour Average	2 NTU	-	Turbidity interlocks prevent discharge of non-compliant water
	5 % of time in a 24-hour period	5 NTU	-	
	Instantaneous Max	10 NTU	-	
pH	Range	6 - 9	6.62 - 8.14	0

(1) Total coliform data reflects the period of July 2006 to December 2008. There were four occurrences exceeding the 7-day median limit of 2.2 MPN/100mL while distributing recycled water during August 2006, all on consecutive days from August 14 to the 17th. In 2007 there were four occurrences exceeding the 7-day medians over 2.2 MPN/100mL on January 1, 29, 30 and March 29.

(2) There were four occurrences where total coliforms were greater than 23 MPN in any 30-days, including:

- a. December 14, 2006 (170 MPN) and January 1, 2007 (33 MPN).
- b. February 23, 2007 (30 MPN) and March 17, 2007 (170 MPN).
- c. March 17, 2007 (170 MPN) and April 9, 2007 (80 MPN).
- d. November 20, 2008 (33 MPN) and November 25, 2008 (34 MPN).

5.3.1.3 North City Water Reclamation Plant

The NCWRP produces tertiary treated water for recycled water use. When the recycled water demand is less than the plant produces, effluent that is not reused is discharged to the PLWTP via the Rose Canyon Trunk Sewer. The NCWRP operates under a permit with waste discharge and water recycling requirements for the production and purveyance of recycled water. The permit was adopted in January 1997, amended in the year 2003, and does not expire.

Table 5-5 lists the waste discharge permit limits for conventional pollutants and the compliance record for the NCWRP. In the years 2003 to 2008, the NCWRP has had numerous exceedances of WDR permit limits for manganese. Manganese is regulated in drinking water as a secondary standard based on aesthetic concerns, not health. The recycled water limits for the NCWRP were based on drinking water standards. Since the manganese permit excursions started, MWWD has partially attributed its source to ferric and ferrous chloride chemical additions used in the operation of the sewerage system. MWWD has also conducted studies of various points in the collection system upstream of major pump stations and tributaries of the feeder collection system into NCWRP. This includes industrial as well as potential domestic sources. MWWD has been in contact with the RWQCB concerning potential solutions to the exceedances. In October 2008, the RWQCB issued a letter noting the violations and requesting a comprehensive update on investigations as to the source of the manganese, as well as a plan to achieve compliance. In February 2009, the RWQCB issued a Notice of Violation concerning the Managanese issue. MWWD is working with the RWQCB to comply with their directive.

Table 5-5 North City Water Reclamation Plant Waste Discharge and Water Recycling Requirements (Order No. 97-03)				
Parameter	Permit Limits		Measured Values Years 2003 - 2008	# of Permit Exceedances in the Years 2003 – 2008
BOD ₅	Monthly Average	30 mg/L	0 – 1.02	0
	Daily Maximum	45 mg/L	0 – 11.5	0
TSS	Monthly Average	30 mg/L	0 – 0.78	0
	Weekly Average	45 mg/L	0 – 1.73	0
Total Dissolved Solids	12-Month Average	1,200 mg/L	912 – 985	0
Sulfate	12-Month Average	300 mg/L	184 – 229	0
Manganese	12-Month Average	0.05 mg/L	0.0328 – 0.142	58
Adjusted Sodium Adsorption Ratio	12-Month Average	6.0 mg/L	4.38 – 5.24	0

Table 5-5 (continued)
North City Water Reclamation Plant
Waste Discharge and Water Recycling Requirements
(Order No. 97-03)

Parameter	Permit Limits		Measured Values Years 2003 - 2008	# of Permit Exceedances in the Years 2003 – 2008
Iron	12-Month Average	0.3 mg/L	0.0727 -0.169	0
Aluminum	12-Month Average	1.0 mg/L	0.0271 – 0. 170	0
Arsenic	12-Month Average	0.05 mg/L	0.000513 – 0.000805	0
Antimony	12-Month Average	0.006 mg/L	0.00000 – 0.00308	0
Barium	12-Month Average	1.0 mg/L	0.0318 – 0.0561	0
Beryllium	12-Month Average	0.004 mg/L	0.000 – 7.33x10 ⁻⁶	0
Cadmium	12-Month Average	0.005 mg/L	0.000000 – 0.000250	0
Chromium	12-Month Average	0.05 mg/L	0.000342 – 0.00283	0
Cyanide	12-Month Average	0.2 mg/L	0.00558 – 0.0149	0
Mercury	12-Month Average	0.002 mg/L	0.000000 – 0.000176	0
Nickel	12-Month Average	0.1 mg/L	0.00250 – 0.00851	0
Selenium	12-Month Average	0.05 mg/L	0.000583 – 0.000856	0
Thallium	12-Month Average	0.002 mg/L	0.000000 – 0.000417	0
Coliform	7-day median, excluding days when no recycled water was distributed	2.2/100 mL	<2 - 2	0
	Any 30-day period	Not to exceed MPN of 23/100 mL in more than one sample	None	0
Turbidity	24-hour Average	2 NTU	-	Turbidity interlocks prevent discharge of non-compliant water
	5 % of time in a 24-hour period	5 NTU	-	
	Instantaneous Max	10 NTU	-	
pH	Range	6 - 9	6.67 – 8.28	0

5.3.2 WWTP Biosolids Disposal

In 1993, the U.S. EPA promulgated standards for the use or disposal of sewage sludge (Code of Federal Regulations Title 40, Part 503), which establish pollutant limitations, operational standards for pathogen and vector attraction reduction, management

practices, and other provisions intended to protect public health and the environment from any reasonably anticipated adverse conditions from potential waste constituents and pathogenic organisms. In California, the beneficial reuse of treated municipal sewage sludge (a.k.a. biosolids) generally must comply with the California Water Code in addition to meeting the requirements specified in Part 503 of Title 40 of the Code of Federal Regulations.

In July 2004, the SWRCB adopted Water Quality Order No. 2004-12-DWQ (General Order). The General Order incorporates the minimum standards established by the Part 503 Rule and expands upon them to fulfill obligations to the California Water Code and streamline the regulatory process for the use of biosolids as a soil amendment. However, since California does not have delegated authority to implement the Part 503 Rule, the General Order does not replace the Part 503 Rule. The General Order also does not preempt or supersede the authority of local agencies to prohibit, restrict, or control the use of biosolids subject to their jurisdiction, as allowed by law.

Current Federal and California regulations for the utilization or disposal of biosolids and biosolids products control the following practices:

- Land application of biosolids
- Disposal of biosolids in municipal solid waste landfills or sludge-only landfills
- Incineration of biosolids

The regulations require biosolids that are land applied and surface disposed to meet pollutant limits, pathogen reduction requirements, and vector attraction reduction requirements. Improvements in the quality of biosolids result in fewer regulatory restrictions on the allowable ultimate disposal practices. The biosolids regulations also include requirements for management practices, site restrictions, permits, monitoring, and record keeping.

The PLWTP NPDES permit includes biosolids monitoring requirements based on the regulations. Sludge is digested at the PLWTP and then pumped to the MBC for dewatering. The SBWRP discharges solids to the PLWTP through the sewer system. Additionally, the NCWRP discharges solids to the MBC for thickening, digestion, and dewatering. As such, there are no biosolids monitoring requirements for either the SBWRP or the NCWRP. The biosolids produced by the PLWTP and MBC are “Class B” (low levels of pathogens which rapidly die-off when applied to soils) biosolids with respect to pathogenic organisms and pathogenic reduction. The biosolids are used for land application at a site in Arizona, alternative daily cover at a local landfill, and are taken to a landfill for disposal.

MWWD produces an annual biosolids report for the use or disposal of sewage sludge that includes the analytical results. A review of the 2003 through 2007 annual reports for the MBC and the PLWTP indicates that the criteria for biosolids disposal were satisfied, including analyses required by 40 CFR 503 and California Title 22. Biosolids disposed of in Arizona are also tested by an Arizona laboratory to ensure compliance with Arizona Department of Environmental Quality (ADEQ) requirements.

5.3.3 NPDES Permit Compliance – Other Requirements

The treatment plant NPDES and WDR permits address other items in addition to discharge effluent limitations and biosolids disposal requirements. The PLWTP NPDES permit prohibits the discharge of waste in a manner or to a location that has not been specifically authorized by the permit. Both the SBWRP and NCWRP have permit requirements that state that the discharger shall, at all times, properly operate and maintain all facilities and systems of treatment and control.

In the records reviewed, the treatment plants received several Notices of Violation for incidents at the plants that violated these general permit conditions. In the year 2003, the PLWTP received an NOV for a 2,000 gallon sewage spill in the plant, of which 1,500 gallons were recovered. The spill was caused by the failure of a temporary line during cleaning of the facility's digesters. No further enforcement action was taken as a result of this NOV. The PLWTP was cited for another in plant spill, this time for advanced primary treated wastewater that occurred on August 11, 2006. This spill was the result of a faulty PVC elbow in the effluent piping system. From the years 2003 to 2007, there was another NOV for the PLWTP NPDES permit for three spills at the MBC in February and March 2006. The MBC is regulated under the PLWTP permit because all waste streams from MBC are sent to the PLWTP for treatment. Two of the spills were of odor control make-up water due to clogged drain lines and a three gallon spill of sodium hypochlorite that was fully contained. To prevent future clogging of the make-up water drain lines, a preventive maintenance work order for quarterly cleaning of the pipes was entered into the computerized maintenance management system.

In the year 2006, the NCWRP received a NOV for two spills of odor control make-up water. The first spill was 9,000 to 10,800 gallons of make-up water that discharged to the plant stormwater system as a result of a clogged floor drain. In response to the spill, the plant has cleaned the scale from the clogged drain and instituted a preventive maintenance work order for quarterly cleaning of the drains. The second spill was for approximately 50 to 100 gallons of process water that was released to the storm drain during a routine maintenance activity. A cleanout cap ruptured on the drain line being cleaned, possibly due to corrosion. In response to the spill, the cleanout cap was replaced with a plastic cap and Operations staff were instructed to use spill containment socks and other protection devices on and around storm drains that may collect future spillage.

The SBWRP received two NOVs for spills in the plant during the year 2006. The first NOV was for a 131 gallon spill of sodium hypochlorite due to a break in the delivery pipe. The spill was contained by secondary containment and no further enforcement response was required. A second NOV was received in October 2006 for a 19,500 gallon spill of odor control make-up water to a storm drain. Both pumps in the sump failed overnight, allowing the odor control water to overflow the sump and enter the storm drain until noticed the following morning. An alarm at the DCS for the pump failure was not

noticed by the remote operator. To prevent a similar occurrence from happening in the future, the sump pumps were replaced and the alarm system modified to make it more obvious to operators when an alarm situation is occurring.

5.3.4 Commercial and Industrial Wastewater

The Metropolitan Industrial Wastewater Control Program (IWCP) administers and enforces the Federal pretreatment program and local source control programs within the City of San Diego and 15 Participating Agencies whose sewage is treated by MWW. The program applies and enforces Federal pretreatment regulations set forth by the U.S. EPA and satisfies the following objectives:

- To protect and improve receiving water quality.
- To prevent the discharge of toxic and potentially harmful pollutants in concentrations which would interfere with treatment plant operations or pass through the plant to the receiving waters.
- To prevent contamination of treatment plant sludge in order to maximize beneficial reuse options for biosolids.
- To protect system personnel and plant facilities by limiting discharges of potentially hazardous, harmful, or incompatible pollutants.

The NPDES permits for the PLWTP and SBWRP require the City to implement an IWCP to regulate industrial discharges into the System. Through Interjurisdictional Pretreatment Agreements, the IWCP also administers the program throughout the other 15 Participating Agencies contributing wastewater to the System. The IWCP issues permits and discharge authorizations with enforceable pollutant discharge limits and requirements; the municipal code authorizes administrative, civil, and/or criminal penalties for permit violations.

The IWCP administers several different permit classifications:

- Class 1 – Users with processes subject to Federal Categorical Pretreatment Standards and Requirements
- Class 2 – Users in targeted industrial sectors, which have some toxic constituents in their discharge, but are not subject to Federal standards
- Class 3 – Users in targeted industrial sectors to regulate conventional pollutants
- Class 4 (no permit required) – Industries with sanitary flow only, or Class 2 or 3 facilities with low flow
- Class 4C (conditional no permit required) – Industries with Federally regulated operations that do not discharge regulated wastewater to sewer; they either generate no wastewater, or generate regulated wastewater haul, reuse, or evaporate it
- Class 5 (no permit required) – Industries with sanitary flow only and minimal potential to ever generate industrial waste
- Trucked Waste Hauler
- Trucked Waste Generator

- Temporary Groundwater Discharge – construction dewatering and groundwater remediation projects
- Best Management Practice (BMP) Discharge Authorizations

As of December 31, 2007, the IWCP was administering 410 active Class 1, 2, and 3 permits, including 49 Federally regulated facilities and 34 Groundwater Discharge permits, plus 107 Trucked Waste permits, 37 zero discharge facilities with Federally regulated processes, and 1,077 Pollution Prevention BMP Discharge Authorizations. There are an additional 1,834 active industrial users classified as Class 4, which are re-evaluated periodically, and 125 Class 5 facilities.

U.S. EPA requires that the IWCP meet a minimum standard of no more than 15% of the total number of Significant Industrial Users (SIUs) in Significant Non-Compliance (SNC) in a calendar year. As provided in the NPDES permit, SIUs that have been issued Administrative Penalty Orders are not included in determining compliance with the 15% SNC standard. In 2007, the IWCP monitored an inventory of 92 SIUs at 182 sampling locations, constituting 122 outfalls, in the MWW service area. 14 outfalls at fourteen SIU facilities were found to be in SNC. An Administrative Penalty Order was issued to one of the SIUs for one outfall; therefore, the resulting non-compliance rate for 2007 was 13 outfalls out of 92 SIU facilities having 122 total outfalls, which is less than the Federal requirement of 15%. U.S. EPA's annual review of the IWCP confirms that the City is meeting its NPDES permit requirements to achieve compliance rates and perform the pretreatment functions required.

5.3.5 Clean Water Act, Section 404

Wastewater construction projects that involve fill, excavation or land clearing activities conducted along or in the waters of the United States may be required to obtain a CWA Section 404 Permit, issued by the U.S. Army Corps of Engineers. Depending on the nature of the work, either an individual or general permit must be obtained. More complex projects require an Individual Section 404 permit. Where required, MWW has historically obtained these Section 404 permits. Although not directly regulated under Section 404, construction projects that require groundwater dewatering with discharge to a water of the United States are also regulated under the CWA. Permits for these operations are granted by the RWQCB.

5.3.6 Stormwater NPDES Permits

Based on requirements in the CWA and the State-level Porter-Cologne Water Quality Control Act, MWW must comply with regulations controlling the discharge of stormwater. MWW is subject to requirements contained in a municipal stormwater permit regulating the entire County of San Diego watershed, as well as a state-wide permit for stormwater associated with industrial activities. The programs are administered directly by the RWQCB.

The wastewater treatment and water reclamation plants, as well as the collection system and pumps stations, fall under the provisions of a stormwater NPDES permit issued for Municipal Separate Storm Sewer Systems in the County of San Diego, the incorporated cities in San Diego County, and the San Diego Unified Port District (hereafter called the "Municipal Permit"). The Municipal Permit was first issued by the RWQCB on July 16, 1990, renewed in February 21, 2001, and most recently re-issued on January 24, 2007

and expires in five years. In March 2004, the City was issued a NOV for inadequate BMPs in canyons while sewer work was occurring.

To meet the Municipal Permit requirements, and address the issues raised in the 2004 NOV, the Stormwater Pollution Prevention Division, with the help of other City departments, developed the City of San Diego's Jurisdictional Urban Runoff Management Program (JURMP) Plan. The JURMP plan addresses how the City, including the MWWD Collections Division and the Wastewater Treatment and Disposal Division, plans to protect and improve the water quality in San Diego through compliance with the Municipal Permit requirements.

The JURMP plan identifies long and short-term stormwater control strategies, which currently focus on BMPs, training of MWWD staff, and public outreach, instead of the construction of physical facilities, to satisfy the regulatory requirements. MWWD divisions have implemented stormwater BMPs for treatment, maintenance, and collection system activities, in addition to inventory, inspection, pollutant discharge reporting, education programs, and annual reporting requirements. With the implementation of BMPs for the Collections Division and the Wastewater Treatment and Disposal Division, MWWD is in compliance with the municipal stormwater permit.

MWWD treatment plants, including the PLWTP, NCWRP, SBWRP, and MBC, and eight large pump stations are also subject to the California General Industrial Activities Stormwater NPDES permit. This permit requires facility operators to:

- Eliminate unauthorized non-stormwater discharges
- Develop and implement a stormwater pollution prevention plan (SWPPP)
- Perform monitoring of stormwater discharges and authorized non-stormwater discharges

The facilities submit annual reports detailing the results from their monitoring program, visual inspections, stormwater samples, and annual comprehensive site compliance evaluation. MWWD's facilities are in compliance with the General Industrial Stormwater NPDES permit.

Another component of the program is the stormwater construction management plan. All City departments that inspect construction projects are responsible for ensuring that adequate stormwater BMPs are installed and maintained by the owner or contractor. All CIP projects are required to incorporate the construction requirements set forth in the Stormwater Standards Manual. These requirements must be incorporated into the project specifications and plans prior to approval in order to fund the construction of the project. To assist project managers in assuring consistency, stormwater requirements are included in the City's standard specifications.

5.3.7 Sanitary Sewer Overflow

The CWA prohibits the discharge of wastewater to surface waters except as authorized under an NPDES permit. This includes discharges as a result of an SSO in the collection system. The California Water Code has a broader interpretation of an SSO, to include waste discharges that could affect the quality of state waters, both surface and groundwater.

To provide a consistent, Statewide regulatory approach to SSOs, the SWRCB adopted Statewide General WDRs for Sanitary Sewer Systems, Water Quality Order No. 2006-0003 (Sanitary Sewer Order) on May 2, 2006. The Sanitary Sewer Order requires public agencies that own or operate sanitary sewer systems to develop and implement a Sewer System Management Plan (SSMP) and report all SSOs to the SWRCB's online SSO database. The SSMP must include an O&M program, a current map of the sanitary sewer system, rehabilitation and replacement plan, a training plan, and an inventory of equipment and replacement parts.

In addition to the required compliance with the Sanitary Sewer Order, MWWD must comply with the Final Consent Decree in Case Nos. 03-CV-1349K and 01-CV-0550B filed October 12, 2007 in U.S. District Court, Southern District of California, between the United States of America, local environmental groups, and the City of San Diego. The Consent Decree results from a lawsuit first filed by San Diego Baykeeper in the year 2001 against the City of San Diego for violation of the CWA due to SSOs. In April 2002, the U.S. EPA issued a Finding of Violation and Order, setting forth a comprehensive set of requirements to be met by the City to reduce and eliminate sewage spills. Two Partial Consent Decrees were enacted to immediately implement short-term capital improvement projects and O&M requirements while the Final Consent Decree was entered.

In the year 2001, the MWWD embarked on a significant plan to reduce SSOs by developing a system-wide cleaning schedule; televising and assessing the condition of the oldest and most problematic sewer lines in the municipal collection system; and increasing the number of miles of sewer lines replaced or rehabilitated annually. The MWWD Wastewater Collection Division established and operates the following programs, which comply with the Sanitary Sewer Ordinance and the Final Consent Decree, and directly impact wastewater collection system condition and performance:

- System-Wide Cleaning Program
- Accelerated Cleaning Program
- Root Control Program
- Sewer Inspection and Condition Assessment Program
- Sewer Repair, Rehabilitation, and Replacement Program
- Fats, Oils, and Grease Blockage Control Program
- Canyon Area Spill Elimination Program

- Pump Station and Force Main Spill Reduction Program
- Capacity Assessment and Assurance Program

Since these programs have been implemented, the number of SSOs in the City of San Diego has decreased significantly. Table 5-6 shows the number of SSOs from 2003 to 2008, the number that reached public waters, and the number of official Notices of Violation. Even with the aggressive Sewer System Management Plan, the City has still received several Notices of Violation from the RWQCB for SSOs.

Table 5-6 Summary of Collection System Sanitary System Overflows and NOVs						
SSO Type	Calendar Year					
	2003	2004	2005	2006	2007	2008
Total Spills	144	127	63	84	77	62
Public Waters	16	9	9	10	8	9
No. of Notices of Violation	14 ⁽¹⁾	0	0	7	1	0

(1) Five of these notices were for spills that occurred in calendar year 2002.

Under two Partial Consent Decrees, the City agreed to rehabilitate or replace 200 miles of sewer pipeline by June 30, 2007. The City accomplished that goal and is in the process of rehabilitating or replacing an additional 250 miles under the Final Consent Decree by June 30, 2013. The Consent Decrees also mandated improvements to many of the City’s sewer pump stations and required the City to maintain an annually updated 10-year CIP plan to address collection system projects.

As required by the Consent Decrees, the MWWD issues an Annual Progress Report for the wastewater collection system each calendar year. Based on a review of these reports from the years 2003 through 2008, the City is focused on improving the condition and performance of the City’s wastewater collection system and on reducing the number of SSOs. Since the implementation of MWWD Wastewater Collection Division’s programs to prevent SSOs, the Division has received awards from the California Water Environment Association – San Diego Section for “Large Collection System of the Year” in 2003, 2005 and 2008. The CIP details funding for specific projects aimed at improving the reliability of the collection system, including the repair or replacement of the Balboa Trunk Sewer, Lake Murray Trunk Sewer (in canyon), East Point Loma Trunk Sewer, South Mission Valley Trunk Sewer, Montezuma Trunk Sewer, and the USIU Trunk Sewer. The CIP also reserves several funds dedicated to sewer line rehabilitation and replacement in accordance with the Final Consent Decree. More information on these projects can be found in Section 7.

To date, the City has completed the capital improvement projects as required by the Final Consent Decree. Upgrades to Sewer Pump Station 79 were scheduled for completion by December 2008, but significant redesign of the project and the need for revised environmental documents have delayed completion. The City exercised its right under

the Final Consent Decree to extend the deadline for the project by one year, and the City anticipates having the upgraded pump station complete by December of 2009.

The City is currently evaluating whether it may similarly need to exercise its right to extend the deadline for replacing or rehabilitating 45 miles of sewer pipe this fiscal year, which ends June 30, 2009. The City has completed 11.14 miles as of January 31, 2009 in FY09, and has awarded contracts for completion of 30.26 more miles. Currently, the City is working with its contractors to accelerate the pace of their work in order to reach the 45 mile requirement.

5.3.8 Future NPDES Regulations

Potential future changes in the State regulations that may affect the MWWD Wastewater System Facilities include changes in interpretation to water-contact bacteriological standards. The California Ocean Plan establishes bacteriological standards for body-contact recreation at beaches, coastal waters, kelp beds, and other areas where body-contact recreation is designated by the RWQCB as a beneficial use. The current PLWTP NPDES permit does not require effluent disinfection, as the discharge is miles offshore from the coastal and kelp bed areas where body contact recreation (e.g. diving, swimming, surfing, sail boarding, etc.) occurs.

The PLOO discharges well beyond the three-nautical-mile-limit of State-regulated waters. As a result, all but a few of the more than 10,000 bacteriological samples collected during recent years within the three-mile limit demonstrate compliance with applicable State and Federal water quality body contact recreational standards. The infrequent instances of outfall-related elevated bacteriological concentrations occurred primarily on or near the seafloor near the edge of the three-mile limit.

The City achieves compliance with Ocean Plan bacteriological water contact standards in shoreline and kelp beds where such water contact recreation occurs. In reviewing the PLWTP NPDES permit application, regulators have chosen to apply the Ocean Plan water-contact bacteriological standards (previously only applied to the shore zone and kelp bed) throughout the entire depth of the ocean water column within the three nautical mile limit of State-regulated waters. The City has determined that a reduction of PLWTP effluent bacteriological indicator organisms by 2.1 logarithms (approximately 99%) would prevent the outfall ocean discharge from causing an exceedance of Ocean Plan bacteriological body-contact recreational standards throughout the water column (from water surface to ocean bottom) within the three-mile-limit of State-regulated waters.

The City has implemented effluent disinfection at the PLWTP to achieve this 2.1 logarithm reduction. The City has designed and installed prototype effluent disinfection facilities at the PLWTP that inject sodium hypochlorite solution in the effluent channel and use the outfall itself to provide contact time for bacteria reduction. This prototype disinfection system incorporates existing sodium hypochlorite facilities at the PLWTP. The City submitted a request to initiate operation of the prototype disinfection facilities to the RWQCB, who approved it at their August 2008 meeting. Operation of the facilities commenced in September 2008.

As noted above, MWWD has taken actions in anticipation of additional restrictions associated with the nature of the PLWTP effluent as a primary effluent. These actions are appropriate within the context of the PLWTP maintaining its current permit status with future renewals. Approval of an advanced primary treatment plant is extremely rare, however, in the United States. These actions cannot offset the need for substantial capital improvements if the U.S. EPA or the State of California fundamentally change direction with respect to primary effluents and require all effluents, regardless of the definition of impact, to meet at least a secondary treatment standard. In this case, additional planning and coordination would be required between MWWD and the appropriate agencies to assess the feasibility of secondary treatment at the PLWTP as well as the impact to the CIP of such a facility-wide upgrade.

5.4 CLEAN AIR ACT

The CAA of 1970 formed the basis for air pollution control in the United States. The CAA, amended in 1990, is comprised of 11 Titles and provides the framework under which the U.S. EPA regulates criteria pollutant and hazardous air pollutant (HAP) emissions. Criteria pollutants are defined as ozone, nitrogen oxides (NO_x), sulfur oxides (SO_x), carbon monoxide (CO), particulate matter (PM), and lead (Pb). There are 189 individual HAPs and 17 hazardous compound categories listed in the CAA. Publicly Owned Treatment Works are affected primarily by the following three Titles:

- Title I – Maintenance/Attainment of the National Ambient Air Quality Standards
- Title III – Hazardous Air Pollutants
- Title V – Operation Permits

The PLWTP, the wastewater reclamation plants, and the MBC are covered under air quality permits issued by the San Diego County Air Pollution Control District (SDCAPCD). The sewer pump stations have 52 facilities and 13 odor control facilities operating under air quality permits.

MWWD has two facilities with Title V air permits – the PLWTP and the MBC. The PLWTP is subject to Title V air permitting requirements due to air emissions from digester gas flares, boilers, and engines located at the facility. MBC also has digester gas flares, but the primary reason for the facility's Title V status is because the plant is a contiguous property with the City of San Diego's landfill. Because both properties are owned by the City of San Diego, and the landfill has a Title V permit, the MBC is also subject to Title V provisions. The remainder of MWWD's air quality permits is non-Title V permits, and none of the facilities operate as synthetic minor sources.

MWWD also has air permits to operate boilers, flares, stationary emergency engine/generators, portable pumps, solvent tanks and other engines located at the treatment plants and pump stations. SDCAPCD regulations require air quality permits for any internal combustion engine with a rating greater than 50 brake horsepower (bhp). Under these provisions, MWWD has air permits for 59 portable or stationary emergency engine/generators, and engine/pumps.

Between calendar year (CY) 2003 – 2008, MWWD has had 20 violations of general and Title V (in the case of PLWTP and MBC) air quality permits. Table 5-7 lists the violations incurred. These violations can be categorized into three groups: failure in parametric monitoring, system operations, or maintenance events. When a violation has been received, MWWD has taken corrective actions to address the violation directly and preventative actions, where applicable, to reduce the potential of a future, similar condition.

**Table 5-7
Air Quality Permit Violations**

Facility	Date Received	Reason(s) for Violation
PLWTP	7/24/03	H ₂ S in digester gas in excess of 40 ppm limitation on two dates
PLWTP	12/19/03	Failure to sample/analyze H ₂ S concentration in digester gas
MBC	10/25/04	Failure to maintain the temperature probe to the flares in good working condition
Pump Station 2	9/6/05	High NO _x discharge on gas fired engine
Pump Station 2	9/8/05	High NO _x discharge on gas fired engine
PLWTP	9/23/05	Venting of digester gas for greater than 15 minutes for boiler blowdown
PLWTP	9/28/05	Venting of digester gas for greater than 15 minutes for boiler blowdown
PLWTP	12/22/05	Failure to incinerate digester gas between 1,400 and 1,800 degrees Fahrenheit on three dates
MBC	1/19/06	Venting of digester gas due to power outage of primary and secondary providers which rendered flares and automatic valves controlling gas flow unable to operate
MBC	11/20/06	High flare temperature
MBC	11/20/06	High flare temperature (for a second event)
PLWTP	2/7/07	Excess flare temperatures during a maintenance event
PLWTP	5/22/07	Failure to maintain temperature record for Flare No. 4 due to malfunction of computer and manual recording systems
PLWTP	1/25/08	Failure to maintain a continuous temperature for Flare No. 3
PLWTP	3/27/08	Unanticipated power outages on two dates due to utility maintenance to power poles
Pump Station 2	6/18/08	Fuel flow meter associated with Engine No. 4 reset to zero resulting in a lack of metering
Pump Station 79	8/11/08	Failure to conduct annual maintenance on emergency engine associated with a pump, and failure to maintain adequate operational log
PLWTP	8/29/08	Excess NO _x at Engine No. 2 per SDCAPCD source test results
PLWTP	9/17/08	Fail to record exhaust stack temperatures continuously on Flare No. 1 due to back up system failure caused when operator did not turn on system after downloading data
MBC	10/14/08	Failure to maintain equipment in good operating condition and in operation at all times as flares failed to start via back-up power during a power interruption

Odor control requirements set by the SDCAPCD are applicable to the treatment facilities, MBC, and pump stations. The odor system permits are primarily based on compliance with SDCAPCD Rule 51 – Nuisance and Rule 1200 – Toxic Air Contaminants. MWWD has 19 odor system permits, which cover odor control systems at PLWTP, NCWRP, SBWRP, MBC, and thirteen pump stations. The SDCAPCD routinely does not regulate concentration of hydrogen sulfide or other odor causing compounds emitted from the scrubber outlets, but prohibits discharge of air contaminants which may cause injury, detriment, nuisance or annoyance.

MWWD’s odor reduction system (ORS) permits mandate parametric monitoring to insure that the odor control systems are operable and functioning properly. Odor system permits usually have three basic wet scrubber requirements:

- pH of the scrubbing solution > 9
- Oxidation Reduction Potential (ORP) > 585 mV
- Recirculation flow rate greater than a target flow rate.

If a carbon vessel is present, the carbon requirements are as follows:

- Bi-annual carbon sampling/analysis for total % sulfur
- Carbon replacement when the sulfur reaches a specific percentage

Between CY 2003 – 2008, MWWD has had 15 violations of odor system permits. Table 5-8 lists the violations in parametric monitoring and/or odor system operation.

Table 5-8 Odor System Permit Violations		
Facility	Date Received	Reason(s) for Violation
Pump Station 5	7/23/03	Low recirculation flows
MBC	7/8/03	Low recirculation flows
NCWRP	9/19/03	Low ORP value
NCWRP	9/19/03	Low ORP value
Pump Station 5	7/21/04	Low pH values; Low ORP values; Low recirculation flows
PLWTP	12/22/04	Failure to record ORS data
Pump Station 65	3/2/05	Low pH value
SBWRP	3/24/05	Failure to operate ORS during a power outage
Pump Station 2	6/21/05	Low ORP value
MBC	11/3/05	Failure to use Test Method 30 for carbon analysis
PLWTP	11/29/05	Failure to record ORS data
MBC	2/17/06	Failure to operate ORS during a power outage
MBC	3/7/06	Failure to operate ORS during a power outage
NCWRP	1/9/07	Failure to provide notification of ORS maintenance
MBC	1/26/07	Failure to report an ORS breakdown within 90 minutes

Other air quality regulatory considerations include: (1) the Maximum Achievable Control Technology Standard (MACT), and (2) the New Source Performance Standards (NSPS), as described below:

- MACT: No MWWWD facilities are major sources for hazardous air pollutants (HAPs), and therefore, MACT does not currently apply. The major source thresholds are 10 tons per year for a single HAP or 25 tons per year for combined HAPs. Even though MWWWD's facilities do not trigger any of these requirements, any modification due to an expansion or an upgrade will need to examine the effects on the HAPs emissions to ensure compliance with these requirements.
- NSPS: The NSPS applies to new and modified sources of air pollution. These standards are triggered by source type, date of construction/modification and operational thresholds. The NSPS for municipal wastewater treatment plants apply to the incineration of waste or sewage sludge which is not conducted at either of the wastewater treatment plants. The boilers operated at the WWTPs are below the rating thresholds for NSPS to apply. MWWWD continues to maintain all facilities below the thresholds for MACT and NSPS.

The U.S. EPA accidental release prevention program, administered by the County of San Diego, Department of Environmental Health - Hazardous Materials Division (HMD), is also required by the CAA and applies to sources that produce, handle, use, or store one or more of approximately 180 listed chemicals. The PLWTP exceeds the regulated threshold for one constituent, digester gas, but is currently exempt from the Risk Management Plan requirements because the facility utilizes the digester gas on site.

5.4.1 Future CAA Regulations

As with the CWA, the CAA is reviewed on a regular basis by the U.S. EPA as well as state and local agencies for its ability to meet desired environmental protection objectives. Due to the nature of any review process, the definition of desired environmental protection objectives may be impacted by a variety of issues, including technical items, enforceability items, improved technology, and political objectives. MWWWD monitors potential direction of CAA regulations, but the impact of all changes is challenging to fully measure. For example, management of carbon dioxide in a similar fashion to the criteria pollutants, or potentially to a greater degree under a "cap and trade" program, has recently been discussed as an approach to address climate change environmental protection objectives. By the very nature of their operations, wastewater utilities are significant generators of carbon dioxide. Future programs targeting carbon dioxide will need to be followed closely with planning projects implemented to assess the capital requirements required and the impact on operations in the event a program is implemented under the CAA.

5.5 RESOURCE CONSERVATION RECOVERY ACT

The RCRA sets forth an approach for handling the volumes of waste generated in the United States each year. Based on RCRA, the U.S. EPA has defined and developed regulations for the cradle-to-grave management of "hazardous wastes." In addition to RCRA requirements, California law (Title 22) regulates additional wastes as "non-RCRA" hazardous wastes. The Department of Toxic Substances Control (DTSC)

regulates hazardous waste in California primarily under the authority of the Federal Resource Conservation and Recovery Act of 1976, and the California Health and Safety Code. DTSC also oversees the implementation of the hazardous waste generator program, which is operated locally by the HMD. HMD has been certified by the California Environmental Protection Agency (CalEPA) as the local Certified Unified Program Agency (CUPA), and thus responsible for implementing these laws and regulations at the local level.

Wastewater treatment plants, which store and feed chemicals in bulk and which have compliance laboratories that use chemicals, have the potential to generate waste material that can be considered hazardous. According to RCRA, there are two types of hazardous waste classifications: listed wastes and characteristic wastes. Industry-specific wastes, common manufacturing/industrial processes waste, and commercial chemical products are the three types of listed wastes that are incorporated into lists published by the U.S. EPA. The municipal wastewater treatment industry is not one specifically addressed by RCRA, and does not typically produce listed wastes. However, some analyses performed in compliance laboratories may produce listed wastes. Characteristic wastes, exhibiting either: (1) ignitability, (2) corrosivity, (3) reactivity, or (4) toxicity, have a greater potential to be produced at wastewater treatment plants due to the presence of treatment chemicals, fuels, or oils.

Those who produce hazardous waste, called hazardous waste “generators,” are the first link in the cradle-to-grave system developed by the U.S. EPA to manage the generation of hazardous waste materials. Recognizing that generators produce waste in different quantities, Congress established three categories of generators in the statute: (1) large quantity generators (LQGs), (2) small quantity generators (SQGs), and (3) conditionally exempt small quantity generators (CESQGs). The extent of regulation to which hazardous waste generators are subject depends on the volume of hazardous waste each generator produces on a monthly basis. Since the regulations become increasingly stringent as the volume of waste generated grows, accurate accounting and record keeping of waste generation is critical.

Currently, the PLWTP is categorized as a LQG due to California’s regulation of petroleum wastes. The other treatment facilities (SBWRP, NCWRP, and MBC) and several pump stations (Metro Pump Stations No. 1 and 2) are typically SQGs, but occasionally LQG when carbon is removed from the odor control towers. MWWD operates these plants and pump stations as if they were always classified as LQGs by having appropriate response plans, personnel training, and record keeping. The other pump stations and MWWD laboratories are classified as SQGs.

MWWD has had several RCRA Notices of Violation in the past five years. All but one of the violations occurred in the year 2006 and was due to chemical spills at the treatment plants. Table 5-9 lists the NOV’s cited by the HMD. In response to the MBC violations, the MWWD entered into a Consent Order with the HMD on December 4, 2006. As part of the Consent Order, MWWD agreed to conduct additional hazardous material and spill prevention training and workshops for facility personnel, conduct customized HAZWOPER training for facility staff, and implement various improvements to the MBC, PLWTP, NCWRP, and SBWRP chemical facilities to prevent chemical spills.

Table 5-9 Hazardous Materials Violations			
Facility	Date Received	Reason(s) for Violation	Hazardous Material Description
MBC	2/06/06	Failure to immediately report release of hazardous material; Failure to properly treat hazardous waste before discharge	Two incidents: 45 gallon sodium hydroxide spill & 211 gallon sodium hydroxide spill
SBWRP	5/30/06	Failure to immediately report release of hazardous material	1,200 gallon spill of sodium hypochlorite
NCWRP	7/18/06	Failure to immediately report release of hazardous material	92 gallon spill of sodium hypochlorite
NCWRP	10/13/06	Failure to immediately report release of hazardous material	Chlorine gas release from out of service odor scrubber
PLWTP	10/12/07	Failure to immediately report a threatened release of hazardous material	20 gallon ferric chloride spill
MBC	10/31/08	Failure to minimize possibility of release and prevent release to the sewer, and unauthorized disposal of hazardous waste to the sewer system due to failure of spill control equipment when release occurred.	288 gallon ferric chloride spill

The City of San Diego’s Environmental Services Department, Hazardous Materials Management Program works with MWWD to maintain its facilities in compliance with Federal and State hazardous waste regulations. Procedures have been developed and are followed at both of the wastewater reclamation plants, the PLWTP, and the MBC to appropriately test all waste materials that may potentially be hazardous, and to track all hazardous wastes that are generated. MWWD has also developed Standard Operating Procedures for notification and response to hazardous material spills.

5.6 EMERGENCY PREPAREDNESS AND COMMUNITY RIGHT-TO-KNOW ACT

MWWD must meet Federal, State, County, and City regulations related to the Emergency Preparedness and Community Right-to-Know Act. EPCRA establishes reporting requirements to inform the public and emergency response personnel of the hazardous chemicals in their communities. The program is administered by U.S. EPA Region IX, but also requires close coordination with the HMD regarding the quantity and location of hazardous materials stored on site, an emergency response plan, and employee training. MWWD is in compliance with EPCRA guidelines.

5.7 SUMMARY AND CONCLUSIONS

MWWD must meet Federal, State, Regional, County, and City regulations, which are implemented through programs administered by the responsible agencies. Regulations that impact MWWD include the CWA (including NPDES, recycled water, and SSO requirements), the CAA, RCRA, and EPCRA. Permits have been obtained for the programs, or have been applied for where appropriate, and MWWD is currently in compliance with these regulations. Where compliance issues have been identified, MWWD has responded to these issues with action plans or entered into agreements with the appropriate regulatory agency to address them in a manner acceptable to the agency.

6.0 OPERATIONS AND MAINTENANCE

6.1 OVERALL SYSTEM

MWWD is responsible for the operations and maintenance of the System, which consists of the PLWTP, NCWRP, SBWRP, and MBC treatment facilities, as well as, approximately 3,000 miles of wastewater collection system pipes, 79 Municipal Sub-System wastewater pump stations, and four Metro Sub-System pump stations. In addition, there are 147 permanent flow meters in the System and 10 temporary flow meters. The System collects and treats the wastewater from the City of San Diego and 15 Participating Agencies from a 450 square mile area and served a population of approximately 2.1 million in CY2008. The Participating Agencies, who contribute approximately 35% percent of the wastewater flow generated, are the Cities of Chula Vista, Coronado, Del Mar, El Cajon, Imperial Beach, La Mesa, National City, Poway, the Lemon Grove Sanitation District, the Otay Water District, the Padre Dam Municipal Water District, the County of San Diego (including Lakeside/Alpine, Spring Valley, Wintergardens, and East Otay Mesa).

In 1998, the City signed an agreement with these Participating Agencies wherein these agencies would pay their full share of costs for wastewater treatment and disposal for the next 50 years. Currently, the City of San Diego's share of these costs is 68%. The Participating Agencies share the balance of the costs for the Metro Sub-System. Each of the Participating Agencies is responsible for operation and maintenance of its individual municipal collection system to the discharge point into the System. Within MWWD, the Wastewater Treatment and Disposal Division is responsible for operating and maintaining the PLWTP, the WRPs, and four Metro Sub-System pump stations and four large Municipal Sub-System pump stations. The Wastewater Collection Division of MWWD operates and maintains the City's Municipal Sub-System collection system, pump stations, and low-flow stormwater diversion stations.

The City maintains a system of computer-based process instrumentation and control equipment throughout its wastewater collection and treatment facilities. Each major treatment facility has a distributed control system that permits monitoring and control of equipment and processes from either a centralized control room or from any number of sites located throughout the facility. The City also has a centralized wastewater operation control center, the COMC, that integrates monitoring and control of the treatment, storage, metering, and pumping facilities in the System. The COMC integrates all facility support automation systems including fire alarm, management information systems, electronic O&M manuals, card access systems, process control training simulators, and energy management systems.

Presently, the Metro Sub-System facilities that are monitored and could be controlled from COMC include:

- PLWTP
- NCWRP

- SBWRP
- MBC
- Pump Station No. 1
- Pump Station No. 2
- Grove Avenue Pump Station
- Otay River Pump Station

With the exception of five Comfort Stations (pump stations for restrooms at beaches) and one small, isolated pump station, all of the wastewater pump stations in the Municipal Sub-System are equipped with a SCADA system monitored by COMC. The Municipal Sub-System facilities that are monitored and could be controlled from COMC include:

- East Mission Gorge Pump Station
- Peñasquitos Pump Station
- Pump Station No. 64
- Pump Station No. 65

Finally, MWWD contracts for the maintenance of 147 permanent flow meters in its sewer system to quantify flows within the City limits and from the 15 Participating Agencies in the System. The monitors are used for multiple purposes including strength-based billing, facility planning, sewer modeling, criticality evaluation, infiltration/inflow, and spill detection. There are also 10 temporary flow meters that are moved around the System to monitor smaller size trunk sewers with lesser flows. This system of flow meters provide for accurate flow and capacity assessment and are utilized to prepare the CIP and also for making flow projections.

6.2 WASTEWATER TREATMENT PLANT OPERATIONS

The wastewater collection and treatment system operates around the clock and must be staffed accordingly. Depending on size and significance, some facilities are staffed 24-hours per day while others are staffed for part of each day and monitored from COMC the remainder of the time. There are approximately 290 budgeted positions for administrative, engineering, operations and maintenance personnel in the Wastewater Treatment and Disposal Division of MWWD.

6.2.1 Operations

As noted above, a number of facilities, including both water reclamation plants, the PLWTP, and the MBC can be monitored and operated from the COMC. The PLWTP, the MBC, Pump Station No. 1, Pump Station No. 2, and Pump Station No. 64 are staffed 24-hours per day, 365-days per year. The NCWRP and SBWRP are each staffed 10 hours per day, 365-days per year. During the non-staffed hours, control of the plants is transferred to COMC, but routine plant drive-thru inspections are conducted and a WRP operator is on-call if needed.

The treatment plants are operated by trained and State-certified personnel. The number of staff, as of January 2009, that hold State certificates and their certification levels are listed in Table 6-1. Certification levels move from grade I to grade V with grade V representing the highest certification level.

Table 6-1 Wastewater Treatment and Disposal Division Staff State Certifications					
Treatment Plant	Grade I	Grade II	Grade III	Grade IV	Grade V
Point Loma WTP	1	11	5	0	5
North City WRP	0	3	5	0	2
South Bay WRP	0	3	4	1	1
Metro Biosolids Center	0	9	6	0	3
Central Operations Management Center	0	2	5	1	3

Computer systems are used at each treatment plant to assist in monitoring and controlling plant processes, chemical feed rates, and process performance. These systems allow the plant processes to be effectively operated while reducing staff requirements and lowering electricity and chemical use. The system uses a distributed control configuration, which consists of a central main computer linked to a number of personal computers and control devices through a fiber optic network using a local network software package provided by an outside vendor. A staff of programming professionals maintains the computer systems with assistance from the control system vendor. Instrumentation technicians set up, maintain, and refine process and equipment software control strategies as well as the instrumentation and computer hardware.

Most of the treatment process units are equipped with computer logic controlled operating and monitoring equipment. These systems enable the operator to monitor the plant processes, control chemical feed systems and select equipment from a remote location. The computer systems also store data that allow operators to evaluate process trends and prepare required reports.

The NCWRP, SBWRP, PLWTP, and the MBC each have an operations laboratory that is used for checking and optimizing plant operations. Process control parameters are analyzed in the laboratory. Wastewater quality analyses for the overall treatment process performance and permit compliance are performed by the Environmental Monitoring and Technical Services Division. EMTS also operates a comprehensive ocean monitoring program to ensure permit compliance for the PLOO and the SBOO.

6.2.2 Maintenance

Maintenance of the System is shared by multiple groups. The wastewater treatment plants and larger pump stations have maintenance staff assigned to each facility,

including mechanical, electrical, and instrumentation technicians. The Municipal Sub-System also has its own maintenance staff (mechanical, electrical, and instrumentation) to maintain the equipment of this system. These individuals are assigned to each facility and do not work anywhere else in the system. In addition to these resources, there is a central pool of technicians and mechanics that assist the facility maintenance staff with a variety of maintenance activities. They rotate throughout the System to provide support to the facility maintenance staff, mainly for completing routine preventative maintenance tasks. This arrangement provides a training ground for maintenance staff while fostering a sense of ownership among staff members assigned to individual plants and pump stations.

MWWD uses a computerized maintenance-management system (EMPAC) to manage treatment plant equipment maintenance. EMPAC is a client server application with a centralized database. Workstations located in all the facilities have access to the EMPAC system, and each piece of plant equipment is identified as an EMPAC asset. Each asset definition includes a description of the asset and pertinent details about the asset (size, type, material, location, installation date, etc). EMPAC asset data includes Bill of Material data for each asset listing parts that are typically used in maintaining the asset. Preventative and predefined maintenance plans are stored with each asset and scheduled on manufacturer recommended frequencies. Maintenance frequencies are then adjusted as asset performance data is collected. EMPAC's work management module manages maintenance activities for defined assets. Work orders are generated from the preventative maintenance module or manually entered into the system, and are tracked from entry to completion with a completion code assigned at the end of each work order. Maintenance plans generated from EMPAC include inspections, routine maintenance and corrective maintenance as well as overhauls and modifications. Labor and material costs are applied to the asset through the work orders.

EMPAC's inventory management module manages parts for the maintenance activities. Parts are warehoused based on frequency of use and lead time to procure. Warehouses are located in each main facility and at the central support facility. Preventative work orders have parts lists associated so the parts will be ready when the work is scheduled. When a work order is issued parts availability is checked and parts ordered if required. Stocking policies manage quantities, lead times, costs, etc for maintenance parts.

6.3 WASTEWATER COLLECTION

The WWC of MWWD is responsible for the operation and maintenance of the Municipal Sub-System. This includes the repair (including cleaning and closed circuit television (CCTV) inspection) and replacement of existing sewer lines, sewer laterals, force mains, manholes, and pump stations. This Division has a total staff of 241 budgeted positions, who maintain the approximately 3,000 miles of wastewater collection system pipes, 75 municipal pump stations (four additional larger pump stations are maintained by WWTD), the MBSIS and the CLFDS. The Division contracts for the maintenance of 54 municipal flow meters.

6.3.1 Gravity Collection System

The operations and maintenance of the gravity collection system includes ongoing preventive cleaning, maintenance, and repair of the Municipal Sub-System, including emergency removal of sewer line stoppages, equipment overhaul and repair, on-site facility inspections, and maintenance of the structural integrity of sewer mains and manholes in the collection system. The construction section of the Division performs repairs and replaces sewer laterals in the public rights-of-way. The Division also administers the Food Establishment Wastewater Discharge Permitting Program, which is responsible for permitting and compliance monitoring of food establishments to minimize the discharge of grease into the wastewater collection system.

The City of San Diego is committed to improving the condition and performance of the City's wastewater collection system and to reducing the number of SSOs that occur in the City. In response to a 2002 U.S. EPA Administrative Order, MWWD developed an aggressive program for maintaining the System in good operating condition and rehabilitating aged and damaged lines. This program complies with the Final Consent Decree in Case Nos . 03-CV-1349K and 01-CV-0550B filed October 12, 2007 in United States District Court, Southern District of California, between the City of San Diego, local environmental groups, and the United States of America. The Wastewater Collection Division established and operates the following programs, which directly impact wastewater collection system condition and performance:

- System-Wide Cleaning Program
- Accelerated Cleaning Program
- Root Control Program
- Sewer Inspection and Condition Assessment Program
- Sewer Repair, Rehabilitation, and Replacement Program
- Fats, Oils, and Grease Blockage Control Program
- Canyon Area Spill Elimination Program
- Pump Station and Force Main Spill Reduction Program
- Capacity Assessment and Assurance Program

Condition assessments are routinely conducted as described in the City's MWWD Facilities Condition Assessment Plan and sewers are routinely inspected using remote television cameras pulled through the sewer lines. Table 6-2 is a summary of all MWWD sewer inspection, maintenance, and repair activities.

**Table 6-2
MWWD
Sewer Inspection, Maintenance, and Repair Activities**

Activity	2003	2004	2005	2006	2007	2008
Sewer Lines Inspected, miles	521	88	204	132	170	118
Sewers Cleaned ⁽¹⁾ , miles	1,609	1,772	2,197	1,938	1,658	1,740
Manholes Inspected	12,086	157	6,433	5,027	5,436	4,344
Sewer Stoppages Cleared	144	127	58	76	67	62
Sewer Line Rehabilitated or Replaced, miles	44.2	48.3	37.1	25.1	20.4	15.8
Acute Defects Repaired	1,691	1,217	231	49	57	70

(1) Includes mileage for pipes cleaned more than once per year. Future rehabilitation requirements are defined on an annual basis in the Final Consent Decree, See Sections 5 and 7 for additional information.

6.3.2 Pump Stations and Flow Meters

WWC operates and maintains 75 sewer pump stations (four additional larger pump stations are maintained by WWTD) and contracts for the maintenance of 54 flow meters. They have a staff of mechanical, electrical and instrumentation technicians that carry out maintenance of wastewater pump stations. Pump station and flow metering operation and maintenance activities includes periodic inspection, routine maintenance, and major replacements. Like the activities associated with the gravity system, the operation and maintenance of pump and flow meters stations has been standardized with the implementation of the computer based preventive maintenance program, EMPAC. The pump station wet wells are cleaned on a routine basis, some as often as once a month in addition to regular inspections to check for proper operation and maintenance needs.

6.3.3 Mission Bay Sewage Interceptor System

The MBSIS consists of 31 gravity interceptors and 14 interceptor pump stations that capture pollutants in the storm drain system during dry weather conditions and divert to the sewer system before the pollutants reach Mission Bay. When rain is detected, the MBSIS pump stations automatically shut down and the interceptor valves close so that the stormwater flows directly to Mission Bay. Special crews maintain the MBSIS on a regular basis. Operation and maintenance activities include periodic inspection, keeping the diversion boxes clear and free of debris, routine maintenance, and major replacements. Funding of these activities is provided through the City's General Fund.

6.3.4 Coastal Low Flow Diversion System

Similar to the MBSIS, the CLFDS is designed to protect the water quality of adjacent City of San Diego coastal communities by diverting pollutants in the storm drain system to the wastewater collection system during dry weather. The CLFDS was completed in late 2006/early 2007 and has 36 diversion sites located north of Mission Bay, extending north into La Jolla. Special crews maintain the CLFDS on a regular basis. Operation and maintenance activities include periodic inspection, keeping the diversion boxes clear and

free of debris, routine maintenance, and major replacements. Funding of these activities is provided through the City's General Fund.

6.4 TRAINING

Training is a fundamental principle on which the O&M programs have been based. MWWD conducts a training program for its O&M personnel, including:

- orientation courses
- technical training in specialized equipment operation and maintenance procedures;
- safety and environmental courses including regulatory compliance;
- sewer system technical best management practices,
- specialty training in such areas as drafting, technical writing, and computer software; and
- team building courses.

The safety training program is designed to meet all requirements of the Occupational Safety and Health Administration (OSHA), which requires certain courses, as well as training on safe handling of hazardous materials.

6.5 SUMMARY AND CONCLUSIONS

Major facilities within the System have been reviewed to determine the effectiveness of the City's maintenance efforts. Facilities were found to be well operated and maintained in good, operable condition. Plants are staffed with properly certified operators capable of carrying out their job duties.

MWWD has modern computer systems and controls in place to focus on preventive and predictive maintenance and to assist with many aspects of operation, maintenance, and job prioritization. Further, MWWD has located maintenance staff in a manner that provides for routine maintenance and implementation of maintenance best management practices, as well as continued professional development of new staff.

7.0 FINANCIAL FEASIBILITY

7.1 INTRODUCTION

The City is responsible for collecting the appropriate amount of revenue to support the costs MWWD incurs to operate and maintain the System. To assess the adequacy of funding, Malcolm Pirnie completed a comprehensive review and evaluation of the MWWD-prepared multi-year financial forecast (the forecast) for the five fiscal years from July 1, 2008 through June 30, 2013 (the forecast period). The purpose of the review is to provide an independent third party opinion on reasonableness of the MWWD-prepared forecast and its underlying assumptions. Materials that were reviewed included, but were not limited to:

- Audited financial statements
- Beginning cash balances
- Capital improvement expenditures
- Current debt and debt service
- Projected debt and debt service
- Operating budgets
- Historical operations and maintenance expenditures
- Historic, current and projected rates and related revenues
- MWWD Rate Model
- Customer account and flow data
- Key assumptions used in developing the forecast

Historic data for FY04 through FY08 is derived from sources within MWWD and the City, e.g., the City Comptroller's Office and the Water Department. Data for FY09 is a reflection of MWWD estimates of the results of that year based on six months year-to-date results and expectations for the balance of the year. FY10 represents the MWWD budget submitted to the City as part of the annual budget process. FY11, FY12, and FY 13 are based on a variety of assumptions as discussed in this section.

The financial forecast is presented in Table 7-18 and represents MWWD's projection of results of operations and debt service coverage (DSC) for the forecast period. Thus, it reflects MWWD's judgment, based upon present circumstances, as to the most likely set of conditions and course of action. The following presents a summary and assessment of the reasonableness of this forecast and its key underlying assumptions.

7.2 CAPITAL IMPROVEMENT PROGRAM

7.2.1 Capital Projects

For long-range planning purposes, the MWWD prepares a 20-year internal projection for its Wastewater System CIP. In addition, the City prepares an 11-year Wastewater System CIP on an annual basis and incorporates the first year of the 11-year plan into the Wastewater System's annual budget. The general objectives of the Wastewater System CIP are to meet Federal and State requirements and City policy regarding water pollution control, to provide satisfactory levels of service to users of the Wastewater System, and to maintain the integrity of the Wastewater System. The Wastewater System CIP is divided into two major sections, Municipal and Metro, to address MWWD's requirements with respect to the Municipal Sub-System and the Metro Sub-System, respectively.

The Wastewater System CIP is an ongoing capital expenditure program. During the 1990's, the City completed several large wastewater treatment plant projects in response to litigation involving violations of the Clean Water Act. Beginning in 2000, the focus of the Wastewater System CIP shifted to the Municipal Sub-System. In April 2002, the City received an Administrative Order from the U.S. EPA directing the City to prepare and submit a plan for rehabilitation and replacement of sewer pipes and structures. In October 2007, the City signed the Final Consent Decree with the U.S. EPA, which, among other things, obligates the City to replace or rehabilitate 250 miles of sewer pipeline between July 2007 and June 2013 and to replace or rehabilitate a number of trunk sewers and pump stations by certain dates.

The Wastewater System CIP includes annual allocation projects, which are programmed expenditures that allow the City to plan for the expansion, renovation, relocation, or replacement of facilities and equipment that have reached or exceeded their anticipated service life, provides for emergency and accelerated construction needs, and provides for capital improvement project contingency needs. Any amount not allocated to a component task in a particular year is returned to the contributing fund. In addition, the Wastewater System CIP includes phased funding to accommodate and appropriate and contract for large projects to maximize the City's use of available funds by identifying defined portions or phases of projects on a contingent basis.

Any project under the Wastewater System CIP, other than an annual allocation project, that was initiated prior to the current fiscal year will have expenditures, encumbrances or continuing appropriations in the current fiscal year. MWWD may budget additional funding for such projects during current and future fiscal years depending upon project scheduling. MWWD includes the amounts it has budgeted for each fiscal year in an annual appropriation ordinance (each, an "Annual Appropriation Ordinance"), which is adopted by the City Council. The Annual Appropriation Ordinance authorizes the receipt of revenues and appropriates funds for the City's operating budget and capital improvement projects for the applicable fiscal year. In addition, the Appropriation Ordinance establishes certain authorities to administer the Wastewater System CIP. Modifications to a project CIP budget may occur during the course of the fiscal year through City Council action. Appropriations for project expenditures, which are contained in the Wastewater System CIP for FY09, have been approved in the FY 09 Annual Appropriation Ordinance. MWWD is not authorized to expend funds based on any projections made for FY10 to FY19 because such projections are not contained in the FY09 Appropriation Ordinance.

For this report, the Wastewater System CIP for the period FY09 through FY13 was assessed. This CIP includes expenditures on both replacement and expansion capital projects, which total approximately \$752 million (FY09-FY13), adjusted for inflation, over the five-year forecast period. Table 7-1 summarizes the five-year overall Wastewater System CIP for FY09 through FY13 by Municipal and Metro components, as provided by MWWD staff. The annual CIP varies from \$55.6 million to \$218.1 million per year with Municipal projects comprising approximately 79% to 88% of each year's total CIP amount. For a detailed list of projects, see Appendix A.

MWWD uses a 4% annual cost escalation factor for future projects in the Wastewater System CIP. A review of the past 20 years of indexed data for non-complex construction projects in the San Diego area, as published by The Engineering News Record (ENR), indicates a historical annual escalation rate of 3.66%. In discussions with MWWD staff responsible for the cost and escalation estimates incorporated into the Wastewater System CIP, it was noted that the 4% escalation has been a traditionally prudent factor and that flexibility is incorporated into the project specific estimates to account for escalation to the anticipated mid-point of construction as well as contingencies for the level of project information available at the time the estimate is conducted. As such, the 4% annual escalation is a reasonable factor for MWWD.

The Wastewater System CIP was also reviewed for adequacy with respect to addressing near and long-term capacity objectives of the System, accomplishing necessary rehabilitation and replacement work, and meeting general compliance with regulatory standards. The most significant of these three criteria on the Wastewater System CIP development is the compliance with regulatory standards. Per the Final Consent Decree, MWWD is required to take significant actions annually to inspect, clean, repair and expand the capacity of its sanitary sewer system to reduce the occurrence of SSOs. For example, in FY09 through FY12, 45 miles of sanitary sewer pipe must be replaced/rehabilitated on an annual basis; 40 miles of sanitary sewer pipe must be replaced/rehabilitated in FY13. Projects associated with this effort are captured in the Municipal component of the Wastewater System CIP in the categories labeled Trunk Sewers, Pipelines and Muni Pump Stations in Table 7-1, and comprise approximately 79% of all planned Wastewater System CIP expenditures over the five-year forecast period. Given past performance of MWWD in implementing these projects to meet the requirements of the Partial Consent Decrees and the flexibility incorporated into the planning approach for these projects, these line items are considered appropriate to achieve the future actions required by the Final Consent Decree. The balance of the Wastewater System CIP contains projects that improve the effluent quality from both water reclamation facilities, perform routine capital rehabilitation and repair, and plan for future capacity requirements.

**Table 7-1
Capital Improvement Program Expenditure Summary⁽¹⁾
FY09-FY13 (in thousands)**

			Forecast					
Line #	Summary # ⁽²⁾	Description	FY09	FY10	FY11	FY12	FY13	Total
Municipal								
1a	1-14	Trunk Sewers	\$ 10,576	\$ 33,153	\$ 75,233	\$ 53,848	\$ 28,744	\$ 201,554
1b	15-19	Pipelines	32,341	89,494	74,560	103,483	61,551	361,429
1c	20-26	Muni Pump Stations	5,489	8,820	25,152	2,104	2,719	44,284
1d	27-28	Miscellaneous	<u>459</u>	<u>1,576</u>	<u>7,697</u>	<u>2,135</u>	<u>1,579</u>	<u>13,446</u>
Subtotal Municipal			48,865	133,043	182,642	161,570	94,593	620,713
Metro								
2a	1-14	Treatment Plants	4,117	6,632	23,033	26,420	22,533	82,735
2b	15	Pipelines	-	-	-	-	186	186
2c	16-18	Large Metro Pump Stations	1,167	6,878	7,171	8,340	676	24,232
2d	19-28	Miscellaneous	<u>1,457</u>	<u>7,531</u>	<u>5,263</u>	<u>7,982</u>	<u>1,791</u>	<u>24,024</u>
Subtotal Metro			6,741	21,041	35,467	42,742	25,186	131,177
Grand Total			\$ 55,606	\$ 154,084	\$ 218,109	\$ 204,312	\$ 119,779	\$ 751,890

(1) Project costs are inflated annually at the rate of 4%.

(2) Summary # is a reference to the tables in Appendix A.

Source: MWWD CIP Cash Flow Schedules

7.2.2 CIP Financing

As reflected in the MWWD-prepared forecast and its underlying assumptions, MWWD has assumed that approximately 80% of the annual CIP is expected to be debt financed with the balance of the CIP cash funded. Table 7-2 presents the CIP cash and debt financing schedule for the forecast period from FY09 through FY13.

**Table 7-2
Capital Improvement Program Funding
FY09-FY13 (in thousands)**

	Forecast					Total
	FY09	FY10 ⁽¹⁾	FY11	FY12	FY13	
Funding Needs: Total CIP	\$ 55,606	\$ 154,084	\$ 218,109	\$ 204,312	\$ 119,779	\$ 751,890
Funding Sources:						
Cash	11,122	27,927	43,622	40,862	23,955	147,488
2007 Private Financing Note	25,641	-	-	-	-	25,641
Proceeds from Bond Funding	18,843	126,157	174,487	163,450	95,824	578,761
Total Funding	\$ 55,606	\$ 154,084	\$ 218,109	\$ 204,312	\$ 119,779	\$ 751,890

(1) The projected CIP in this year is aggressive and could take between 12 and 18 months to complete.
Source: MWWD FY 2009 Rate Model (3/14/09 Version)

The majority of cash funding is expected to consist of revenue generated from rates, fees and other utility income.

Bond financing over the forecast period is assumed by MWWD to come from revenue bonds. The MWWD financial model assumes the issuance of debt every year of the forecast period except FY10; the FY10 CIP will be funded, in part, with the FY09 debt issue. While not included in the forecast, MWWD has applied for SRF loans and to the extent such funds are available and awarded, they would be used to fund portions of the CIP.

In addition to partially funding the projected CIP in FY09 and FY10, the estimated \$402 million FY09 issuance will also be used to retire the Subordinate Sewer Revenue Notes, Series 2007, in the amount of \$223.8 million leaving net proceeds of approximately \$145 million available to fund projects. The FY09 issuance may be divided among two separate issuances within the fiscal year. All future debt issues are assumed (within the forecast) to be revenue bonds and further assumed to be amortized over 30-years (with equal annual payments – levelized amortization) at an annual interest rate of 6%, with up front issuance costs of 1% of the issue size. The MWWD-prepared financial forecast (see Table 7-18) includes the gross proceeds from the respective bond issues as well as the cash outflows associated with issuance costs and required debt service reserves.

7.3 WASTEWATER SYSTEM CUSTOMER BASE

Trends in population, accounts and billed wastewater volumes are used to project revenues for the wastewater utility. This section of the report reviews those trends.

7.3.1 Population, Historical Accounts and Billed Wastewater Volumes

For 2008, the San Diego Association of Governments estimated the population of San Diego at nearly 1.3 million people, making it the second largest city in California and the 8th largest city in the United States.

The cumulative population increase for the five-year historical period (calendar years 2004-2008 and excluding the population served by the PAs) was approximately 80,000 people or 6.4%; this is an annual growth rate of 1.6%. This rate of growth is generally consistent with the SANDAG estimates of population growth which was an average annual rate of 1.1% between 2000 and 2007. SANDAG anticipates that growth will continue at 1.1% for the next five years. The historical growth in the City’s wastewater accounts has been more moderate than the population growth over the same five-year period. The total growth in accounts between FY04 and FY08 was 4,347 accounts or approximately 1.6%—an annual growth rate of 0.4%. This account growth information excludes the PAs because each PA is a single wholesale account and is billed based on actual cost not the number of retail accounts the PA may serve.

The City tracks wastewater accounts by three customer classes: Single Family, Multifamily, and Commercial/Industrial. Table 7-3 summarizes the distribution of accounts and annual growth; again, these values do not include the PAs.

Table 7-3 Historic Wastewater Accounts by Class FY04-FY08					
Period	Single Family	Multifamily	Commercial/ Industrial	Total	% Change
FY04	223,033	30,288	17,044	270,365	0.7%
FY05	223,896	30,456	16,932	271,284	0.3%
FY06	225,065	30,534	16,947	272,546	0.5%
FY07	225,890	30,515	17,609	274,014	0.5%
FY08	226,549	30,515	17,648	274,712	0.3%

Source: Single Family - MWWD FY 2009 Rate Model (3/14/09 Version); Multifamily and Commercial/Industrial – Customer Information System.

Historic wastewater flows for the City’s wastewater accounts (which exclude Participating Agencies and other miscellaneous flows) have fluctuated from year-to-year between FY04 and FY08. The overall decrease from 110.0 mgd in FY04 to 105.1 mgd in FY08, or a 4.5% decline, is believed to be largely attributable to water conservation efforts. Table 7-4 presents wastewater flows for the five-year period ending FY08.

Table 7-4 Historic Wastewater Flows by Class (mgd) FY04-FY08					
Period	Single Family	Multifamily	Commercial/ Industrial	Total	% Change
FY04	52.5	38.0	19.5	110.0	0.5%
FY05	52.4	37.9	20.0	110.3	0.4%
FY06	53.0	38.0	20.0	111.0	0.5%
FY07	52.0	34.0	18.0	104.0	(6.3%)
FY08	52.6	34.5	18.0	105.1	1.1%

Source: MWWD FY 2009 Rate Model (3/14/09 Version)

7.3.2 Historical Wastewater Flows/Accounts – Single Family

Using the data in Tables 7-3 and 7-4, it was possible to calculate wastewater flows per account for the five-year period ending FY08. Table 7-5 presents historical average use per single family account per day for the FY04 through FY08 period.

Table 7-5 Average Historic Wastewater Flows per Single Family Account FY04-FY08			
Period	Flows (mgd)⁽¹⁾	Accounts⁽²⁾	Flows/Account/Day (gallons)
FY04	52.5	223,033	235
FY05	52.5	223,896	234
FY06	53.0	225,065	236
FY07	52.0	225,890	230
FY08	52.6	226,220	233

(1) From Table 7-4

(2) From Table 7-3

Single family flows per account have remained relatively constant for the five-year period ending FY08. Flows per account peaked in FY06 at 236 gallons per account per day, but reached the lowest level of 230 gallons per account per day the following fiscal year.

7.3.3 Projected Growth in Wastewater Accounts & Flows

MWWD has projected single family growth rates for wastewater flow at 1% per year throughout the forecast period; a similar growth rate was also used for all other customer classifications. While greater than the historical trends, this flow information is used for system planning purposes and does not directly enter into the projection of revenues (discussed in Section 7.5.2). Table 7-6 presents the projected growth rates for single family accounts, single family flows, and all other flows.

The growth rates indicated on Table 7-6 are, for the five-year forecast period, essentially equal to the flow projections used for facility or CIP planning purposes by MWWD and discussed in Section 4. Generally the growth rates used for financial projections should be equal to or less than those used for facility planning. This is the preferred relationship between these values in order to be conservative in financial and facility planning.

Based on the sensitivity analysis completed by Malcolm Pirnie and summarized in Table 7-24, the growth rates used to develop the MWWD-prepared financial plan are considered reasonable.

It will be important for MWWD to monitor the impact that on-going water conservation efforts may have on interior/indoor water use for its retail customers. Significant water reductions may occur in outdoor use (landscape applications) but such reductions are generally not seen for indoor water use. The MWWD rate structure (as discussed in the following pages) is based on water use in what is typically the lowest water use month and only 95% of this metered water use for residential accounts is used in determining monthly bills for service.

Table 7-6 Projected Growth in Wastewater Accounts & Flows FY09-FY13							
Period		Single Family Accounts	% Change	Single Family Flows (mgd)	% Change	Multifamily and Commercial/ Industrial Flows (mgd)	% Change
Forecast	FY09	226,957	0.2%	53.1	1.0%	53.1	1.1%
	FY10	227,774	0.4%	53.7	1.1%	53.7	1.1%
	FY11	228,594	0.4%	54.2	1.0%	54.3	1.1%
	FY12	229,634	0.5%	54.8	1.1%	54.9	1.1%
	FY13	230,897	0.6%	55.3	1.0%	55.5	1.1%

Source: MWWD FY 2009 Rate Model (3/14/09 Version)

As noted in Section 7.9, no explicit adjustments have been made to quantify the impact the current economic downturn may have on projected account growth. However, a sensitivity analysis was prepared (see Table 7-24) to estimate the decline in revenues or increase in expenses that would need to occur to put at risk the required debt service coverage. This sensitivity confirms the reasonableness of the account growth projections used in the MWWD-prepared forecast.

7.4 WASTEWATER RATES

7.4.1 Rate Structure

The City's wastewater rates consist of a base charge per account per month, usage fees or rates per hundred cubic feet (HCF) of estimated wastewater flow, and pollutant loading charges that vary by the following customer classes: Single Family Residential Multifamily, and Commercial/Industrial. The current structure is summarized in Table 7-7. Collectively the revenue generated via these rates is referred to as Sewer Service Charge revenue.

Each Single Family wastewater account is billed an account-specific fixed daily charge based on 95% of the prior winter's lowest daily average water consumption for the months of December through March; fixed charges for each account are adjusted annually on July 1st. Multifamily flows are based on 95% of actual water use on a month-to-month basis. Single Family and Multifamily COD and TSS loadings are the same for both classes and do not vary from month-to-month; these fixed strength loadings are incorporated into the class-specific fixed charges per HCF of flow developed for each of the two classes. Sewer Service Charges for Commercial/Industrial accounts are based on actual monthly water use and, like Single Family Residential rates, an assumed percentage of water use that returns to the wastewater system, COD loading, and TSS loading, which varies among industries.

Class	Base (\$/Month)	Flow (\$/HCF)	COD (\$/lb)	TSS (\$/lb)
Single Family - Eligible ⁽¹⁾	\$ 10.14	\$ 3.14	Incl ⁽³⁾	Incl ⁽³⁾
Single Family - Not Eligible ⁽²⁾	\$ 14.22	\$ 3.34	Incl ⁽³⁾	Incl ⁽³⁾
Multifamily	\$ 14.22	\$ 4.66	Incl ⁽³⁾	Incl ⁽³⁾
Commercial/Industrial	\$ 14.22	\$ 3.49	\$0.21	\$0.51

(1) Maximum fee is base fee + flow rate of 20 HCF for a total of \$72.94

(2) Maximum fee is base fee + flow rate of 20 HCF for a total of \$81.02

(3) Charges for standard COD and TSS are incorporated into the rate shown in the Flow column

The Single Family – Eligible rates in Table 7-7 reflect the “*Shames Settlement*” rates. On July 16, 2004, *Shames v. City of San Diego*, Superior Court Case No. GIC 831539, was filed as a class action lawsuit on behalf of all Single Family Residential account holders in the City's Municipal System who held sewer accounts during any period between May 23, 1994 and September 30, 2004. The lawsuit alleged the City failed to include a COD cost component in the rate structure during the 10-year period, which led to overcharges on residential sewer fees that were disproportionate to the cost of service as required by Article XIII D, Section 6, of the California State Constitution. On June 8, 2004, the San Diego City Council had approved incorporating a COD component into the sewer rate structure effective October 1, 2004, by Resolution No. R-299322. Each customer class is allocated cost based on their flow and strength demand.

The City settled this case and agreed to reimburse certain Single Family Residential Customers over the next four years in the amount of \$40 million, less \$5 million in plaintiff's attorney's fees. In connection with the *Shames* Settlement, the City Council adopted adjustments to all wastewater rates. Such adjustments consisted of two rate increases in the amount of 3.05%, which became effective on November 1, 2007 and May 1, 2008, and a rate rebate for eligible Single Family Residential customers. The revenue lost as a result of the rebate to eligible Single Family Residential customers is offset by the revenue resulting from rate increases for Multifamily, and Commercial/Industrial customers. MWWD anticipates that the two adjustments for the Settlement will be revenue neutral to the System. It is expected that the rebate for eligible Single Family Residential Customers will end and the two 3.05% rate increases for all City sewer customers will be rolled back in the fall of 2011 once the \$40 million has been collected and distributed pursuant to the *Shames* Settlement.

7.4.2 Projected Increases

City Council has approved Resolution Number R-302378 (dated February 26, 2007), which authorizes MWWD to increase rates by the amounts noted in Table 7-8:

Table 7-8 Adopted Rate Increases				
Effective Date	May 1, 2007	May 1, 2008	May 1, 2009	May 1, 2010
% Increase	8.75%	8.75%	7.00%	7.00%
% Increase – <i>Shames</i> Settlement ⁽¹⁾	3.05% (effective November 1, 2007)	3.05% (effective May 1, 2008)		

(1) These rate increases are expected to be revenue neutral to the overall change in rates approved by the City Council.

The full schedule of rates approved for FY09 and FY10 by the City Council and assumed through the forecast period is included in Appendix B. After May 1, 2010, MWWD's multi-year financial forecast assumes a 4% increase per year for FY11 through FY13 (subject to City Council approval).

7.5 HISTORICAL AND PROJECTED REVENUES

7.5.1 Historical Revenue

The most significant sources of revenue for MWWD are derived from Service Charge and Sewage Treatment Plant Services revenues. Service Charge revenues are predominantly generated through the wastewater rate structure for Single Family Residential, Multifamily, and Commercial/Industrial user classes and include revenues from both a base fee and usage rate. The base fee currently recovers approximately 16% of the overall revenue requirements for MWWD.

Also included in the Service Charge revenue category are transportation charge revenues. Whenever another wastewater agency conveys sewage through the Municipal Sub-system, a Sewage Transportation Agreement is entered into between the affected agencies. The City requires the agency to pay a transportation charge at the unit transportation rate per million gallons of flow for each mile the flow is transported in the Municipal Sub-system and for the agency's share of any CIP costs incurred for municipal infrastructure through which flows pass. Revenue from the transportation charge has ranged from a high of \$641,000 in FY07 to a low of \$77,000 in FY08 over the five-year historic period. For FY09 to FY13, transportation charge revenue is projected to range from \$200,000 to \$366,000.

The other significant source of revenue, Sewage Treatment Plant Services is described below:

- Sewage Treatment Plant Services – There are two components of the Sewage Treatment Plant Services revenues:
 - Municipal – This portion is associated with the sewage treatment service provided to the U.S. Navy for North Island, Coronado, the Amphibious Base and Shipboard Waste. The City entered into the “Department of the Navy Negotiated Water and Sewage Service Contract” in 1964 (amended in 2000), which outlines the conditions for service from and payment to MWWD. The amount related to Sewage Treatment Plant Services has ranged from \$0.8 million to \$3.0 million from FY04 to FY08 and for the forecast period it is expected to range from \$1.7 million to \$3.3 million. Additional revenue for MWWD service to the Navy is accounted for in Service Charge revenue in order to be consistent with accounting practices associated with the preparation of the City's CAFR. In addition revenue is also derived from Waste Discharge Trucked fees.
 - Metro – This portion of Sewage Treatment Plant Services revenues is generated in accordance with the Regional Water Disposal Agreement (RWDA) that recovers each Participating Agency's proportional share of the net Metro System Costs.
 - Each year, all Participating Agencies submit their flow estimates for the upcoming year to the City of San Diego by December 31. After compiling all flow estimates and cumulative sampling for TSS and COD, each PA's percentage of the total estimated flow, TSS and COD in the Metro Sub-system is determined, and then applied to the O&M budget for the Metro Sub-system for the upcoming fiscal year. This provides each PA's estimated share of O&M expenses in the Metro System. The PAs are invoiced on a quarterly basis and PA payments under the RWDA have not been disputed over the last 13 years.
 - CIP estimates for the PAs are based on the total Metro CIP schedule of projects for the upcoming fiscal year. A mixture of debt and cash financing is used to pay for the CIP schedule of projects. For the Metro Sub-system, Pay-Go, debt service, and O&M costs are apportioned to all System users (PAs and the City of San Diego) based on each user's proportionate flow, TSS and COD in the overall Metro system. These cost estimates are provided to the PAs with the Metro O&M estimates. PAs are expected to continue to finance Metro system capital contributions and O&M expenses as set forth in the RWDA. For the forecast

period MWWD expects the PAs proportion to be approximately 32% of the total projected O&M and capital costs.

MWWD’s Service Charge and Sewage Treatment Plant Service revenues have shown increases over the last five years of 23%. Actual revenues were \$263 million in FY04 and \$325 million in FY08; an increase of \$62 million and the increases are in part the result of City Council adopted rate increases. Table 7-9 summarizes these historical revenues.

Table 7-9 Historical Wastewater Service Charge and Sewage Treatment Plant Services Revenue FY04-FY08 (in thousands)				
Period	Service Charge	Sewage Treatment Plant Services	Total	% Change
FY04	\$ 209,630	\$ 53,043	\$ 262,673	3.6%
FY05	222,697	60,726	283,423	7.9%
FY06	233,156	53,260	286,416	1.1%
FY07	240,693	59,043	299,736	4.7%
FY08	260,033	65,015	325,048	8.4%

Source: Supplemental Schedules prepared by the Comptroller’s Office for the Statistical Section of the CAFRs

Uncollected revenue (associated with Service Charges) ranged from \$491,000 in FY05 to \$832,000 in FY07 for City accounts. This represents 0.2% to 0.3%, respectively, of total Sewer Service Revenue for these fiscal years. MWWD expects that uncollected revenue during the forecast period will remain insignificant.

MWWD also receives revenues from a variety of other services and sources which include, but are not limited to:

- Capacity Charges – Recover cost for the City’s expansion of MWWD system through Equivalent Dwelling Unit (EDU) billings related to building permits.
- Miscellaneous Revenue, which has ranged from approximately 6% to 8% of total revenues and includes:
 - Contributions in Aid – Developer contributed assets.
 - Transfers-In – Transfers from the General Fund for work performed by MWWD that benefits the General Fund. This may include revenue from the Equipment Division and the Diversity Fund.
 - Transfers from the Rate Stabilization Fund – Transfers, if required, to meet debt service coverage requirements or to fund unexpected costs, such as the *Shames* Settlement.

- Services Rendered to Others – This portion includes revenue from industrial waste dischargers including restaurants, other large commercial pre-treatment programs, as well as revenue from City department billing, and miscellaneous transfers from the City’s General Fund.
- Other Revenue - Prior year expenditure refunds and the recovery of damages to City property.
- Interest Earnings – Includes interest earnings on various MWWD funds but specifically excludes interest earnings on the Construction Fund. The earnings on the Construction Fund are not used in determining Net System Revenues as used in the calculation of DSC.
- Sale of power from co-generation governed by an agreement between MWWD and San Diego Gas & Electric for the sale of renewable energy.

Table 7-10 summarizes the historical revenues from other services and sources of revenues. As noted on Table 7-10, revenues from these sources have fluctuated over the last five years. The significant decline in FY04 revenues (a 56.8% decrease when compared to FY03) is due to a transfer from the Rate Stabilization Fund of \$34.5 million in FY03 that was accounted for as a source of revenue in the Other Miscellaneous category (a Rate Stabilization Fund transfer was made in FY04 but only for \$7.2 million). The fluctuation between FY04 and FY05 was primarily due to increased interest earnings on cash balances in the Operating Fund in FY05. The fluctuation between FY06 and FY07 was primarily due to an equipment division transfer and interest earnings on cash balances in the Operating Fund in FY07.

Period	Capacity Charge	Other Miscellaneous⁽¹⁾	Total	% Change
FY04	\$14,684	\$ 18,812	\$ 33,496	-56.8%
FY05	14,665	24,454	39,119	16.8%
FY06	16,565	17,307	33,872	-13.4%
FY07	16,610	27,575	44,185	30.4%
FY08	11,851	24,612	36,463	-17.5%

(1) Includes Contributions in Aid, Transfers-In, Transfers from and to the Rate Stabilization Fund, Services Rendered to Others, Other Revenue, Interest Earnings (excluding earnings on the Construction Fund), Sale of Power from Cogeneration, and Federal Grant Assistance.

Source: Supplemental Schedules prepared by the Comptroller’s Office for the Statistical Section of the CAFRs

Table 7-11 summarizes the total historical System revenues by source and illustrates actual changes from year-to-year. The most significant change, a reduction in revenue of 11.5%, occurred in FY04 and was the result of the reduction in other miscellaneous revenue—the

previously referenced \$34.5 million transfer in FY03 from the Rate Stabilization Fund. The only other fiscal year with a reduction in revenue occurred in FY06, which is a fiscal year that a rate increase did not occur.

Table 7-11 Total Historical System Revenue FY04 – FY08 (in thousands)						
Period	Service Charge	Sewage Treatment Plant Services	Capacity Charge	Other Miscellaneous ⁽¹⁾	Total System Revenue	% Change
FY04	\$ 209,630	\$ 53,043	\$ 14,684	\$ 18,812	\$ 296,169	-11.5%
FY05	222,697	60,726	14,665	24,454	322,542	8.9%
FY06	233,156	53,260	16,565	17,307	320,288	-0.7%
FY07	240,693	59,043	16,610	27,575	343,921	7.4%
FY08	260,033	65,015	11,851	24,612	361,511	5.1%

(1) Includes Contributions in Aid, Transfers-In, Transfer from the Rate Stabilization Fund, Services Rendered to Others, Other Revenue, Interest Earnings (excludes earnings on the Construction Fund), Sale of Power from Cogeneration, and Federal Grant Assistance.

Source: Supplemental Schedules prepared by the Comptroller’s Office for the Statistical Section of the CAFRs

7.5.2 Projected Revenue

7.5.2.1 Projected Service Charge Revenue

As noted on Table 7-12, MWWD projects Total Sewer Service revenue to increase by 4.2% per year or higher over the forecast period. These increases are primarily the result of a combination of the adopted rate increases of 7% each year in FY09 and FY10, the MWWD-proposed 4% increases in each of the remaining years of the forecast (subject to City Council approval), and projected growth rates that are shown in Table 7-6. The overall growth in revenue over the forecast period is considered to be a reasonable estimate based on the forecasted rate increases and in light of the historic revenues generated as a result of previous rate increases. At the same time, consideration has been given to what might happen if the projected revenue does not fully materialize and it has been determined that within the range of estimates contained in Table 7-24, that the System would achieve the required results (Parity Obligation debt service coverage of 1.20 times).

Projected single family revenue is calculated by multiplying the projected average sewer bill by the projected number of accounts and billing periods in the year (assumed to be 12 periods or months for each account). Projected flow charge revenue for all other Municipal customers is based on the historical rate of growth in annual revenues.

The projection of revenue from Sewage Treatment Plant Services is described in the following paragraphs:

- Sewage Treatment Plant Service – As previously noted, there are two components of the Sewage Treatment Plant Service revenues:
 - Municipal – This portion is proposed by MWWD to be adjusted for the planned rate increases for the City (increases subject to City Council approval) and beginning in FY12 and FY13, a 1% growth rate in flows.
 - Metro – The majority of Sewage Treatment Plant Service revenues are generated from the Participating Agencies as stated in the RWDA and are projected to increase 25% from FY09 to FY13. This projection is a reflection of expected cost increases; under the RWDA the PAs revenue equals the applicable cost regardless of flows. The RWDA effectively operates as a balancing mechanism where costs incurred are equal to revenue derived. For FY10 Sewage Treatment Plant Service revenue is projected to increase by nearly 13% over FY09, due mainly to an estimated \$4.5 million increase in O&M costs and an estimated \$3.5 million increase in debt service.

A summary of the revenues from Service Charges and Sewage Treatment Plant Services for the forecast period is shown in Table 7-12.

Table 7-12 Projected Sewer Service Revenue FY09-FY13 (in thousands)								
Period		Single Family Base Charge	Single Family Usage	All Other Base Charge and Usage	Subtotal Service Charge	Sewage Treatment Plant Services	Total	% Change
Forecast	FY09	\$ 40,416	\$ 72,719	\$ 175,392	\$ 288,527	\$ 63,721	\$ 352,248	9.0%
	FY10	43,405	78,083	189,698	311,186	72,088	383,274	8.8%
	FY11	45,316	84,811	204,526	334,653	76,556	411,209	7.3%
	FY12	47,341	88,604	215,060	351,005	77,616	428,621	4.2%
	FY13	49,514	92,657	226,136	368,307	79,438	447,745	4.5%

Source: MWWD FY 2009 Rate Model (3/14/09 Version)

7.5.2.2 Projected Revenue from Other Services and Sources

In addition to Service Charge revenues, MWWD receives revenues from a variety of other services and sources. In this revenue group, the single most significant revenue source is Capacity Charges. These revenues are shown in Table 7-13 along with all other miscellaneous revenues which are grouped together and described further in this section.

Table 7-13 Total Other Services and Sources of Revenue FY09–FY13 (in thousands)					
Period		Capacity Charge	Other Miscellaneous ⁽¹⁾	Total	% Change
Forecast	FY09	\$ 11,022	\$ 17,803	\$ 28,825	-20.9%
	FY10	5,180	18,006	23,186	-19.6%
	FY11	5,228	17,390	22,618	-2.4%
	FY12	5,286	18,865	24,151	6.8%
	FY13	5,334	20,657	25,991	7.6%

(1) Includes Contributions in Aid, Transfers-In, Transfer from the Rate Stabilization Fund, Services Rendered to Others, Other Revenue, Interest Earnings (excludes earnings on the Construction Fund), Sale of Power from Cogeneration, and Federal Grant Assistance.

Source: MWWD FY 2009 Rate Model (3/14/09 Version)

- Capacity Charge – In FY08, \$11.8 million dollars was generated which represents over 2,800 EDUs connecting to the system based on an EDU Capacity Charge amount of \$4,124. Given current economic conditions, MWWD projects that \$11.0 million will be generated in FY09 but this includes a one-time \$5.9 million Capacity Charge that will be received from the City’s General Fund for the Convention Center Dewatering project. With the one-time payment removed, this projected revenue reflects about 1,240 EDUs connecting to the System. As such, the Capacity Charge revenue for FY10 and through FY13 assumes an approximate 1% annual growth rate of EDU to reach 1,293 EDUs in FY13
- Other Miscellaneous Revenue – This revenue decreased from \$24.6 million in FY08 to \$17.8 million in FY09, due to lower interest earnings and a reclassification of revenue.

Table 7-14 is a summary of all projected revenue sources over the forecast period.

Table 7-14 Total Projected Revenue FY09-FY13 (in thousands)							
Period		Service Charge	Sewage Treatment Plant Services	Capacity Charge	Other Miscellaneous	Total System Revenue	% Change
Forecast	FY09	\$ 288,527	\$ 63,721	\$ 11,022	\$ 17,803	\$ 381,073	5.4%
	FY10	311,186	72,088	5,180	18,006	406,460	6.7%
	FY11	334,653	76,556	5,228	17,390	433,827	6.7%
	FY12	351,005	77,616	5,286	18,865	452,772	4.4%
	FY13	368,307	79,438	5,334	20,657	473,736	4.6%

Source: MWWD FY 2009 Rate Model (3/14/09 Version)

The overall percent increase in revenue for the forecast period (FY09 - FY13) is 24% and reflects MWWD’s assumptions regarding the impact of growth and more significantly, the already approved and/or planned rate increases as discussed in this section of the report.

7.6 HISTORICAL AND PROJECTED O&M EXPENSES

7.6.1 Historical O&M

The MWWD’s O&M expenses include personnel services (salaries and wages), fringe benefits (including retirement, retiree health/other post-employment benefits (OPEB)), supplies and services, information technology, energy/utilities, and equipment outlay. The historical O&M expenses are summarized in Table 7-15. The growth of historical O&M expenses is presented in Table 7-16.

Table 7-15 Historical O&M Expenses FY04-FY08 (in thousands)			
Period	Maintenance & Operations	Administration	Total
FY04	\$ 110,024	\$ 84,785	\$ 194,809
FY05	112,548	89,634	202,182
FY06	109,257	90,749	200,006
FY07	111,086	79,164	190,250
FY08	110,492	91,158	201,650

Source: CAFRs for each respective year – see CAFR Statement of Revenues, Expenses and Changes in Fund Net Assets

Table 7-16 Historical O&M Expense - Annual % Change FY04-FY08			
Period	Maintenance & Operations	Administration	Total
FY04	-29% ⁽¹⁾	1%	-18%
FY05	2%	6%	4%
FY06	-3%	1%	-1%
FY07	2%	-13%	-5%
FY08	-1%	15%	6%

(1) In FY04 the one-time *Shames* Settlement (\$34 million) was accounted for as part of the System Maintenance and Operations expenses. This results in the significant decline when comparing FY04 expenses to FY03 amounts.

7.6.2 Projected O&M

The City of San Diego published its 2010-2014 Five-Year Financial Outlook in November of 2008. The Outlook is a document prepared by the Mayor’s office that outlines the five-year financial outlook for the City’s General Fund. The Outlook provides a framework for budgetary decisions by communicating the City’s fiscal priorities and outlining the City’s strengths as well as any fiscal challenges. The current Outlook assumes there will be no salary increases for non-safety City employees. Any salary or wage increase approved as a result of labor negotiations with the labor unions would require the expenditures in the Five-Year Financial Outlook to be adjusted. The financial plan developed for MWWD incorporates this same assumption and as such does not include any salary increases during the forecast period; it also assumes no increase in staff for this same period.

The MWWD forecast includes a 4% annual increase to all other O&M expenses, except for the City's Annual Required Contributions (ARC) and Other Post-Employment Benefits (OPEB). The FY09 budget also incorporates the following assumptions:

- MWWD's share of the Annual Required Contributions for retirement funding is \$9.3 million for FY09 and \$8.9 million for FY10. MWWD's proportionate calculated share of the City's ARC for FY11-FY13 ranges from \$13.6 million to \$15.9 million and is based on the November 2008 Mayor's 2010-2014 Five-Year Financial Outlook for Scenario 2.
- MWWD's proportionate budgeted share of OPEB for FY09 is \$3.9 million and \$4.5 million for FY10. MWWD's proportionate calculated share of OPEB for FY11-FY13 ranges from \$5.1 million to \$6.3 million and is based on the Mayor's 2010-2014 Five-Year Financial Outlook for November 2008.

Table 7-17 summarizes projected O&M expenses over the forecast period as presented on a budgetary (cash basis). The historic values (Table 7-15) are on a full accrual basis as required for presentation in the CAFR.

The State of California recently passed AB32 which regulates green house gas emissions. The regulations are currently being developed. As a result, MWWD anticipates an increase in energy and operating costs however the impacts are unknown at this time and are not reflected in the projections.

Table 7-17 MWWD Projected O&M Expenses FY09-FY13 (in thousands)						
Fiscal Year		Personnel services	Fringe Benefits	All Other	Total	% Increase
Forecast	FY09	\$ 53,689	\$ 26,569	\$ 137,679	\$ 217,938	8.1% ⁽¹⁾
	FY10	53,814	27,535	151,213	232,562	6.7%
	FY11	53,814	33,695	156,941	244,450	5.1%
	FY12	53,814	36,129	162,899	252,842	3.4%
	FY13	53,814	38,531	169,095	261,440	3.4%

(1) The FY08 amount is presented on a full accrual basis as is required in the CAFR. FY09, and the all future years are on a budgetary basis.

Source: MWWD FY 2009 Rate Model (3/14/09 Version)

7.7 MWWD-PREPARED FINANCIAL FORECAST

7.7.1 Financial Forecast

Table 7-18 is the MWWD-prepared financial forecast for the five-year forecast period FY09 through FY13. Data for FY09 is a reflection of MWWD estimates based on six months of actual

year-to-date results and MWWD expectations for the balance of the year. FY10, FY11, FY12, and FY13 are based on a variety of assumptions, including a preliminary FY10 budget for O&M expenditures, as discussed in this section of the report. This section summarizes the major components of the forecast and calculated fund balance.

The overall percent increase in revenues for the forecast period is 24% and reflects MWWD's assumptions regarding the impact of growth and more significantly, the City Council approved rate increases for FY09 and FY10 and the MWWD-proposed increases (subject to City Council approval) described previously in this section. Rate increases, included in each year of the forecast, are expected to be effective May 1 of each year with the percent increase shown on Line 2 of Table 7-18. However, revenue is not projected to increase until the month following the effective date since billing is done in arrears. The rate increases for FY09 and FY10, as previously noted, have been approved and adopted by the City. For the remaining years, MWWD assumes annual increase each year of 4%.

The overall percent increase in O&M expenses for the forecast period is 20% and reflects no increases to salary or wages (the personnel services expense category) and in general a 4% annual increase to all other O&M as previously discussed.

The forecast reflects annual contributions to the Rate Stabilization Fund through FY10 to reach the targeted balance of \$21.3 million as described later in this section.

Line 10 of the forecast reflects the Net System Revenues available to meet debt service which is described in the next section. Note that interest earned from the Construction Fund is not included in this amount. Under the Master Installment Purchase Agreement (MIPA) these earnings are not considered in the determination of Net Revenues available for debt service repayment; however, this revenue is reflected in Line 25.

The minimum debt service coverage required for Parity Obligation debt is 1.20x and is shown on Line 12 of the forecast. The minimum debt service coverage for existing SRF loans is 1.10x, which is shown on Line 15 of the forecast. All future borrowings, including SRF loans, are assumed to be parity debt, which will require 1.20x debt service coverage.

Lines 19 through 32 reflect various inflows and outflows, with inflows coming from bond proceeds, interest earnings from the construction fund, and outflows to fund capital expenditures and/or transfers to reserve funds.

Of note is the repayment of the Subordinate Sewer Revenue Note, Series 2007 as shown on Line 24 of Table 7-18.

Line 29 is the transfer to the Operating Reserve. MWWD expects to increase the Operating Reserve over the next five years from a 50-day reserve level in FY09 to 70 days by FY13.

MWWD is forecasting a positive end of year Funds Available for Appropriation balance in each year of the forecast as noted on Line 35. The Funds Available for Appropriation balance will be a lower amount than the cash balance due to the encumbrances. The Fund balance calculated by MWWD meets the reserve targets described in this report for each year of the forecast. The DSC requirements are described in more detail in the next section followed by the conclusions on the MWWD-prepared financial forecast.

**Table 7-18
Financial Forecast
FY09-FY13
(in thousands)**

Line No.	Description	Projected				
		FY09	FY10	FY11	FY12	FY13
Rate Increase						
1	Previously Adopted by City Council or Proposed by MWWD	Adopted	Adopted	Proposed	Proposed	Proposed
2	Percent	7.00%	7.00%	4.00%	4.00%	4.00%
Revenues						
3	Sewer Service Charge	\$ 288,527	\$ 311,186	\$ 334,653	\$ 351,005	\$ 368,307
4	Sewage Treatment Plant Services	63,721	72,088	76,556	77,616	79,438
5	Capacity Charge	11,022	5,180	5,228	5,286	5,334
6	Other Miscellaneous Revenue (a)	17,803	18,006	17,390	18,865	20,657
7	Total Revenues	381,073	406,460	433,827	452,772	473,736
LESS:						
8	Operating and Maintenance Expenses	(217,938)	(232,562)	(244,450)	(252,842)	(261,440)
9	Transfer (to) / from Rate Stabilization Fund	(3,000)	(2,000)	-	-	-
10	Net System Revenues Available for Debt Service	160,135	171,897	189,377	199,929	212,297
11	Parity Debt Service (b)	(77,056)	(106,256)	(106,258)	(120,077)	(133,022)
12	Parity Debt Service Coverage (1.20 times required)	2.08	1.62	1.78	1.67	1.60
13	Net System Revenues Available After Parity Debt	83,079	65,641	83,119	79,852	79,275
14	SRF Debt Service	(17,250)	(6,059)	(6,058)	(6,058)	(6,058)
15	SRF Debt Service Coverage (1.10 times required)	4.82	10.83	13.72	13.18	13.09
16	All Debt Service (Parity and SRF)	(94,306)	(112,315)	(112,316)	(126,135)	(139,080)
17	All Debt Service Coverage	1.70	1.53	1.69	1.59	1.53
18	Net System Revenues Available After Debt Service - All	65,829	59,582	77,061	73,794	73,217
Other Inflows/(Outflows)						
19	Bond Proceeds - Gross	402,059	-	190,208	178,175	104,458
20	Issuance Cost	(4,020)	-	(1,902)	(1,782)	(1,045)
21	CIP Expenditure	(55,606)	(154,084)	(218,109)	(204,312)	(119,779)
22	CIP Encumbrances	(152,998)	(138,723)	(127,893)	(102,940)	(119,165)
23	Prior Year CIP Encumbrances & Continuing Appropriations (c)	126,380	152,998	138,723	127,893	102,940
24	2007 Note Repayment	(223,830)	-	-	-	-
25	Construction Fund Interest	305	783	1,309	1,226	719
26	Total Other Inflows/(Outflows)	\$ 92,290	\$ (139,026)	\$ (17,664)	\$ (1,740)	\$ (31,872)
LESS: Transfers (to) / from Reserve Funds						
27	Debt Service Reserve	(29,209)	-	(13,818)	(12,944)	(7,589)
28	Unallocated Reserve	(98)	(106)	-	-	-
29	Operating Reserve	(666)	325	(4,223)	(4,453)	(8,187)
30	CIP Reserve	-	-	-	-	-
31	Dedicated Reserve from Efficiency and Savings	-	-	-	-	-
32	Total Transfers to Reserve Funds	(29,973)	219	(18,041)	(17,397)	(15,776)
33	Increase /(Decrease) in Funds Available for Appropriation	128,146	(79,224)	41,356	54,658	25,568
34	Beginning of Year Funds Available for Appropriation (c)	72,735	200,881	121,657	163,013	217,671
35	End of Year Funds Available for Appropriation	\$ 200,881	\$ 121,657	\$ 163,013	\$ 217,671	\$ 243,239

(a) Does not include Construction Fund Interest; see line 25.

(b) This does not reflect savings from anticipated debt refunding that may occur during the forecast period.

(c) FY09 Source: Supplemental Schedules prepared by the Comptroller's Office

7.7.2 Reserve Funds

Reserves are maintained to meet targeted operating and capital requirements and to, as appropriate, maintain the Rate Stabilization Fund. All reserves are funded by the transfers from the Operating Fund. The following is a description of MWWD's reserve funds:

- Unallocated Reserve – The Unallocated Reserve is budgeted annually for unanticipated expenditures. It may be used to fund either operating or capital needs. If this reserve is used to cover unanticipated operating expenses, the Department Director's approval is required; however, if it is to be used for unanticipated capital needs, City Council action is required. The Unallocated Reserve is projected to increase slightly from \$3.3 million in FY08 to \$3.4 million in FY09.
- Operating Reserve – This reserve is intended to be used in the event of a catastrophe that prevents MWWD from operating in its normal course of business. The Operating Reserve is calculated based on the annual operating budget for the fiscal year. The current Operating Reserve for FY09 is estimated at 50 days of O&M expenses; however, this amount is expected to increase to 70 days by FY13. The increase in target is reflected in Table 7-19; operating reserves increase from \$32.3 million in FY09 to \$48.9 million in FY13.
- Rate Stabilization Fund – This reserve is a source of funds used to mitigate future rate increases. This reserve is expected to be maintained at a level of 20% of System revenues less operating and non-operating expenses for the current year or \$21.3, whichever is less, and is funded from transfers from the Operating Fund. The FY09 balance is expected to be \$19.3 million as of April 1, 2009, which meets the policy objective, and is based on projected revenues less operating and non-operating expenses. MWWD expects the balance to reach \$21.3 million in FY10. The utilization of this reserve during the course of the fiscal year does not require City Council action, but may be used based upon the recommendation of the Department and approval of the Chief Financial Officer.
- Capital Improvement Program Reserve - The CIP reserve is budgeted as a separate reserve at a level of \$5.0 million. This reserve may only be used for capital costs and City Council action is required for any withdrawal from the reserve.
- Dedicated Reserve from Efficiency and Savings (DRES) - At the end of FY08, a reserve was established to be used to protect and preserve savings found by increasing efficiencies, changing priorities or other actions related to reducing costs of the CIP. The DRES tracks funds that can be used for accelerating CIP project schedules and helps offset the need for any future rate increases. At the end of each fiscal year, any savings not required for compliance with established reserve policies will be transferred into this reserve. At the end of four years, any funds transferred into this reserve and not used for capital improvements will be used to lower future rates for the system. The amount shown in Table 7-19 for FY09 reflects the current balance of the DRES Fund as of April 1, 2009. It is not possible, with any degree of accuracy, to project future savings that may add to this balance or the use of these funds for any future capital projects.

Table 7-19 shows these reserves and balances projected over the forecast period. MWWD projects that for each reserve fund, required balances will be achieved within the forecast period.

Table 7-19 Projected Reserves FY09-FY13 (in thousands)							
Period		Unallocated Reserve	Operating Reserve	Rate Stabilization Fund	CIP Reserve	DRES ⁽¹⁾	Total
Forecast	FY09	\$ 3,394	\$ 32,320	\$ 19,300	\$ 5,000	\$ 21,185	\$ 81,199
	FY10	3,500	31,995	21,300	5,000	N/A	61,795
	FY11	3,500	36,218	21,300	5,000	N/A	66,018
	FY12	3,500	40,671	21,300	5,000	N/A	70,471
	FY13	3,500	48,858	21,300	5,000	N/A	78,658

(1) Projections of future year savings into or spending from this reserve have not been made.
 Source: MWWD.

7.8 DEBT SERVICE COVERAGE

7.8.1 Projected Annual Debt Service

As stated in the Official Statements of the Sewer Revenue Bonds, Series 1993, 1995, 1997A and 1997B, and 1999A and 1999B, Rate Covenant Sections, the required debt service coverage is 1.20x of the Parity Obligations debt service in a given year. Debt service coverage is calculated by dividing Net System Revenues by the annual Parity Obligations debt service. Revenues used to calculate the DSC on outstanding debt include all Service Charge revenue, all other operating revenues (excluding interest earned on the Construction Fund) and Capacity Charges.

Table 7-20 projects MWWD's parity, subordinate, and all debt service along with calculated DSC ratios for each. The total debt service reflects the MWWD model assumption of 80% debt financing of the projected CIP with anticipated debt issuances summarized in Table 7-2. Outstanding subordinate debt issues include SRF loans and a FY07 private financing which is projected to be retired in FY09 with proceeds from the FY09 debt issuance. The required debt service coverage for currently outstanding SRF loans is 1.10x and for subordinate debt service it is 1.00x. The City anticipates that all future SRF loans will be Parity Obligation debt and require meeting the debt service coverage ratio of 1.20x.

**Table 7-20
Projected Annual Debt Service and Coverage Ratios (\$ in thousands)**

Period		Net System Revenues Available for Debt Service	Parity Obligation Debt Service	Parity Obligation DSC Ratio	SRF Debt Service	SRF DSC Ratio ⁽¹⁾	Total Debt Service	All Debt DSC Ratio
Forecast	FY09	\$ 160,135	\$ 77,056	2.08	\$ 17,250	4.82	\$ 94,306	1.70
	FY10	171,897	106,256	1.62	6,059	10.83	112,315	1.53
	FY11	189,377	106,258	1.78	6,058	13.72	112,316	1.69
	FY12	199,929	120,077	1.67	6,058	13.18	126,135	1.59
	FY13	212,297	133,022	1.60	6,058	13.09	139,080	1.53

(1) The SRF DSC Ratio is calculated by subtracting Parity Debt Service from Net System Revenues Available for Debt Service, and then dividing by SRF Debt Service.

Parity Obligation DSC is projected to be above the 1.20x minimum for each year of the forecast period and SRF DSC is projected to be above the 1.10x minimum for each year of the forecast period.

7.8.2 Additional Obligations Test

7.8.2.1 MIPA Requirements

As discussed in 7.2.2, MWWD anticipates the issuance of additional Parity Obligation debt in the amount of approximately \$402 million in FY09. For the purpose of the Additional Obligations Test (referred to as the Additional Bonds Test or ABT) this issuance is assumed to effectively occur on June 30, 2009, and is bound by MIPA to satisfy the ABT, which is reflected in Table 7-21 and Table 7-22. Table 7-21, consistent with MIPA, only reflects the Maximum Annual Debt Service on all Parity Obligations Outstanding in the period before issuance of the FY09 debt while the Maximum Annual Debt Service in Table 7-22 includes the FY09 issue (but excludes any future year issues). Under MIPA, Article V Section 5.03, the City may at any time and from time to time issue or create any other Parity Obligations, provided the City obtains or provides a certificate or certificates, prepared by the City or at the City's option by a Consultant showing that:

- a) The Net System Revenues as shown by the books of the City for any 12 consecutive period out of the 18 consecutive months ending immediately prior to the incurring of such additional other Parity Obligations shall have amounted to at least 1.20 times the Maximum Annual Debt Service on all Parity Obligations Outstanding during such period. For purposes of preparing the certificate or certificates described above, the Consultant or Consultants may rely upon financial statements prepared by the City, which have not been subject to audit by an independent certified public accountant if audited financial statements for the period are not available; and

- b) The estimated Net System Revenues for the next 12 months following the date of issuance of such other Parity Obligations will be at least equal to 1.20 times the Maximum Annual Debt Service for all Parity Obligations which are Outstanding immediately after the issuance of the proposed Parity Obligations.

Malcolm Pirnie has reviewed the Net System Revenues for the two 12-month periods as outlined in the above requirements. Our review indicates that the Net System Revenues for each 12-month period are at least 1.20x MWWD’s Maximum Annual Debt Service.

Table 7-21 presents the calculation of the debt service coverage used to meet the first (historical) requirement of the ABT. The debt service coverage ratio for the first (historical) requirement of the ABT test is 2.18x, which exceeds the 1.20x minimum.

Table 7-21 Additional Obligations Test – Historic Requirement 12 Months Ending December 31, 2008⁽¹⁾ (\$ in thousands)	
Operating Revenues	\$ 365,217
Less:	
Operating Expenditures	(194,300)
Transfer to Rate Stabilization Fund	(3,000)
Net System Revenues	167,917
Maximum Annual Debt Service – Parity Obligation	\$ 77,056
Debt Service Coverage Ratio	2.18

(1) Source: City of San Diego AMRIS Detail Reports for Revenues and Expenditures

In order to meet the second (forward) requirement of the MIPA, Malcolm Pirnie reviewed projections for the 12-month period immediately following the issuance, FY10, which is part of MWWD’s Financial Forecast. Net System Revenues from this period were then divided by the Maximum Annual Debt Service to obtain the debt service coverage ratio, which must be at least 1.20x the Maximum Annual Debt Service.

Table 7-22 presents the calculation of the debt service coverage used to meet the second (forward) requirement of the ABT. Note that the debt service coverage ratio for the second (forward) requirement of the ABT is 1.62x, which exceeds the 1.20x minimum.

Table 7-22
Additional Obligations Test – Forward Requirement
FY10⁽¹⁾ (\$ in thousands)

Operating Revenues	\$ 406,460
Less:	
Operating Expenditures	(232,562)
Transfer to Rate Stabilization Fund	(\$2,000)
Net System Revenues	171,897
Maximum Annual Debt Service – Parity Obligation	106,258
Debt Service Coverage Ratio	1.62

(1) Operating Revenues and Expenditures are from the MWWD Financial Forecast – see Table 7-18, FY10.

7.8.2.2 Additional Obligations (Bonds) Calculation for the Forecast Period

The Additional Obligations (Bonds) Calculation mirrors the requirements of the MIPA for the Series 2009A Bonds but is applied for the five-year forecast period and measures projected debt service coverage on the future debt issues.

While not required by the MIPA for the Series 2009A issuance, Malcolm Pirnie prepared this calculation consistent with each requirement of the MIPA ABT – see Table 7-23. The Net System Revenues presented as part of the forecast are based on the information contained in the Financial Forecast for FY09 to FY13 – Table 7-18. In determining Net System Revenues and therefore the 12-month periods of review for the ABT, it was assumed that each future bond issuance occurs on June 30th.

Table 7-23 presents the Additional Obligations (Bonds) Test Calculation for FY09 to FY13 – results that indicate compliance with the MIPA ABT coverage requirements were they to be applied to the entire forecast period.

**Table 7-23
Additional (Obligations) Bonds Calculation
For the Entire Forecast Period (\$ in thousands)**

Period ⁽²⁾		Historical Net System Revenues	Maximum Annual Debt Service – Parity Obligation	Historical Test Debt Service Coverage	Forward Net System Revenues	Maximum Annual Debt - Parity Obligation	Forward Test Debt Service Coverage
Forecast	FY09	\$ 167,917 ⁽¹⁾	\$ 77,056	2.18	\$ 171,897	\$ 106,256	1.62
	FY10	165,516	106,256	1.56	189,377	106,258	1.78
	FY11	179,637	106,258	1.69	199,929	120,077	1.67
	FY12	194,653	120,077	1.62	212,297	133,022	1.60
	FY13	206,114	133,022	1.55	224,805	140,613	1.60

Assumes issuance of debt will occur in June of each fiscal year

- (1) Estimated based on six months (half) of the test fiscal year and six months (half) of the previous fiscal year; assumes transfer to Rate Stabilization Fund from previous fiscal year
- (2) City of San Diego AMRIS Detail Reports for Revenues and Expenditures
- (3) Under the Forward calculation of DSC, Net System revenues are for the fiscal year following the fiscal year in which the debt is issued. These values are from Table 7-18 for the fiscal year after the Period or fiscal year as indicated on this table.

7.9 CONCLUSIONS ON MWWD FINANCIAL FORECAST

The purpose of this section is to provide conclusions regarding the reasonableness of MWWD’s financial forecast for the five fiscal years from July 1, 2008 through June 30, 2013. Assumptions used in the development of MWWD’s forecast were reviewed in developing our conclusions and the most significant of those assumptions are summarized in this section of the report

MWWD’s forecast reflects the anticipated costs and schedule for its multi-year CIP, as well as funding and long-term debt financing assumptions. MWWD’s projected revenues are based on both growth in revenues and rate increases occurring in each year of the forecast. Finally, MWWD’s projected expenses reflect the City-wide position with regard to no increases in salary and wages (the personnel service expense category) during the forecast period. Other O&M expenses are projected to increase as previously described in the section. These and other key assumptions used in the forecast are noted as follows:

- Service Charge revenues are based on the projected accounts and wastewater flows and the projected service rates. New connections are derived from the percentage change in service area population.

- Rates are expected to be increased (May 1st of each year) as follows over the forecast period with the FY09 and FY10 increases adopted by Council and the following years requiring Council action in order to be effective:
 - 7% – FY09
 - 7% – FY10
 - 4% – FY11
 - 4% – FY12
 - 4% – FY13
- Rates implemented as a result of the “*Shames Settlement*” are expected to be revenue neutral to the overall percent increases shown above.
- Municipal Sewage Treatment Plant Service revenues assume no growth until FY12 and FY13 and then reflect 1% growth in each following year.
- Projected Metro sewage treatment plant service revenues were estimated in a manner consistent with the Regional Wastewater Disposal Agreement. Projections with respect to sewage flow, TSS and COD are based on continuing evaluation of metered flow data, associated strength characteristics, current growth forecasts for specific sub-areas as well as wastewater monitoring reports from the mid-1980s to the present.
- Certain O&M costs and Wastewater System CIP costs are allocated to the Participating Agencies based upon each Participating Agency’s respective percentage of the annual flow and load through the Metropolitan System. The MWWD expects, over the five-year forecast period, that the Participating Agencies contribute approximately 32% of the Metropolitan System’s O&M costs and CIP.
- Capacity Charge revenues are budgeted at \$11.0 million for FY09 and projected to be approximately \$5.2 million from FY10-FY11 and approximately \$5.3 million from FY12-FY13.
- No salary or wage increases will occur during the forecast period; no additional staff positions are anticipated during the forecast period. Reductions with respect to human resources of full-time equivalent employees due to the proposed consolidation of certain responsibilities within the Water Department and the MWWD are not accounted for.
- MWWD’s share of the Annual Required Contributions for retirement funding is \$9.3 million for FY09 and \$8.9 million for FY10. For FY11-FY13 MWWD’s share ranges from \$13.6 million to \$15.9 million.
- MWWD’s share of OPEB for FY09 is \$3.9 million and \$4.5 million for FY10. For FY11-FY13 MWWD’s share of OPEB ranges from \$5.1 million to \$6.3 million.
- Non-labor expenses are assumed to increase at an annual rate of 4%.
- The five-year CIP expenditure totals \$752 million which incorporates a 4% cost escalation or inflation factor.
- The CIP is expected to be approximately 80% funded by revenue bonds.
- 25 miles of rehabilitation and 25 miles of replacement of pipelines per year are expected to be financed/constructed in FY09 through FY13. The cost of this program is

approximately \$2.5 million per mile for pipe replacement and approximately \$800,000 per mile for pipe rehabilitation.

- The debt service on future debt issuances is based on levelized payments, and an interest rate of 6% per annum, over a 30-year amortization period.
- Interest earnings on invested funds, excluding the construction fund, are estimated to be 3%.
- The City has set rates and charges sufficient to make deposits into the Rate Stabilization Fund in the amounts projected.
- New system hook-ups (measured in EDUs) are projected, on a conservative basis, based on the historically low EDUs of the last year, and increased at the estimated rate of population growth.

In order to assess the reasonableness of the MWWD-prepared forecast and the ability of the forecast to withstand events that may negatively impact the assumptions and resulting financial performance, Malcolm Pirnie estimated the amount of reduction in Net System Revenues Available for Debt Service that would need to occur in order to achieve a debt service coverage ratio of less than 1.20x on Parity Obligation Debt service. This reduction could come from either a decrease in revenue, increase in operating cost or some combination of the two. Table 7-24 presents the required reduction in both dollars and in percentage terms for that specific fiscal year (not cumulative).

Table 7-24			
Reduction in Net System Revenues Required to			
Achieve a DSC Ratio of Less than 1.20x on Parity Obligation Debt			
FY09-FY13 (\$ in thousands)			
Period		Reduction in Net System Revenues	Reduction as a Percent of Projected Net System Revenues from Table 7-18
Forecast	FY09	\$ 68,439	-42.7%
	FY10	45,451	-26.4%
	FY11	62,929	-33.2%
	FY12	57,038	-28.5%
	FY13	54,002	-25.4%

A decline in revenue could result from:

- Lower or negative growth rates for City accounts
- Increased delinquencies for City accounts
- Reduction in connection fee revenue
- PA challenging RWDA agreement

- City Council not adopting the 4% increase in rates in FY11, FY12 and FY13

Increases in cost could result from:

- Higher O&M cost due to, but not limited to labor cost, electricity or chemicals
- CIP estimates are underestimated and the actual costs are higher due to higher than projected inflation, etc.

Trends in historic data do not indicate the types of revenue declines or cost increases that would have to occur to achieve the results indicated in Table 7-24.

Based on our review of the aforementioned, we have concluded the following with regard to the MWWD-prepared forecast covering the five-year period ending June 30, 2013:

- MWWD's CIP is reasonable to address near and long-term capacity objectives of the System, effecting necessary rehabilitation and replacement work, and general compliance with regulatory standards.
- Projections of revenues and expenses have been reviewed in comparison with historical data and have been found to be reasonable and consistent with the stated assumptions.
- With the anticipated annual rate increases, being those already adopted by the City for FY09 and FY10 and those proposed by MWWD (subject to City Council approval) in the last three years of the forecast period, both the MWWD forecast and the sensitivity analyses conducted demonstrate the reasonableness of the expected financial results including the 1.20x DSC requirement, cash reserve targets and of the assumptions contained in the MWWD-prepared forecast; the most significant of which are the annual rate increases and resulting revenue projections.

With the adoption by the City of the rate increases for the first two years of the forecast period, the question of whether said increases would be adopted is answered. As with any projection, and the MWWD-prepared forecast is no exception, the projected results are contingent upon future action and in this case the financial forecast, the ability to achieve the indicated DSC and reserve levels, are very much dependent on the willingness of the Council to raise rates beyond the first two years of the forecast period. Should Council not adopt the indicated increases or if those increases do not produce the expected revenue, the results contained in the forecast will not be achieved.

Furthermore, current economic conditions in financial markets and their impact on state and local governments have yet to be fully understood. The degree to which these conditions impact the City and MWWD is not known and therefore cannot be factored into this report. However, based upon the information currently available, we have concluded that the assumptions upon which the MWWD-prepared forecast is based, are reasonable. While the MWWD-prepared forecast does reflect a reduction in Capacity Charge revenue and a somewhat conservative projection of single family residential account growth and the resulting revenue (when compared to historical values), the forecast does not explicitly quantify or anticipate the potential impact of the current economic environment including how the forecasted results may be impacted by any assistance that may be provided by the Federal government. To the contrary, the MWWD forecast assumes that it will have access to capital markets at reasonable terms and that its customer base will not be materially and negatively impacted over the forecast period. The calculations shown in Table 7-24 "test" the robustness of the forecast and its ability to achieve

acceptable results under less favorable conditions. Table 7-24 demonstrates the reduction that would have to occur in Net System Revenues to not achieve the required DSC ratio of 1.20x on Parity Obligation debt.

Based on these current economic conditions, it will be incumbent upon MWWD to carefully monitor its financial results and as appropriate consider such responses as to ensure its ability to repay debt obligations and maintain required reserves. These changes might include the use of reserve funds/contingencies, e.g., the Rate Stabilization Reserve, and the reduction of both O&M and capital spending.

8.0 SUMMARY AND CONCLUSIONS

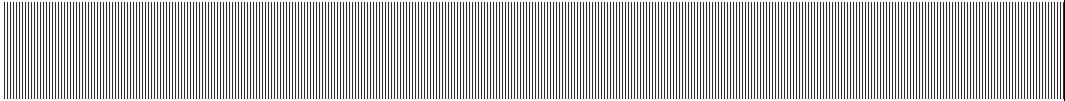
The following summary is based on information gained through site visits; discussions with the MWWD engineering, administrative, and operations and maintenance personnel; reviews of planning documents, reports, and studies prepared by external consultants for the MWWD; reviews of regulatory requirements and performance documents; and financial forecasts including the five-year CIP.

- MWWD is organized in a manner which provides satisfactory and reliable wastewater management services that meet public needs. The organizational structure provides for appropriate delegation of management authority. Positions are staffed with qualified and trained personnel.
- The technology employed by MWWD at its wastewater treatment facilities meets or exceeds that of most other comparable utilities, is appropriate for its application, and results in adequate wastewater treatment.
- Together with the Engineering and Capital Projects Department, MWWD has the requisite staffing, experience and qualifications to plan and execute and to operate the System projects within the projected CIP.
- Generally, facilities were found to be well-maintained and properly staffed.
- The System satisfies current Federal, State, Regional, County, and City regulations. However, future regulations may require operational modifications and additional capital improvements. The CIP has provisions for planned and unplanned improvements to meet these regulations. The CIP also incorporates projects that will allow MWWD to meet the requirements of the Final Consent Decree related to sanitary sewer overflows. MWWD has obtained or has applied for the required wastewater system permits. MWWD also has an outstanding environmental compliance record for effluent quality.
- The wastewater treatment facilities have adequate capacity to meet customer requirements and anticipated future requirements through the planning period. Furthermore, the CIP incorporates projects to improve effluent quality from the water reclamation facilities, thus providing for future customer requirements.
- MWWD is addressing the near-term physical needs of the System during the CIP planning process as well as planning for future needs. The CIP planning process represents a prudent capital planning process that reflects industry standards.
- The CIP is reasonable to address near and long-term capacity objectives of the System, effecting necessary rehabilitation and replacement work, and general compliance with regulatory standards.
- Projections of revenues and expenses reviewed in comparison with historical data were found to be reasonable and consistent with the stated assumptions.

- With the anticipated annual rate increases, being those already adopted by the City for FY09 and FY10 and those proposed by MWWD in the last three years of the forecast (and subject to City Council approval); the assumptions utilized for this forecast period are reasonable. Further, both the MWWD forecast and the sensitivity analyses prepared (see Table 7-24) demonstrate the reasonableness of the expected financial results including the 1.20x DSC requirement on Parity Obligation debt, the 1.10x DSC requirement on current SRF loans, and established cash reserve targets.
- Application of the ABT requirements to the Series 2009A Bonds as stated in the MIPA and the Rate Covenant, indicate that Net System Revenues are sufficient to achieve a debt service coverage ratio of 1.20x on Parity Obligation debt.

The City of San Diego Metropolitan Wastewater Department
Feasibility Study for 2009 Series Wastewater Revenue Bonds

Appendix A: CIP



APPENDIX A: CIP

Proposed MWWD Municipal Capital Improvement Plan Projects (\$000's)								
Project #	CIP #	PROJECT	Description	FY2009	FY2010	FY2011	FY2012	FY2013
1-1	40-933.0	ANNUAL ALLOCATION - MWWD TRUNK SEWERS	Trunk Sewers	\$4,472.895	\$4,993.700	\$367.085	\$3,457.589	\$2,703.262
1-2	46-194.0	ANNUAL ALLOCATION - TRUNK SEWER REHABILITATIONS	Trunk Sewers	\$2,504.033	\$2,624.337	\$40,444.116	\$30,960.928	\$22,545.133
1-3	46-195.6	EAST POINT LOMA TRUNK SEWER	Trunk Sewers	\$110.000	\$5,163.334	\$13,250.175	\$1,705.223	\$0.000
1-4	46-194.2	LA JOLLA/PACIFIC BEACH TS - CHELSEA STREET RELOCATION 1	Trunk Sewers	\$20.204	\$0.000	\$111.151	\$0.000	\$0.000
1-5	46-197.9	LAKE MURRAY IN CANYON TRUNK SEWER	Trunk Sewers	\$194.467	\$12,223.244	\$3,178.313	\$0.000	\$0.000
1-6	46-197.0	SORRENTO VALLEY TRUNK SEWER RELOCATION	Trunk Sewers	\$13.000	\$13.000	\$169.731	\$0.000	\$0.000
1-7	40-931.0	SOUTH MISSION VALLEY TRUNK SEWER	Trunk Sewers	\$3,141.848	\$8,135.816	\$771.551	\$159.753	\$0.000
1-8	46-197.6	USIU TRUNK SEWER	Trunk Sewers	\$55.250	\$0.000	\$7,255.846	\$4,665.043	\$569.033
1-9	40-930.0	OTAY MESA TRUNK SEWER	Trunk Sewers	\$0.000	\$0.000	\$1,359.691	\$273.788	\$0.000
1-10	46-195.8	MIRAMAR ROAD TRUNK SEWER	Trunk Sewers	\$7.783	\$0.000	\$92.214	\$0.000	\$0.000
1-11	46-196.6	BALBOA TRUNK SEWER	Trunk Sewers	\$32.435	\$0.000	\$4,340.094	\$497.217	\$0.000
1-12	46-196.9	MONTEZUMA TRUNK SEWER	Trunk Sewers	\$23.694	\$0.000	\$2,223.549	\$264.154	\$0.000
1-13	46-205.0	HARBOR DRIVE TRUNK SEWER REPLACEMENT	Trunk Sewers	\$0.000	\$0.000	\$945.281	\$11,707.663	\$2,926.916
1-14	46-136.0	CARMEL VALLEY TRUNK SEWER E/O I-5	Trunk Sewers	\$0.000	\$0.000	\$723.784	\$156.625	\$0.000
1-15	46-206.0	ANNUAL ALLOCATION - ACCELERATED PROJECTS	Pipelines	\$2,699.368	\$3,257.993	\$2,163.536	\$0.000	\$0.000
1-16	46-050.0	ANNUAL ALLOCATION - PIPELINE REHABILITATION	Pipelines	\$22,305.424	\$52,302.902	\$19,684.138	\$42,563.952	\$28,247.809
1-17	44-001.0	ANNUAL ALLOCATION - SEWER MAIN REPLACEMENTS	Pipelines	\$7,280.720	\$33,282.462	\$48,940.491	\$58,672.583	\$31,774.542
1-18	46-505.0	ANNUAL ALLOCATION - UNSCHEDULED PROJECTS	Pipelines	\$55.386	\$0.000	\$1,446.291	\$2,246.902	\$1,528.683
1-19	46-169.0	EAST MISSION GORGE FORCE MAIN REHABILITATIONS	Pipelines	\$0.000	\$650.247	\$2,325.757	\$0.000	\$0.000
1-20	46-106.0	ANNUAL ALLOCATION - SEWER PUMP STATION RESTORATIONS	Muni Pump Stations	\$0.169	\$379.420	\$2,080.386	\$0.000	\$0.000
1-21	41-929.0	PUMP STATION UPGRADES	Muni Pump Stations	\$872.543	\$3,189.734	\$20,171.548	\$1,090.646	\$2,148.310
1-22	46-602.0	SEWER PUMP STATION 41 REHABILITATION	Muni Pump Stations	\$2,183.200	\$4,659.093	\$569.010	\$0.000	\$0.000
1-23	41-927.0	ANNUAL ALLOCATION - PS 64, 65, PENASQUITOS & E. MISSION GORGE	Muni Pump Stations	\$0.000	\$0.000	\$325.577	\$779.208	\$570.799
1-24	41-936.0	PUMP STATION 64 ELECTRICAL UPGRADES	Muni Pump Stations	\$0.000	\$0.000	\$131.110	\$0.000	\$0.000
1-25	41-939.0	PUMP STATION 84 UPGRADE & PUMP STATION 62 ABANDONMENT	Muni Pump Stations	\$0.000	\$0.000	\$1,819.965	\$234.115	\$0.000
1-26	46-602.6	SEWER PUMP STATION 79	Muni Pump Stations	\$2,433.394	\$591.490	\$54.219	\$0.000	\$0.000
1-27	45-975.0	ANNUAL ALLOCATION - DEVELOPER PROJECTS	Miscellaneous	\$0.000	\$0.000	\$1,022.945	\$690.108	\$664.662
1-28	46-193.0	ANNUAL ALLOCATION - CIP CONTINGENCIES	Miscellaneous	\$458.710	\$1,576.445	\$6,674.197	\$1,444.544	\$914.618
Total				\$48,864.523	\$133,043.218	\$182,641.751	\$161,570.040	\$94,593.768

Proposed MWW Metropolitan Capital Improvement Plan Projects (\$000's)								
Project #	CIP #	PROJECT	Description	FY2009	FY2010	FY2011	FY2012	FY2013
2-1	42-913.0	ANNUAL ALLOCATION-METRO BIOSOLIDS CENTER	Treatment Plants	\$1,377,839	\$447,973	\$275,343	\$1,090,512	\$817,260
2-2	42-926.0	ANNUAL ALLOCATION-NORTH CITY WATER RECLAMATION PLANT	Treatment Plants	\$181,399	\$186,141	\$172,516	\$140,891	\$172,701
2-3	46-119.0	ANNUAL ALLOCATION - PT. LOMA TREATMENT PLANT & RELATED FACILITIES	Treatment Plants	\$265,176	\$180,003	\$766,948	\$1,192,315	\$1,234,720
2-4	45-932.0	ANNUAL ALLOCATION-SOUTH BAY WATER RECLAMATION PLANT	Treatment Plants	\$0.000	\$87,740	\$165,536	\$615,866	\$463,651
2-5	45-984.0	MBC BIOSOLIDS STORAGE SILOS	Treatment Plants	\$434,712	\$2,110,244	\$4,845,679	\$1,315,231	\$3,243,713
2-6	45-982.0	MBC CENTRATE COLLECTION UPGRADES	Treatment Plants	\$589,437	\$1,485,109	\$129,389	\$0.000	\$0.000
2-7	45-989.0	MBC ODOR CONTROL FACILITY UPGRADES	Treatment Plants	\$0.000	\$440,960	\$4,780,753	\$366,522	\$0.000
2-8	45-981.0	MBC STANDBY CENTRIFUGE FEED FACILITIES	Treatment Plants	\$0.000	\$1,389,286	\$543,060	\$32,992	\$0.000
2-9	45-983.0	MBC DEWATERING CENTRIFUGES REPLACEMENT	Treatment Plants	\$0.000	\$138,921	\$1,104,578	\$1,624,321	\$1,019,327
2-10	45-943.0	POINT LOMA - GRIT PROCESSING IMPROVEMENTS	Treatment Plants	\$1,218,839	\$165,626	\$1,927,230	\$13,203,871	\$13,251,143
2-11	42-930.0	SBWRP DEMINERALIZATION PHASE 1 & 2	Treatment Plants	\$50,000	\$0.000	\$7,810,911	\$6,615,672	\$1,509,907
2-12	45-991.0	MBC SWITCHGEAR RECONFIGURATION	Treatment Plants	\$0.000	\$0.000	\$0.000	\$168,287	\$193,871
2-13	45-992.0	NCWRP -EDR UPGRADE	Treatment Plants	\$0.000	\$0.000	\$511,322	\$7,087	\$0.000
2-14	42-933.0	NCWRP - ULTRAFILTRATION & EDR UPGRADE	Treatment Plants	\$0.000	\$0.000	\$0.000	\$46,794	\$626,591
2-15	45-961.0	SOUTH METRO SEWER REHABILITATION PHASE IIIB	Pipelines	\$0.000	\$0.000	\$0.000	\$0.000	\$185,585
2-16	41-926.0	ANNUAL ALLOCATION - METROPOLITAN SYSTEM PUMP STATIONS	Large Pump Stations	\$1,137,149	\$5,831,461	\$4,271,240	\$1,182,285	\$676,378
2-17	41-942.0	NCWRP - SLUDGE PUMP STATION UPGRADE	Large Pump Stations	\$30,022	\$256,504	\$183,998	\$3,950	\$0.000
2-18	45-915.0	PUMP STATION 2 ONSITE STANDBY POWER	Large Pump Stations	\$0.000	\$790,453	\$2,715,662	\$7,153,291	\$0.000
2-19	45-956.0	ANNUAL ALLOCATION - METRO OPERATIONS CENTER	Miscellaneous	\$13,231	\$67,120	\$165,389	\$102,708	\$143,960
2-20	42-934.0	ALVARADO LAB ROOF	Miscellaneous	\$352,737	\$42,157	\$0.000	\$0.000	\$0.000
2-21	45-965.0	ENVIRONMENTAL MONITORING & TECH. SERVICES LAB ESPLANADE AND STEAM LINE	Miscellaneous	\$0.000	\$1,396,359	\$1,142,534	\$0.000	\$0.000
2-22	45-966.0	METRO FACILITIES CONTROL SYSTEM UPGRADE	Miscellaneous	\$866,512	\$4,975,512	\$2,321,573	\$908,184	\$648,408
2-23	45-993.0	NCWRP - EDR ENCLOSURE	Miscellaneous	\$0.000	\$559,883	\$559,882	\$0.000	\$0.000
2-24	45-940.0	WET WEATHER STORAGE FACILITY	Miscellaneous	\$50,000	\$235,548	\$431,412	\$5,013,387	\$710,614
2-25	46-187.0	ENVIRONMENTAL MONITORING & TECHNICAL SERVICES LAB PHASE 1	Miscellaneous	\$11,478	\$0.000	\$0.000	\$0.000	\$0.000
2-26	45-990.0	MBC STORM DRAINAGE UPGRADES	Miscellaneous	\$0.000	\$0.000	\$0.000	\$0.000	\$110,539
2-27	46-501.0	POOLED CONTINGENCY	Miscellaneous	\$60,822	\$15,206	\$74,781	\$1,322,449	\$0.000
2-28	46-502.0	POOLED CONTINGENCY	Miscellaneous	\$102,170	\$238,962	\$567,747	\$635,014	\$177,320
			Total	\$6,741,523	\$21,041,168	\$35,467,484	\$42,741,629	\$25,185,690
			Grand Total	\$55,606,047	\$154,084,386	\$218,109,235	\$204,311,669	\$119,779,458

Note: Project Numbers reference project details in Appendix A

Summary of Municipal Projects

Project details for the municipal projects in the above table that will have future expenditures funded by the current bond issue are included herein. Additional details are available in the City of San Diego's published CIP documents.

1-1 40-933.0 Annual Allocation – MWW Trunk Sewers: This project provides for the replacement or relocation of various pipelines due to deterioration or insufficient capacity. If not replaced, existing deteriorated and undersized trunk sewers lines have a high degree of failure resulting in sewage spills. New trunk sewer designs and installations will improve the hydraulic performance of the system and therefore, will reduce the spillage and sewage overflows. As needed projects are designated sub-projects of this Capital Improvement Project. Projects are identified and scheduled on a priority basis.

1-2 46-194.0 Annual Allocation - Trunk Sewer Rehabilitations: This project provides for replacement of trunk sewer portions at various locations throughout the City. These projects often require immediate attention that cannot be accommodated by the more conventional Capital Improvements Program rehabilitation procedures. As needed projects are designated sub-projects of this Capital Improvement Project. Projects are identified and scheduled on a priority basis.

- 1-3 **46-195.6 East Point Loma Trunk Sewer:** This project provides for an additional 848 linear feet of pipe and the replacement of existing 27” and 30” vitrified clay trunk sewer with 39”, 36”, 15”, 10” and 8” pipe in Cushing Road between Barnett Street and Nimitz Highway in order to accommodate additional flow in the future.
- 1-4 **46-194.2 La Jolla/Pacific Beach Trunk Sewer – Chelsea Street Relocation:** This project provides for replacement of an undersized trunk sewer located in an easement with a new trunk sewer located in La Jolla Blvd between Forward St. and Sapphire St. and collector sewer mains in surrounding streets. The pipe diameter is 21-inch for the trunk sewer and varies between 12-inch, 10-inch, and 8-inch for the collector sewer mains.
- 1-5 **46-197.9 Lake Murray Trunk Sewer In Canyon:** This project provides for replacing 3 miles of under capacity sewers in the Lake Murray area. The existing sewer is 12-inch to 18-inch in diameter and will be upgraded with a new, larger 18-inch to 24-inch diameter trunk sewer. The southernmost downstream segment will be constructed through sensitive canyon area. The center section will be constructed westerly of Lake Murray, and the upper section will be constructed through the Lake Murray golf course. To avoid some environmental impacts, some pipe bursting and tunneling under Jackson Drive will be used. Permanent canyon maintenance access is part of the project.
- 1-6 **46-197.0 Sorrento Valley Trunk Sewer Relocation:** This project will provide for relocation of the existing trunk sewer out of the environmentally sensitive Peñasquitos Lagoon. A portion of the existing trunk sewer is currently located within the Peñasquitos Lagoon area and is inaccessible during rainy periods or for regularly scheduled preventative maintenance. This project will remove the deteriorating trunk sewer from this area and install a new sewer in the City’s right-of-way and provide access for maintenance.
- 1-7 **40-931.0 South Mission Valley Trunk Sewer:** This project provides for the replacement of the existing trunk sewer and installing a large trunk sewer between Fairmont Avenue and Morena Boulevard along Camino Del Rio South.
- 1-8 **46-197.6 USIU Trunk Sewer:** This project provides for replacing 2.2 miles of existing 12-inch to 15-inch under capacity trunk sewers with new 18-inch to 24-inch diameter trunk sewers. This project will be performed in two phases.
- 1-15 **46-206.0 Annual Allocation - Accelerated Projects:** This project provides for emergency construction on the Municipal Sewer System. This project is necessary for emergency failures of the Municipal Sewer System and for replacement of sewer mains that are in imminent danger of failing. As needed projects are designated sub-projects of this Capital Improvement Project. Projects are identified and scheduled on a priority basis.
- 1-16 **46-050.0 Annual Allocation – Pipeline Rehabilitation:** This project consists of the trenchless rehabilitation of deteriorating sewer pipelines and manholes throughout the City. Work includes existing sanitary sewer lines ranging from eight-inch to thirty-nine-inch in diameter of mostly vitrified clay pipe and concrete pipe including sealing all service connections and rehabilitation of all associated manholes requiring work in the right-of-way and easements. The project goal is to rehabilitate 20 miles in FY07, 30 miles

in FY08, and 35 miles in FY09. This is an ongoing program that will perform 25 miles per year beyond FY09. As needed projects are designated sub-projects of this Capital Improvement Project. Projects are identified and scheduled on a priority basis.

- 1-17 44-001.0 Annual Allocation - Sewer Main Replacements:** This project provides for the replacement of sewer mains throughout the City due to deterioration or insufficient capacity in compliance with the Final Consent Decree. The existing concrete sewer lines have a high degree of failure resulting in sewage spills due to various stages of deterioration or insufficient capacity. These sewer group jobs will replace existing concrete sewer mains, of which some are 50 to 70 years old, in various parts of San Diego. They are old, deteriorated and undersized. Some of the projects consist of replacing concrete sewer pipelines that have experienced a number of sewer stoppages resulting from grease buildup. For some areas, the justification of replacement of sewer lines is due to root intrusion.

Under current City policy, concrete sewer and cast iron water mains situated in the same public right-of-way are replaced at the same time to avoid additional costs for twice-repeated service disruptions, street resurfacing, traffic impacts, and contractual actions. The shortage of funds for the sewer main replacements would place a similar constraint on water main replacements. As a consequence of this policy, the water main replacement individual projects are closely integrated with concrete sewer replacements.

These new pipeline designs and installations will improve the hydraulic performance of the System and, therefore, will reduce the potential for spillage and sewage overflows. In addition, costly intensive maintenance can be stopped. As needed projects are designated sub-projects of this Capital Improvement Project. Projects are identified and scheduled on a priority basis.

- 1-18 46-505.0 Annual Allocation – Unscheduled Projects:** This annual allocation provides for repair and replacement of sewers in need of emergency or unscheduled repairs. As needed projects are designated sub-projects of this Capital Improvement Project.

- 1-19 46-169.0 East Mission Gorge Force Main Rehabilitation:** This project provides for rehabilitating the existing 48-inch reinforced concrete pipe force main due to corrosion damage. The length of the force main is approximately eight miles long, routed from the pump station located in Santee at 15390 Mission Gorge Road to the discharge point at Fairmount Avenue and Twain Avenue.

- 1-20 46-106.0 Annual Allocation - Sewer Pump Station Restorations:** This project provides for the replacement of pumping equipment and/or appurtenances due to deterioration. This project will provide the necessary funding to comply with the plan as submitted to the Environmental Protection Agency for the Final Consent Decree. As needed projects are designated sub-projects of this Capital Improvement Project. Projects are identified and scheduled on a priority basis.

Many existing sewer pump stations and their force mains have reached or exceeded their anticipated service life of 40 years. However, because of the widely varying actual lengths of service life, the scheduling for pump station restorations is difficult. This allows more flexibility in replacing deteriorated pumping equipment.

Those having direct effect on potential sewage spills are the pump stations with:

- An undersized wet well
- Lack of a backup power source and a second force main
- No emergency spill containment capacity
- Several operational problems with regards to current design standards
- Deteriorated force mains

By designing and restoring these pump stations, the potential for spills are reduced and their impact is minimized due to:

- Providing a secondary source of energy to the new stations (electric and gas generator)
- Improving the design of the sewer mains feeding the stations
- Utilizing the existing wet wells for overflow and providing new facilities with modern equipment
- Upgrading existing and providing dual force mains

1-21 41-929.0 Pump Station Upgrades: This project provides for upgrading twenty-three municipal sewer small service pump stations that are located throughout the northern and central areas of San Diego. The upgrades will be broken into four construction packages. Upgrades include: force mains, pump replacements, generator installations, and electrical systems upgrades. These upgrades are part of the Final Consent Decree which requires completion by June 2013.

1-22 46-602.0 Sewer Pump Station 41 Rehab: This project consists of constructing a new pump station, emergency overflow storage structure, 2,200 feet of force main in the right-of-way, and the abandonment of the original pump station and existing force main currently located within the recreational space of Mission Bay Park.

Summary of Metropolitan Projects

Project details for the metropolitan projects in the above table that will have future expenditures funded by the current bond issue are included herein. Additional details are available in the City of San Diego's published CIP documents.

2-1 42-913.0 Annual Allocation - Metro Biosolids Center: This project provides for minor improvements and modifications to the existing facilities at the MBC to implement operating efficiencies, optimization of existing facilities and compliance with revised regulatory and operation plan requirements.

2-2 42-926.0 Annual Allocation – North City Water Reclamation Plant: This project provides for minor renovation or replacement of facilities due to increase in wastewater flow, regulatory changes, or asset depletion.

2-3 46-119.0 Annual Allocation – Point Loma Treatment Plant & Related Facilities: This project provides for minor renovation and upgrades of facilities at the Point Loma Wastewater Treatment Plant and its related facilities.

- 2-4 **45-932.0 Annual Allocation – South Bay Water Reclamation Plant:** This project provides for minor renovation and upgrades of facilities at the treatment plant and associated facilities to enhance processes.
- 2-5 **45-984.0 MBC Biosolids Storage Silos:** This project will add two more storage silos.
- 2-6 **45-982.0 MBC Centrate Collection Upgrades:** This project replaces the foul air duct from FRP to Ductile Iron and to upsize the centrate collection piping system.
- 2-7 **45-989.0 MBC Odor Control Facility Upgrades:** This project will upgrade the existing odor control system. The equipment has underperformed, does not have adequate capacity, and has inadequate exhaust capture, safety and permit issues, and potential for ACPD violations.
- 2-8 **45-981.0 MBC Standby Centrifuge Feed Facilities:** This project will provide for the addition of two standby centrifuge feed pumps and two standby polymer feed pumps. One set (consisting of a sludge pump and a polymer pump) will be dedicated to provide redundant capability.
- 2-9 **45-983.0 MBC Dewatering Centrifuges Replacement:** This project will replace four of the eight existing centrifuges with four new large capacity centrifuge units.
- 2-10 **45-943.0 Point Loma Grit Processing Improvements:** The Point Loma Wastewater Treatment Plant has six aerated grit basins, divided into south, central and north pairs of tanks. The south tanks were constructed as part of the original treatment plant in 1962. The central tanks were added in 1983 and the north tanks were added in 1988. Removal of grit was found to be more efficient at average flow when the south tanks were not used. Therefore, in 1992, the south tanks were taken out of service. All six grit tanks are needed during wet weather flows to improve grit removal rates. Replacement and/or modification of the south tanks were in the original Interim Order for the Clean Water Program of greater San Diego.

The major components in the recommended project include reconstruction of the south grit tanks and its adjacent pump gallery, replacement of the 1962 grit processing headworks building with an odor controlled, drive through facility which will include new grit processing equipment and replacement of grit agitation air blowers and piping.

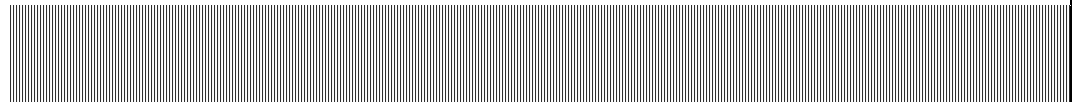
Improvement to the reconstructed South Grit tanks will include widening and deepening the channels and relocation of the tank influent and effluent ports to increase detention time, increasing the slope of the tank bottom to promote grit migration and installation of longitudinal and transverse baffles to promote grit removal.

Improvements to the new headworks building will include a new grit storage and loading facility which will replace the existing Cyclone grit separators with the newer technology... This building will provide a drive through loading capability with containment of odors.

- 2-11 **42-930.0 SBWRP Demineralization Phases 1 & 2:** This project will evaluate what type of technology should be used to reduce the salinity of the wastewater effluent. Phase 1 would construct a demineralization facility to provide 7.5 mgd of reclaimed water. Phase 2 would expand the facility to 15 mgd.

- 2-16 **41-926.0 Annual Allocation – Metropolitan System Pump Stations:** This project provides for comprehensive upgrades, design modifications, major renovations or replacement of major/minor equipment; such as pumps, valves, tanks, controls, odor control system, etc. These improvements will allow the pump stations to be run more efficiently plus increase the reliability of the Metropolitan Wastewater System. As needed projects are designated sub-projects of this CIP.
- 2-17 **41-942.0 NCWRP Sludge Pump Station Upgrade:** The current North City Water Reclamation Sludge Pump Station is experiencing extreme vibration that is preventing the pumps from being operated at full capacity, and reducing equipment life. This project will entail a study to determine the source of the vibration and to implement a remediation plan to eliminate the vibration and thus reduce maintenance, and increase equipment life.
- 2-18 **45-915.0 Pump Station 2 Onsite Standby Power:** This project will replace the engine drives for pumps 4 & 5 with electric motors and provide two standby generators for electrical power to the pumps at the station. This will provide the required surge protection against an electrical utility outage.
- 2-19 **45-956.0 Annual Allocation – Metro Operations Center:** This project provides for minor improvements or renovations to the existing Metropolitan Operations Center (MOC) and associated facilities. The MOC facilities are used to house Metropolitan Wastewater Department (MWWD) employees, as well as to provide warehouse and storage space for MWWD assets and vehicles. Projects are identified and scheduled on a priority basis.
- 2-20 **42-934.0 Alvarado Lab Roof:** This project is to replace the roof on the Alvarado Water Quality Lab Building that has been leaking for the past five years. The lab building contains expensive diagnostic equipment which is in danger of being damaged.
- 2-21 **45-965.0 Environmental Monitoring & Technical Services Lab Esplanade and Steam Line:** This project provides for the design and construction of an esplanade (park) within an approximately 1.25 acre parcel located between the existing lab and the boat channel, as well as undergrounding approximately 600 feet of an above ground steam line situated along the boat channel.
- 2-22 **45-966.0 Metro Facilities Control System Upgrade:** This project provides for the upgrading of the existing Distributed Control System to the current (Emerson) system at the Metro Facilities.
- 2-23 **45-993.0 NCWRP EDR Enclosure:** This project entails the installation of a permanent enclosure to protect the EDR equipment from the impacts of ultraviolet light and the high coastal salinity environment.
- 2-24 **45-940.0 Wet Weather Storage Facility:** This project includes the implementation of the Live Stream Discharge of reclaimed water from the North City Water Reclamation Plant during heavy rain events to reduce the capacity demand on the downstream sewer system and facilities. This project also includes constructing a seven-million gallon (7-MG) Underground Storage Tank at the Liberty Station (vacated Naval Training Center) to provide hydraulic relief to the Pump Station 2, the South and North Metro Interceptors, and major trunk sewers.

Appendix B: Sewer Rate Schedule



APPENDIX B: SEWER RATE SCHEDULE

	May 2009	May 2010	May 2011	Reversal of Shames November 2011	May 2012	May 2013
Sewer Rate Increases ⁽¹⁾	7%	7%	4%	(3)	4%	4%
Single Family Residential (Settlement Class²)						
Month	May	May	May	Nov	May	May
Year	2009	2010	2011	2011	2012	2013
Base Fee (<i>includes \$3.25/mo. credit</i>)	\$ 11.07	\$ 12.08	\$ 12.69	\$ 15.94	\$ 16.58	\$ 17.24
Flow Rate Per HCF	\$ 3.36	\$ 3.60	\$ 3.74	\$ 3.74	\$ 3.89	\$ 4.05
Single Family Residential (Out of Settlement Class)						
Month	May	May	May	Nov	May	May
Year	2009	2010	2011	2011	2012	2013
Base Fee	\$ 15.21	\$ 16.28	\$ 16.93	\$ 15.94	\$ 16.58	\$ 17.24
Flow Rate Per HCF	\$ 3.57	\$ 3.82	\$ 3.97	\$ 3.74	\$ 3.89	\$ 4.05
Multi-Family Residential						
Month	May	May	May	Nov	May	May
Year	2009	2010	2011	2011	2012	2013
Base Fee	\$ 15.21	\$ 16.28	\$ 16.93	\$ 15.94	\$ 16.58	\$ 17.24
Flow Rate per HCF	\$ 4.99	\$ 5.34	\$ 5.55	\$ 5.23	\$ 5.44	\$ 5.66
Commercial and Industrial						
Month	May	May	May	Nov	May	May
Year	2009	2010	2011	2011	2012	2013
Base Fee	\$ 15.21	\$ 16.28	\$ 16.93	\$ 15.94	\$ 16.58	\$ 17.24
Flow Rate Per HCF	\$ 3.74	\$ 4.00	\$ 4.16	\$ 3.92	\$ 4.08	\$ 4.24
TSS \$/lb	\$ 0.55	\$ 0.59	\$ 0.61	\$ 0.57	\$ 0.60	\$ 0.62
COD \$/lb	\$ 0.22	\$ 0.24	\$ 0.25	\$ 0.23	\$ 0.24	\$ 0.25

(1) Rate increases approved in February 2007 for May 2007 through May 2010. May 2011 through 2013 are proposed by MWWD and subject to City Council approval.

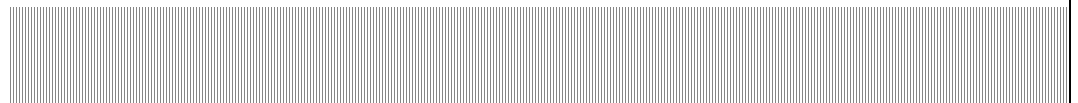
(2) Settlement Class is defined as Single Family Residential customers who received sewer service to an account with a meter that was open in the 10-year period prior to October 1, 2004.

(3) Shames Settlement included two 3.05% adjustments and a monthly credit of \$3.25 for Eligible Single Family Residential accounts. It is estimated to be completed by November 2011.

Sources:

Proposition 218, 12/18/2006, Notice of Proposed Sewer Rate Adjustments
 Notice of Public Hearing 10/8/2007

Appendix C: Abbreviations and Acronyms



APPENDIX C: ABBREVIATIONS AND ACRONYMS

µg/L	Micrograms per Liter
ABT	Additional Bonds Test
ADEQ	Arizona Department of Environmental Quality
ARC	Annual Required Contributions
AS	Administrative Services Division
bhp	Brake Horsepower
BMP	Best Management Practice
BOD	Biochemical Oxygen Demand
CAA	Clean Air Act
CAFR	Comprehensive Annual Financial Report
CalEPA	California Environmental Protection Agency
CCTV	Closed Circuit Television
CESQGs	Conditionally Exempt Small Quantity Generators
cfm	Cubic Feet per Minute
CFR	Code of Federal Regulations
CIP	Capital Improvement Program
CLFDS	Coastal Low Flow Diversion System
CO	Carbon Monoxide
COD	Chemical Oxygen Demand
COMC	Central Operations Management Center
CUPA	Certified Unified Program Agency
CWA	Clean Water Act
CY	Calendar Year
DCS	Distributed Control System
DRES	Dedicated Reserve from Efficiency and Savings
DSC	Debt Service Coverage
DTSC	Department of Toxic Substances Control
EDR	Electro Dialysis Reversal
EDU	Equivalent Dwelling Unit
EMPAC	Computerized Maintenance-Management System
EMTS	Environmental Monitoring and Technical Services Division
ENR	Engineering News Record
EPA	United States Environmental Protection Agency
EPCRA	Emergency Preparedness and Community Right-to-Know Act
EPM	Engineering and Program Management Division
FY	Fiscal Year
HAP	Hazardous Air Pollutants
HCF	Hundred Cubic Feet
HMD	Hazardous Materials Division
I/I	Infiltration/Inflow

IWCP	Metropolitan Industrial Wastewater Control Program
IWTP	International Wastewater Treatment Plant
JURMP	Jurisdictional Urban Runoff Management Program
kVA	Kilovolt Ampere
lbs/day	Pounds per Day
LQGs	Large Quantity Generators
MACT	Maximum Achievable Control Technology Standard
MBC	Metro Biosolids Center
MBSIS	Mission Bay Sewage Interceptor System
MER	Mass Emission Rate
Metro System	San Diego Metropolitan Sewage System
MG	Million Gallons
mg/L	Milligrams per Liter
mgd	Million Gallons per Day
MIPA	Master Installment Purchase Agreement
mL	Milliliters
ml/L	Milliliters per Liter
MOC	Metropolitan Operations Center
MPN	Most Probable Number
MS4	Municipal Separate Storm Sewer Systems
mt/yr	Metric Tons per Year
MWWD	Metropolitan Wastewater Department
NAAQS	National Ambient Air Quality Standards
NACWA	National Association of Clean Water Agencies
NCWRP	North City Water Reclamation Plant
NMI	North Metro Interceptor
NOV	Notice of Violation
NOx	Nitrogen Oxides
NPDES	National Pollutant Discharge Elimination System
NSPS	New Source Performance Standards
NTU	Number of Transfer Units
O&M	Operations & Maintenance
OPEB	Other Post-employment Benefits
ORP	Oxidation Reduction Potential
ORS	Odor Reduction System
OSHA	Occupational Safety and Health Administration
PA	Participating Agencies
Pb	Lead
PLOO	Point Loma Ocean Outfall
PLWTP	Point Loma Wastewater Treatment Plant
PM	Particulate Matter
POTW	Publically Owned Treatment Works
ppd	Pounds per Day
ppm	Parts per Million

RAS	Return Activated Sludge
RCRA	Resource Conversation and Recovery Act
RWDA	Regional Wastewater Disposal Agreement
RWQCB	Regional Water Quality Control Boards
SANDAG	San Diego Association of Governments
SBLO	South Bay Land Outfall
SBOO	South Bay Ocean Outfall
SBWRP	South Bay Water Reclamation Plant
SCADA	Supervisory Control and Data Acquisition
SDCAPCD	San Diego County Air Pollution Control District
SIU	Significant Industrial User
SMI	South Metro Interceptor
SNC	Significant Non-Compliance
SO _x	Sulfur Oxides
SQGs	Small Quantity Generators
SRF	State Revolving Fund
SSMP	Sewer System Management Plan
SSO	Sanitary Sewer Overflows
SWPPP	Storm Water Pollution Prevention Plan
SWRCB	State Water Resources Control Board
The City	The City of San Diego
TSS	Total Suspended Solids
UV	Ultraviolet
WDR	Waste Discharge Requirement
WRP	Water Reclamation Plant
WWC	Wastewater Collection Division
WWTD	Wastewater Treatment Division
WWTP	Wastewater Treatment Plant

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APPENDIX C

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following is a summary of certain definitions and provisions set forth in the Indenture, the Master Installment Purchase Agreement, as amended and supplemented, and the 2009-1 Supplement to the Master Installment Purchase Agreement relating to the Series 2009A Bonds. The Series 2009A Bonds are described in this Summary as the “2009A Bonds.” These summaries do not purport to be comprehensive, and reference should be made to such documents for a full and complete statement of such definitions and provisions. Copies of these documents are available from the Trustee.

INDENTURE

The Indenture sets forth certain terms of the Bonds, the nature and extent of the security for the Bonds, the rights of the Owners of the Bonds, rights, duties and immunities of the Trustee and the rights and obligations of the Authority. Certain provisions of the Indenture are summarized below. Other provisions are summarized in the body of this Official Statement under the captions, “DESCRIPTION OF THE SERIES 2009A BONDS” and “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2009A BONDS.” Capitalized terms used in connection with the Indenture but not defined below have the meanings ascribed thereto in the body of this Official Statement; certain capitalized terms are defined herein following the description of the Indenture, in connection with the description of the Installment Purchase Agreement. The term “Bonds” initially refers to the Series 2009A Bonds.

Selected Definitions

Additional Bonds

The term “Additional Bonds” means those Bonds authorized and issued under the Indenture on a parity with the 2009A Bonds, in accordance with Indenture.

Authorized Denominations

The term “Authorized Denominations” means, with respect to the Bonds, \$5,000 and any integral multiple thereof and with respect to any Additional Bonds, the authorized denominations specified in a Supplemental Indenture related to such Additional Bonds.

Beneficial Owners

The term “Beneficial Owners” means those individuals, partnerships, corporations or other entities for whom the Participants have caused the Depository to hold Book-Entry Bonds.

Board

The term “Board” means the Board of Commissioners of the Authority.

Bond Counsel

The term “Bond Counsel” means a firm of attorneys that are nationally recognized as experts in the laws governing and relating to municipal finance.

Bond Law

The term “Bond Law” means the Marks-Roos Local Bond Pooling Act of 1985, as amended, being Section 6584 *et seq.* of the Government Code of the State.

Book-Entry Bonds

The term “Book-Entry Bonds” means Bonds executed and delivered under the book-entry system described in the Indenture.

Business Day

The term “Business Day” means a day of the year other than Saturday or Sunday, or a day on which banking institutions located in California are required or authorized to remain closed, or on which the New York Stock Exchange is closed. If the date for making any payment or the last date for performance of any act or the exercising of any right, as provided in the Indenture, is not a Business Day, such payment may be made or act performed or right exercised on the next succeeding Business Day, with the same force and effect as if done on the nominal date provided in the Indenture, and, unless otherwise specifically provided in the Indenture, no interest will accrue for the period from and after such nominal date.

Certificate of the Authority

The term “Certificate of the Authority” means an instrument in writing signed by the Chair, the Vice Chair or the Secretary of the Authority, or by any other officer of the Authority duly authorized by the Authority for that purpose. If and to the extent required by the provisions of the Indenture, each Certificate of Authority will include the statements provided for in the Indenture.

Certificate of the City

The term “Certificate of the City” means an instrument in writing signed by the Chief Financial Officer, the Chief Operating Officer or any of their respective designees.

Charter

The term “Charter” means the Charter of the City as it now exists or may be amended, and any new or successor Charter.

Closing Date

The term “Closing Date” means any date upon which a Series of Bonds is purchased; the term “2009A Closing Date” means May 13, 2009.

Code

The term “Code” means the Internal Revenue Code of 1986, as amended, and the regulations thereunder, and any successor laws or regulations.

Components; Refunded Components

The term “Components” means components of the Project for which the City makes Installment Payments or Subordinated Installment Payments pursuant to any Supplement. The term “Refunded

Components” means the Components originally financed with the proceeds of the Refunded Bonds, which are being refunded with the proceeds of sale of the 2009A Bonds.

Comptroller

The term “Comptroller” means the Comptroller of the City.

Corporate Trust Office of the Trustee

The term “Corporate Trust Office of the Trustee” means the corporate trust office of the Trustee at the address set forth in the Indenture or such other or additional offices as may be specified to the Authority by the Trustee in writing.

Costs of Issuance

The term “Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the City, the Corporation or the Authority relating to the issuance, sale and delivery of any Bonds under the Indenture, including but not limited to, costs of preparation and reproduction of documents; fees and expenses of the Feasibility Consultant; fees and expenses of the Authority (including its counsel); expenses of City and Authority staff; fees of the City’s Financial Advisor; initial fees, expenses and charges of the Trustee (including its counsel); Rating Agency fees; Underwriters’ discount; legal fees and charges of Bond Counsel, Disclosure Counsel, Underwriters’ counsel, and the City Attorney; and any other cost, charge or fee in connection with the issuance and delivery of the Bonds.

Costs of Issuance Account

The term “Costs of Issuance Account” means the account by that name established within the Acquisition Fund under the Indenture, for the payment of Costs of Issuance.

Depository

The term “Depository” means the securities depository acting as Depository pursuant to the Indenture.

DTC

The term “DTC” means The Depository Trust Company, New York, New York, and its successors.

Event of Default

The term “Event of Default” will have the meaning set forth in the Indenture, as described below.

Feasibility Consultant

The term “Feasibility Consultant” means the consultant who, or whose firm, provides services to the City respecting the future ability of Project components being acquired, installed or constructed with proceeds of sale of the Bonds to generate sufficient Net System Revenues to permit the City to incur Additional Obligations, as set forth in the Agreement.

Federal Securities

The term “Federal Securities” means the following securities:

- (1) United States Treasury Bills, bonds, and notes for which the full faith and credit of the United States are pledged for payment of principal and interest;
- (2) Direct senior obligations issued by the following agencies of the United States Government: the Federal Farm Credit Bank System, the Federal Home Loan Bank System, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and the Tennessee Valley Authority;
- (3) Mortgage Backed Securities (except stripped mortgage securities) issued by the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and the Government National Mortgage Association; and
- (4) United States Treasury Obligations, State and Local Government Series.

Fiscal Year

The term “Fiscal Year” means the fiscal year of the Authority which, as of the date of the Indenture, is the period from July 1 to and including the following June 30.

Fitch

The term “Fitch” means Fitch Ratings and its successors, and if such company will for any reason no longer perform the functions of a securities rating agency, “Fitch” will be deemed to refer to any nationally recognized securities rating agency designated by the Authority and the City.

Information Services

Information Services being Financial Information, Inc.’s “Daily Called Bond Service,” 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; Moody’s “Municipal and Government,” 99 Church Street, 8th Floor, New York, New York 10007, Attention: Municipal News Reports; and Xcitek’s “Called Bond Service,” 5 Hanover Square, New York, New York 10004, Attention: Bond Redemption Group; provided, however, in accordance with then current guidelines of the Securities and Exchange Commission, Information Services means such other organizations providing information with respect to called bonds as the Authority may designate in writing to the Trustee.

Interest Account

The term “Interest Account” means the account by that name established under the Indenture.

Interest Payment Date

The term “Interest Payment Date” means each May 15 and November 15, commencing November 15, 2009, until the Bonds are paid or redeemed in full.

Letter of Representations

The term “Letter of Representations” means the letter of the Authority delivered to and accepted by the Depository on or prior to the delivery of any Book-Entry Bonds setting forth the basis on which the Depository serves as depository for such Book-Entry Bonds, as originally executed or as it may be supplemented or revised or replaced by a letter to a substitute Depository.

Moody’s

The term “Moody’s” means Moody’s Investors Service, a corporation organized and existing under the laws of the State of Delaware, and its successors, and if such corporation will for any reason no longer perform the functions of a securities rating agency, “Moody’s” will be deemed to refer to any other nationally recognized securities rating agency designated by the Authority and the City.

Nominee

The term “Nominee” means the nominee of the Depository, which may be the Depository, as determined from time to time pursuant to the Indenture.

Outstanding

The term “Outstanding,” when used as of any particular time with reference to Bonds, means (subject to the provisions of the Indenture) all Bonds theretofore or thereupon executed by the Authority and authenticated and delivered by the Trustee pursuant to the terms hereof, except:

- (1) Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation;
- (2) Bonds paid or deemed to have been paid within the meaning of the Indenture;
- (3) Bonds beneficially owned by the City or the Authority; and
- (4) Bonds in lieu of or in substitution for which other Bonds will have been executed by the Authority and authenticated and delivered pursuant to the terms of the Indenture.

Outstanding Parity Bonds

The term “Outstanding Parity Bonds” means the outstanding principal amount of the Public Facilities Financing Authority of the City of San Diego Sewer Revenue Bonds, Series 1993, Series 1995, Series 1997A and 1997B and Series 1999A and 1999B (Payable Solely From Installment Payments Secured By Wastewater System Net Revenues), following the refunding described in the Indenture.

Owner

The term “Owner” means any Person who will be the registered owner of any Outstanding Bond, as shown on the registration books required to be maintained by the Trustee pursuant to the Indenture.

Parity Installment Payments

The term “Parity Installment Payments” means Installment Payments that are Parity Obligations (as defined in the Agreement), scheduled to be paid by the City under and pursuant to any Supplement that has been assigned to the Trustee (as assignee of the Authority) to secure any Senior Bonds or Notes.

Parity Obligations

The term “Parity Obligations” means any Obligations payable from Net System Revenues that are secured by a first priority lien on Net System Revenues and are senior in priority to payment of Subordinated Obligations, including Subordinated Installment Payments.

Participants

The term “Participants” means those broker-dealers, banks and other financial institutions from time to time for which the Depository holds Book-Entry Bonds as securities depository.

Payment Fund

The term “Payment Fund” means the fund by that name established under the Indenture.

Permitted Investments

The term “Permitted Investments” means any of the following to the extent then permitted by law and the Indenture:

- (1) Federal Securities;
- (2) Obligations of any state, territory or commonwealth of the United States of America or any political subdivision thereof or any agency or department of the foregoing; provided, that at the time of their purchase such obligations are rated “AAA” by two Rating Agencies;
- (3) Bonds, notes, debentures or other evidences of indebtedness issued or guaranteed by any corporation which are, at the time of purchase, rated by each Rating Agency in their respective highest short-term rating categories, or, if the term of such indebtedness is longer than three years, rated “AAA” by two Rating Agencies;
- (4) Taxable commercial paper or tax-exempt commercial paper with a maturity of not more than 270 days, rated “A1/P1/F1” by two Rating Agencies;
- (5) Deposit accounts or certificates of deposit, whether negotiable or non-negotiable, issued by a state or national bank (including the Trustee) or a state or federal savings and loan association or a state-licensed branch of a foreign bank; provided, however, that such certificates of deposit or deposit accounts will be either (a) continuously and fully insured by the Federal Deposit Insurance Corporation; or (b) have maturities of not more than 365 days (including certificates of deposit) and are issued by any state or national bank or a state or federal savings and loan association, the short-term obligations of which are rated in the highest short term letter and numerical rating category by two Rating Agencies;
- (6) Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as bankers acceptances, which bank has short-term obligations outstanding which are rated by two Rating Agencies in their respective highest short-term rating categories, and which bankers acceptances mature not later than 180 days from the date of purchase;
- (7) Any repurchase agreement with any bank or trust company organized under the laws of any state of the United States or any national banking association (including the Trustee), or a state-licensed branch of a foreign bank, having a minimum permanent capital of one hundred

million dollars (\$100,000,000) and with short-term debt rated by two Rating Agencies in their respective three highest short-term rating categories or any government bond dealer reporting to, trading with, and recognized as a primary dealer by, the Federal Reserve Bank of New York, which agreement is secured by any one or more of the securities and obligations described in clause (1) of this definition, which will have a market value (valued at least weekly) not less than 102% of the principal amount of such investment and will be lodged with the Trustee, the Treasurer or other fiduciary, as custodian for the Trustee, by the bank, trust company, national banking association or bond dealer executing such repurchase agreement. The entity executing each such repurchase agreement required to be so secured will furnish the Trustee with an undertaking satisfactory to it that the aggregate market value of all such obligations securing each such repurchase agreement (as valued at least weekly) will be an amount equal to 102% the principal amount of such repurchase agreement and the Trustee will be entitled to rely on each such undertaking;

(8) Any cash sweep or similar account arrangement of or available to the Trustee, the investments of which are limited to investments described in clauses (1), (2) and (7) of this definition and any money market fund, the entire investments of which are limited to investments described in clauses (1), (2) and (7) of this definition and which money market fund is rated in their respective highest rating categories by two Rating Agencies;

(9) Any guaranteed investment contract, including forward delivery agreements (“FDAs”) and forward purchase agreements (“FPAs”), with a financial institution or insurance company which has at the date of execution thereof an outstanding issue of unsecured, uninsured and unguaranteed debt obligations or a claims-paying ability rated within the two highest rating categories of two or more Rating Agencies. Only Permitted Investments described in clause (1) above and having maturities equal to or less than 30 years from their date of delivery will be considered eligible for any collateralization/delivery purposes for guaranteed investment contracts, FDAs or FPAs;

(10) Certificates, notes, warrants, bonds or other evidence of indebtedness of the State or of any political subdivision or public agency thereof which are rated in the highest short-term rating category or within one of the three highest long-term rating categories of two Rating Agencies (excluding securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date);

(11) For amounts less than \$10,000, interest-bearing demand or time deposits (including certificates of deposit) in a nationally or state-chartered bank, or a state or federal savings and loan association in the State, fully insured by the Federal Deposit Insurance Corporation, including the Trustee or any affiliate thereof;

(12) Investments in taxable money market funds or portfolios restricted to obligations with an average maturity of one year or less and which funds or portfolios are rated in either of the two highest rating categories by two Rating Agencies or have or are portfolios guaranteed as to payment of principal and interest by the full faith and credit of the United States of America;

(13) Investments in the City’s pooled investment fund;

(14) Investments in the Local Agency Investment Fund created pursuant to Section 16429.1 of the Government Code of the State;

(15) Shares of beneficial interest in diversified management companies investing exclusively in securities and obligations described in clauses (1) through (12) of this definition and which companies are rated in their respective highest rating categories by two Rating Agencies or have an investment advisor registered with the Securities and Exchange Commission with not less than five years' experience investing in such securities and obligations and with assets under management in excess of five hundred million dollars (\$500,000,000); and

(16) Shares in a California common law trust established pursuant to Title 1, Division 7, Chapter 5 of the Government Code of the State which consists exclusively of investments permitted by Section 53601 of Title 5, Division 2, Chapter 4 of the Government Code of the State, as it may be amended.

Person

The term "Person" means any legal entity or natural person, as the context may require.

Pre-Refunded Municipals

The term "Pre-Refunded Municipals" means any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice.

Principal Account

The term "Principal Account" means the account of that name established under the Indenture.

Principal Payment Date

The term "Principal Payment Date" means each May 15, commencing May 15, 2010, until the Bonds are paid or redeemed in full.

Project

The term "Project" means the acquisition, construction, installation and improvements to the Wastewater System described in Exhibit A to the Agreement and as modified with respect to Components in conformance with the Agreement.

Purchase Price

The term "Purchase Price" means the principal amount plus interest thereon owed by the City under the terms of the Agreement as provided in the Indenture thereof and as specified in a Supplement.

Rating Agency

The term "Rating Agency" means Fitch, Moody's or S&P.

Rebate Fund

The term "Rebate Fund" means the fund by that name created under the Indenture and any other accounts thereunder.

Record Date

The term “Record Date” means the fifteenth day of the calendar month immediately preceding an Interest Payment Date, whether or not such day is a Business Day.

Redemption Account

The term “Redemption Account” means the account by that name established under the Indenture.

Refunded Bonds

The term “Refunded Bonds” means those maturities of the Public Facilities Financing Authority of the City of San Diego Sewer Revenue Bonds (Payable Solely From Installment Payments Secured By the Wastewater System Net Revenues) Series 1997 to be refunded with a portion of the proceeds of the 2009A Bonds.

Representative

The term “Representative” means Banc of America Securities LLC, as representative of the several Underwriters of the 2009A Bonds.

Requisition

The term “Requisition” means a requisition form, by which the City will withdraw moneys from the Acquisition Fund or the Costs of Issuance Account.

Reserve Fund

The term “Reserve Fund” means the fund by that name established under the Indenture, in which the Reserve Requirement will be held and invested.

Reserve Requirement

The term “Reserve Requirement” means, as of any date of calculation, the least of (i) ten percent (10%) of the proceeds (within the meaning of section 148 of the Code) of the Bonds; (ii) 125% of average annual debt service on the then-Outstanding Bonds; or (iii) the Maximum Annual Debt Service for that and any subsequent Fiscal Year. The term “Reserve Requirement” means, initially, the sum of \$35,764,569.42, being the amount necessary to cause amounts on deposit in the Reserve Fund to equal the Reserve Requirement. Upon early redemption of any of the Bonds, the Authority, at the request of the City, may request the Trustee to recalculate and reduce any Reserve Requirement, whereupon any excess in the Reserve Fund over and above such Reserve Requirement will be transferred to the Payment Fund.

Revenues

The term “Revenues” means all Series 2009A Parity Installment Payments received by or due to be paid to the Authority pursuant to the 2009-1 Supplement, and the interest or profits from the investment of money in any account or fund (other than the Rebate Fund) pursuant to the Indenture.

S&P

The term “S&P” means Standard & Poor’s Ratings Group, a division of The McGraw-Hill Companies, Inc., a corporation organized and existing under the laws of the State of New York, and its successors, and if such corporation will for any reason no longer perform the functions of a securities rating agency, “S&P” will be deemed to refer to any other nationally recognized securities rating agency designated by the Authority and the City.

Securities Depository

The term “Securities Depository” means The Depository Trust Company, 55 Water Street, 50th Floor, New York, N.Y. 10041-0099 Attn. Call Notification Department, Fax (212) 855-7232, or, in accordance with then-current guidelines of the Securities and Exchange Commission, such other securities depositories, or no such depositories, as the Authority may indicate in a Written Request of the Authority delivered to the Trustee.

State

The term “State” means the State of California.

Subordinated Installment Payments

The term “Subordinated Installment Payments” means Installment Payments that are Subordinated Obligations (as defined in the Agreement), scheduled to be paid by the City under and pursuant to any Supplement that has been assigned to the Trustee (as assignee of the Authority) to secure any Subordinated Bonds or Notes.

Subordinated Obligations

The term “Subordinated Obligations” means any Obligations payable from Net System Revenues that are secured by a second priority lien on Net System Revenues and are subordinate in priority to payment of Parity Obligations, including the Parity Installment Payments.

Supplement

The term “Supplement” means a supplement to the Agreement providing for the payment of specific Installment Payments as the Purchase Price for Components of the Project, executed and delivered by the City and the Corporation.

Supplemental Indenture

The term “Supplemental Indenture” means any indenture supplemental to the Indenture or amendatory hereof duly executed and delivered by the Authority and the Trustee as authorized under the Indenture.

Surety Bond

The term “Surety Bond” means a reserve surety bond, insurance policy, letter of credit or other similar instrument providing, by its terms, a stated amount as a credit towards or in satisfaction of all or part of the Reserve Requirement, which will be held by the Trustee in trust, pursuant to the Indenture.

Tax Certificate

The term “Tax Certificate” means the Tax and Nonarbitrage Certificate delivered with respect to Tax-Exempt Bonds on their Closing Date.

Tax Code

The term “Tax Code” means the Internal Revenue Code of 1986, as amended, and the Regulations promulgated by the Internal Revenue Service pursuant thereto.

Tax-Exempt Bonds

The term “Tax-Exempt Bonds” means those Bonds which, by their terms, bear interest that is excluded from gross income for federal income tax purposes, pursuant to the Tax Code.

Treasurer

The term “Treasurer” means the Office of the City Treasurer of the City of San Diego.

Trustee

The term “Trustee” means The Bank of New York Mellon Trust Company, N.A., a national banking association existing under and by virtue of the laws of the United States, or any other bank or trust company which may at any time be substituted in its place as provided in the Indenture.

2009-1 Installment Payments

The term “2009-1 Installment Payments” means those Installment Payments scheduled to be paid by the City under the 2009-1 Supplement.

2009-1 Supplement

The term “2009-1 Supplement” means the 2009-1 Supplement to the Agreement, by and between the City and the Authority, dated as of May 1, 2009.

2007 Subordinated Notes

The term “2007 Subordinated Notes” means the Public Facilities Financing Authority of the City of San Diego Subordinated Sewer Revenue Notes, Series 2007 (Payable Solely From Subordinated Installment Payments Secured By Wastewater System Net Revenues).

Underwriters

The term “Underwriters” means, collectively, the underwriters listed in the purchase contract pursuant to which the 2009A Bonds are sold.

Wastewater System

The term “Wastewater System” means any and all facilities, properties, and improvements at any time owned, controlled or operated by the City as part of the Sewer Revenue Fund (defined in the Agreement) for collection, treatment, distribution, administration, disposal or reclamation of waste.

Written Request of the Authority

The term “Written Request of the Authority” means an instrument in writing signed by the Chair, the Vice Chair, or the Secretary of the Authority, or by any other officer or Commissioner of the Board duly authorized by the Authority for that purpose.

Written Request of the City

The term “Written Request of the City” means an instrument in writing signed by the Chief Operating Officer, the Chief Financial Officer or any of their respective designees, or by any other official of the applicable administrative departments of the City duly authorized by the City for that purpose.

Establishment of Funds; Deposit and Application

Establishment of Funds and Accounts.

(a) The Authority will cause the City to establish and maintain a special trust fund to be held by the Treasurer designated the “City of San Diego Wastewater System Improvement Project Acquisition Fund (the “Acquisition Fund”). Within the Acquisition Fund, the Treasurer will establish and maintain an Acquisition Account – 2009A Bonds (the “2009A Acquisition Account”).

(b) The Trustee will establish and maintain the Costs of Issuance Account.

(c) The Trustee will establish and maintain the Payment Fund, including the Interest Account, the Principal Account, and the Redemption Account.

(d) The Trustee will establish and maintain the Reserve Fund.

Use of Moneys in 2009A Acquisition Account. The Treasurer will hold the moneys in the 2009A Acquisition Account and the Comptroller will disburse such moneys therefrom to pay Acquisition Costs relating to the Wastewater System. Such disbursements will be made from time to time upon receipt of a Written Request of the City on behalf of the Authority which: (i) states with respect to each disbursement to be made: (A) the requisition number, (B) the name and address of the person, firm or authority to whom payment is due, (C) the amount to be disbursed, and (D) that each obligation therein has been properly incurred, and is a proper charge against the 2009A Acquisition Account and has not been the basis of any previous disbursement; (ii) specifies in reasonable detail the nature of the obligation; and (iii) is accompanied by a bill or statement of account for each obligation.

If, after payment by the Comptroller of all Written Requests of the City on behalf of the Authority theretofore tendered to the Comptroller under the provisions of the Indenture and delivery to the Treasurer, the Comptroller and the Trustee of a Certificate of Completion with respect to the portion of the Project to be financed with amounts on deposit in the 2009A Acquisition Account, there will remain any balance of money therein, all money so remaining will be transferred to the Trustee and deposited, first to the Reserve Fund to the extent necessary to make the amount on deposit therein equal to the Reserve Requirement, and thereafter to the accounts of the Payment Fund as directed by the City on behalf of the Authority.

Use of Moneys in Costs of Issuance Account. The Trustee will hold moneys in the Costs of Issuance Account within the Acquisition Fund and the Comptroller will disburse moneys therefrom to pay Costs of Issuance with respect to the 2009A Bonds. Such disbursements will be made from time to time upon receipt of Requisitions of the City on behalf of the Authority.

Reserve Fund. (a) The Reserve Fund is to be a separate fund held in trust by the Trustee. The Trustee will receive for deposit into the Reserve Fund \$35,764,569.42 in satisfaction of the 2009A Reserve Requirement. An amount equal to the Reserve Requirement will be maintained in or credited to the Reserve Fund at all times, subject to the provisions of the Indenture, and any deficiency therein will be replenished from the first available Revenues pursuant to the Indenture.

(b) Moneys in or available from the Reserve Fund will be used solely for the purpose of paying the principal of and interest on the Bonds, including the redemption price of the Bonds coming due and payable by operation of mandatory sinking fund redemption pursuant to the Indenture, in the event that the moneys in the Payment Fund are insufficient therefor. If and during such time as a Surety Bond is in effect, not less than two Business Days prior to each Interest Payment Date, the Trustee will ascertain the necessity for a draw upon the Surety Bond and, if a draw is necessary, will provide notice thereof to the provider of the Surety Bond in accordance with the terms of the Surety Bond at least two Business Days prior to each Interest Payment Date. In the event that the amount on deposit in the Payment Fund on any date is insufficient to enable the Trustee to pay in full the aggregate amount of principal of and interest on the Bonds coming due and payable, including the redemption price of the Bonds coming due and payable by operation of mandatory sinking fund redemption pursuant to the Indenture, the Trustee will withdraw the amount of such insufficiency from the Reserve Fund or make a draw upon the Surety Bond in the amount of such insufficiency and transfer such amount to the Payment Fund.

(c) In the event that the amount on deposit in the Reserve Fund exceeds the Reserve Requirement on the fifteenth (15th) calendar day of the month preceding any Interest Payment Date, the amount of such excess will be withdrawn therefrom by the Trustee and transferred to (a) the Rebate Fund, to the extent required under the Indenture, or (b) the Payment Fund. The remaining balance in the Reserve Fund may be applied, at the direction of the Authority, to the payment of the final maturing principal payments of the Bonds.

(d) Notwithstanding anything in the Indenture to the contrary, at the option of the City, amounts required to be held in the Reserve Fund may be withdrawn, in whole or in part, upon the deposit of a Surety Bond with the Trustee, in a stated amount equal to the amounts so withdrawn; provided, that at the time of such deposit each of the Rating Agencies then rating the Bonds will be notified of such proposed withdrawal and the deposit of such Surety Bond will not result in a withdrawal or downgrading of any rating of the Bonds then in effect by each of the Rating Agencies then rating the Bonds. Any such withdrawn moneys will be transferred, at the election of the City, to the Acquisition Fund, to the Redemption Account in the Payment Fund, to the Principal Account of the Payment Fund or to a special account to be established for the payment of any fees in connection with obtaining such Surety Bond.

To the extent that the Reserve Fund is comprised of both funds on deposits and a Surety Bond, withdrawals from the Reserve Fund will be made first from funds on deposit and then from the Surety Bond. To the extent that the Reserve Fund is replenished by the City, the amount so replenished will be credited first to any Surety Bond and then to funds on deposit in the Reserve Fund. To the extent that replenishment funds are credited to the Surety Bond, the Trustee will pay the same to the provider of the Surety Bond in lieu of retaining such funds in the Reserve Fund, conditioned upon reinstatement of the Surety Bond for the amount so paid.

In no event will the City or the Authority be required to replace any Surety Bond initially delivered under the Indenture with a similar instrument or with cash.

(e) In the event that the amount on deposit in the Reserve Fund at any time falls below the Reserve Requirement or in the event of a draw on the Surety Bond deposited therein, the Trustee will

promptly notify the City and the Authority of such fact. Upon receipt of written notice from the Trustee of a shortfall in the Reserve Fund, the City will transfer to the Trustee from Net System Revenues in accordance with the Agreement an amount sufficient to restore the balance on deposit in or credited to the Reserve Fund to the Reserve Requirement and to repay any amounts then due to the provider of the Surety Bond, if any. No deposit need be made in the Reserve Fund so long as the balance therein, taken together with amounts available under any Surety Bond, at least equals the Reserve Requirement.

Revenues

Pledge of Revenues.

(a) All Revenues and amounts on deposit in the funds and accounts established under the Indenture (other than amounts on deposit in the Rebate Fund) are irrevocably pledged to the payment of the interest on and principal of the Bonds, but only as provided in the Indenture, and the Revenues will not be used for any other purpose while any of the Bonds remain Outstanding; provided, that out of the Revenues there may be allocated such sums for such purposes as are expressly permitted by the Indenture.

(b) To secure the pledge of the Revenues contained in the Indenture, the Authority transfers, conveys and assigns to the Trustee, for the benefit of the Owners, all of the Authority's rights under the 2009-1 Supplement, including the right to receive Parity Installment Payments from the City, the right to receive any proceeds of insurance maintained thereunder or any condemnation award rendered with respect to the Components and the right to exercise any remedies provided therein in the event of a default by the City thereunder. The Trustee accepts said assignment for the benefit of the Owners subject to the provisions of the Indenture.

(c) The Trustee will be entitled to and will receive all of the 2009A Installment Payments, and any 2009A Installment Payments collected or received by the Authority will be deemed to be held, and to have been collected or received, by the Authority as agent of the Trustee and will forthwith be paid by the Authority to the Trustee.

Receipt and Deposit of Revenues in the Payment Fund. To carry out and effectuate the pledge contained in the Indenture, the Authority agrees and covenants that all Revenues when and as received will be received in trust under the Indenture for the benefit of the Owners and will be deposited when and as received in the Payment Fund. All Revenues will be accounted for through and held in trust in the Payment Fund, and the Authority will have no beneficial right or interest in any of the Revenues except only as provided in the Indenture. All Revenues, whether received by the Authority in trust or deposited with the Trustee as provided in the Indenture, will nevertheless be allocated, applied and disbursed solely to the purposes and uses set forth in the Indenture, and will be accounted for separately and apart from all other accounts, funds, money or other assets of the Authority.

Maintenance of Accounts for Use of Money in the Payment Fund.

(a) Except as otherwise provided in the Indenture, all money in the Payment Fund will be deposited by the Trustee in the following respective special accounts within the Payment Fund in the following order of priority:

- (i) Interest Account,
- (ii) Principal Account, and

(iii) Redemption Account.

All money in each of such Accounts will be held in trust by the Trustee and will be applied, used and withdrawn only for the purposes authorized in the Indenture.

(b) On or before each Interest Payment Date, the Trustee will transfer from the Payment Fund and deposit in the Interest Account that amount of money that, together with any money contained in the Interest Account, equals the aggregate amount of interest becoming due and payable on all Outstanding Bonds on such Interest Payment Date. No deposit need be made in the Interest Account if the amount contained in the Interest Account equals at least the aggregate amount of interest becoming due and payable on all Outstanding Bonds on such Interest Payment Date. All money in the Interest Account will be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Bonds as it will become due and payable (including accrued interest on any Bonds redeemed prior to maturity).

(c) On or before each Principal Payment Date, the Trustee will transfer from the Payment Fund and deposit in the Principal Account that amount of money that, together with any money contained in the Principal Account, equals the aggregate principal becoming due and payable on all Outstanding Bonds. No deposit need be made in the Principal Account if the amount contained therein is at least equal to the aggregate amount of principal become due and payable on all Outstanding Bonds. All money in the Principal Account will be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Bonds as it will become due and payable.

(d) All money in the Redemption Account will be held in trust by the Trustee and will be applied, used, and withdrawn either to redeem the Bonds pursuant to the Indenture. Any moneys that, pursuant to the Agreement and the related provisions of any Supplements, are to be used to redeem Bonds will be deposited by the Trustee in the Redemption Account. The Trustee will, on the scheduled redemption date, withdraw from the Redemption Account and pay to the Owners entitled thereto an amount equal to the redemption price of the Bonds to be redeemed on such date.

(e) Any delinquent Installment Payments pledged to the Bonds will be applied first to the Interest Account for the immediate payment of interest payments past due and then to the Principal Account for immediate payment of principal payments past due on any Bond. Any remaining money representing delinquent Installment Payments pledged to Bonds will be deposited in the Payment Fund to be applied in the manner provided therein.

Investment of Moneys in Funds and Accounts. Moneys in the Acquisition Fund will be accounted for by the Comptroller and invested by the Treasurer in any legally permitted investment, including but not limited to the pooled investment fund of the City. In the absence of a Written Request of the City, the Trustee may invest moneys in the funds and accounts held by the Trustee in Permitted Investments described in clause (8) of the definition thereof. The obligations in which moneys in the said funds and accounts are invested will mature prior to the date on which such moneys are estimated to be required to be paid out under the Indenture. For purposes of determining the amount of deposit in any fund or account, all investments credited to such fund or account will be valued at the lesser of market value or the cost thereof. The Trustee will semiannually, on or before January 15 and July 15 of each year, and at such times as the Authority will deem appropriate, value the investments in the funds and accounts established under the Indenture on the basis of the lesser of market value or the cost thereof. Except as otherwise provided in the Indenture, Permitted Investments representing an investment of moneys attributable to any fund or account established under the Indenture and all investment profits or losses thereon will be deemed at all times to be a part of said fund or account.

Additional Bonds

Execution and Delivery of Additional Bonds. In addition to the 2009A Bonds, the Trustee will, upon Written Request of the Authority, by a supplement to the Indenture, establish one or more other series of Bonds secured by the pledge made under the Indenture equally and ratably with any Bonds previously issued and delivered, in such principal amount as will be determined by the Authority, but only upon compliance with the provisions of the Indenture, the requirements of the Agreement applicable to the incurrence of Subordinated Obligations and any additional requirements set forth in the applicable Supplemental Indenture, which are made conditions precedent to the execution and delivery of Additional Bonds:

- (a) No Event of Default will have occurred and be then continuing;
- (b) The Supplemental Indenture providing for the execution and delivery of such Additional Bonds will specify the purposes for which such Additional Bonds are then proposed to be delivered, which will be one or more of the following: (i) to provide moneys needed to provide for Project Costs by depositing into the Acquisition Fund the proceeds of such Additional Bonds to be so applied; (ii) to provide for the payment or redemption of Bonds then Outstanding under the Indenture, by depositing with the Trustee moneys and/or investments required for such purpose under the defeasance provisions set forth in the Indenture; or (iii) to provide moneys needed to refund or refinance all or part of any other current or future obligations of the City with respect to the funding of the Wastewater System. Such Supplemental Indenture may, but will not be required to, provide for the payment of expenses incidental to such purposes, including the Costs of Issuance of such Additional Bonds, capitalized interest with respect thereto for any period authorized under the Code (in the case of Tax-Exempt Bonds) and, in the case of any Additional Bonds intended to provide for the payment or redemption of existing Bonds, or other Obligations of the City, expenses incident to calling, redeeming, paying or otherwise discharging the Obligations to be paid with the proceeds of the Additional Bonds;
- (c) The Authority will deliver or cause to be delivered to the Trustee, from the proceeds of such Additional Bonds or from any other lawfully available source of moneys, an amount (or a Surety Bond in an amount) sufficient to increase the balance in the Reserve Fund to the Reserve Fund Requirement for all Bonds and Additional Bonds to be then Outstanding;
- (d) The Additional Bonds will be payable as to principal on May 15 and as to interest on November 15 of each year during their term, except that the first interest payment due with respect thereto may be for a period of not longer than twelve (12) months;
- (e) Fixed serial maturities or mandatory sinking account payments, or any combination thereof, will be established in amounts sufficient to provide for the retirement of all of the Additional Bonds of such Series on or before their respective maturity dates;
- (f) The aggregate principal amount of Bonds and Additional Bonds executed and delivered under the Indenture will not exceed any limitation imposed by law or by any Supplemental Indenture; and
- (g) The Trustee will be the Trustee for the Additional Bonds.

Nothing in the Indenture will limit in any way the power and authority of the Authority to incur other obligations payable from other lawful sources.

Proceedings for Execution and Delivery of Additional Bonds. Whenever the Authority will determine to file its Written Request with the Trustee for the execution and delivery of Additional Bonds, the Authority will authorize the execution and delivery of a Supplemental Indenture, specifying the aggregate principal amount and describing the forms of Bonds and providing the terms, conditions, distinctive designation, denominations, date, maturity date or dates, interest rate or rates (or the manner of determining same), Interest Payments and payment dates, redemption provisions and place or places of payment of principal or redemption price, if any, and interest represented by such Additional Bonds not inconsistent with the terms of the Indenture.

Before any series of Additional Bonds may be executed and delivered by the Trustee, the Authority will file the following documents with the Trustee:

- (a) An executed copy of the applicable Supplemental Indenture;
- (b) A statement of the Authority to the effect that the requirements set forth in the Indenture have been met;
- (c) In the case of a Series of Additional Bonds delivered for the purpose described in the Indenture, irrevocable instructions to the Trustee to give notice as provided in the Indenture of redemption of all Bonds to be redeemed in connection therewith; and
- (d) An opinion or opinions of Bond Counsel, to the effect that the execution and delivery of the Additional Bonds, the supplement to the Indenture and related supplements or amendments have been duly authorized by the Authority and meet the requirements of the Indenture; and that the execution and delivery of such Additional Bonds will not, in and of themselves, cause the interest on the Tax-Exempt Bonds to become included within the gross income for purposes of federal income taxation.

Covenants of Authority

Punctual Payment and Performance. The Authority will punctually pay the interest and the principal to become due on every Bond issued under the Indenture in strict conformity with the terms of the Indenture and of the Bonds, and will faithfully observe and perform all the agreements and covenants contained therein.

Rebate Fund.

(a) The Trustee will maintain such accounts within the Rebate Fund as it is instructed by the Authority as will be necessary in order to comply with the applicable Tax Certificate (which is incorporated herein by reference). The Trustee will deposit moneys in the Rebate Fund made available by the Authority and/or the City pursuant to a Written Request of the City. All money at any time deposited in the Rebate Fund will be governed by the Indenture and the Tax Certificate and will be held by the Trustee in trust, to the extent required to satisfy the amount required to be rebated to the United States under the Code, and none of the City, the Corporation, Authority, the Trustee nor the Owners will have any rights in or claims to such money. The Trustee will make information regarding the investments available to the City, will invest the Rebate Fund in Permitted Investments pursuant to a Written Request of the City that is in conformity with the restrictions set forth in the Tax Certificate and will deposit income from such Permitted Investments immediately upon receipt thereof into the Rebate Fund. The Trustee agrees to comply with all Written Requests of the City given in accordance with the Tax Certificate.

(b) The City and the Authority will make or cause to be made the rebate computations respecting all Outstanding Bonds in accordance with the Tax Certificate, as required by the Code, and will provide to the Trustee written evidence that the computation of the rebate requirement has been made along with a letter from an independent certified public accountant or arbitrage consultant verifying the accuracy of such calculations. Upon a Written Request of the City, the Trustee will make deposits into the Rebate Fund from deposits by the City so that the balance of the amount on deposit will be equal to the rebate requirement. The Trustee will have no obligation to rebate any amounts required to be rebated pursuant to the Indenture, other than from moneys held in the Rebate Fund or from other moneys provided to it by the City on behalf of itself or the Authority. Records of the actions required by the Indenture will be retained by the Trustee, the City and the Authority until the date which is six (6) years after the date on which the Bonds are no longer Outstanding.

(c) Not later than sixty (60) days after the end of the fifth Bond Year as defined in the Tax Certificate and every five (5) years thereafter, the Trustee, upon receipt of a Written Request of the City, will pay to the United States part or all of the amounts in the Rebate Fund, as so directed. Each payment will be accompanied by a statement summarizing the determination of the amount to be paid to the United States, as provided by the City. In addition, if the City so directs, then the Trustee will deposit moneys into or transfer moneys out of the Rebate Fund from or into such accounts or funds as directed by the Written Request of the City. Any amounts remaining in the Rebate Fund following the final payment of the rebate requirement will be paid to the City. Money, including investment earnings, will not be transferred from the Rebate Fund except as provided in the Indenture.

(d) Notwithstanding any other provision the Indenture, the obligation to remit the rebate requirement to the United States and to comply with all other requirements of the Indenture and the Tax Certificate will survive the defeasance or payment in full of the Tax-Exempt Bonds.

(e) The Authority will not use or permit any proceeds of the Tax-Exempt Bonds or any funds of the Authority, directly or indirectly, to acquire any securities or obligations, and will not take or permit to be taken any other action or actions, that would cause any Tax-Exempt Bonds to be an “arbitrage bond” within the meaning of the Code or “federally guaranteed” within the meaning of Section 149(b) of the Code and any applicable regulations promulgated from time to time thereunder and under Section 103(c) of the Code. The Authority will observe and not violate the requirements of Section 148 of the Code and any such applicable regulations. The Authority will comply with all requirements of Sections 148 and 149(b) of the Code to the extent applicable to the Tax-Exempt Bonds.

(f) The Authority specifically covenants to comply with the provisions and procedures of the Tax Certificate.

(g) The Authority will not use or permit the use of any proceeds of the Bonds or any funds of the Authority, directly or indirectly, in any manner, and will not take or omit to take any action that would cause any Tax-Exempt Bonds to be treated as an obligation not described in Section 103(a) of the Code.

(h) Notwithstanding any provisions of the Indenture, if the Authority and the City will provide to the Trustee an opinion of Bond Counsel to the effect that any specified action required under the Indenture is no longer required or that some further or different action is required to maintain the exclusion from gross income for federal income tax purposes of interest with respect to the Tax-Exempt Bonds, the Trustee, the Authority and the City may conclusively rely on such opinion in complying with the requirements of the Indenture and the covenants under the Indenture will be deemed to be modified to that extent.

Eminent Domain. If the whole of the Components or so much thereof as to render the remainder unusable for the purposes for which it was used or intended to be used by the City will be taken under the power of eminent domain, the term of the Agreement will cease as of the day that possession will be so taken. In such case, the Authority will take or cause to be taken such action as is reasonably necessary to obtain compensation at least equal to the value of the Components or portion thereof taken by eminent domain. If less than the whole of the Components will be taken under the power of eminent domain and the remainder is usable for the purposes for which it was used by the City at the time of such taking, then the Agreement will continue in full force and effect as to such remainder, and the parties thereto waive the benefits of any law to the contrary. So long as any of the Bonds are Outstanding, the net proceeds of any award made in eminent domain proceedings for taking the Components or any portion thereof will be transferred to the Payment Fund. Any such award made after all of the Bonds have been fully paid and retired and all fees and expenses of the Trustee have been fully paid will be paid to the City.

Accounting Records and Reports. The Authority, or the City on behalf of the Authority, will keep or cause to be kept proper books of record and accounts in which complete and correct entries will be made of all transactions relating to the receipts, disbursements, allocation and application of the Revenues, and such books will be available for inspection by the Trustee, at reasonable hours and under reasonable conditions. Not more than 270 days after the close of each Fiscal Year, the Authority, or the City on behalf of the Authority, will furnish or cause to be furnished to the Trustee financial statements that include the Sewer Revenue Fund for the preceding Fiscal Year, prepared in accordance with generally accepted accounting principles, together with a report of an Independent Certified Public Accountant thereon. For purposes of the Indenture, “financial statement” will mean audited financial statements, if available, or unaudited financial statements, if audited financial statements are not available and unaudited financial statements are available. The Authority, or the City on behalf of the Authority, will also keep or cause to be kept such other information as is required under the Tax Certificate.

The City’s Budgets. The Authority, or the City on behalf of the Authority, will supply to the Trustee, as soon as practicable after the beginning of each Fiscal Year following the effectiveness of the applicable City ordinance but in no event later than six months from the date of effectiveness of such ordinance, a Certificate of the City certifying that the City has made adequate provision in its annual budget for such Fiscal Year for the payment of all Parity Installment Payments, Subordinated Installment Payments and all other Obligations due under the 2009-1 Supplement and the Agreement in such Fiscal Year. If the amounts so budgeted are not adequate for the payment of all Parity Installment Payments, Subordinated Installment Payments and all other Obligations due under the Agreement in such Fiscal Year, the Authority, or the City on behalf of the Authority, will take such action as may be necessary and within its power to request such annual budget to be amended, corrected or augmented by the City so as to include therein the amounts required to be paid by the City from Net System Revenues in such Fiscal Year, and will notify the Trustee of the proceedings then taken or proposed to be by the Authority.

Continuing Disclosure. The City has undertaken all responsibility for compliance with continuing disclosure requirements, and accordingly the Authority will have no liability to the Owners of the Bonds or any other person with respect to S.E.C. Rule 15c2-12, and the City will comply with and carry out all of the provisions of each continuing disclosure certificate, each dated the date of the execution and delivery of each Series of Bonds. See the caption in this Official Statement, “CONTINUING DISCLOSURE.” Notwithstanding any other provision the indenture, failure of the City to comply with a Continuing Disclosure Certificate will not be considered an Event of Default under the Indenture or under the Installment Purchase Agreement; provided, that the Trustee may and, at the request of any participating underwriter or the Owners of at least twenty-five percent (25%) in aggregate principal amount of the Outstanding Bonds of any series, will, or any Owner or Beneficial Owner of any of the Bonds may, take such actions as may be necessary and appropriate, including seeking mandate or

specific performance by court order, to cause the City to comply with its obligations under the related Continuing Disclosure Certificate.

Amendment of Indenture

Amendment of Indenture.

(a) The Indenture and the rights and obligations of the Authority and of the all Owners of the Bonds may be amended at any time by a Supplemental Indenture, which will become binding when the written consents of the Owners of 51% in aggregate principal amount of the Bonds then Outstanding, exclusive of Bonds disqualified as provided in the Indenture, are filed with the Trustee. No such amendment will (i) permit the creation by the Authority of any pledge of the Revenues as provided herein superior to or on a parity with the pledge created pursuant to the Indenture for the benefit of any Bond without the written consent of the Owner thereof; (ii) modify any rights or obligations of the Trustee without its prior written assent thereto; or (iii) modify provisions respecting the time or amount of payments on any Bond, without the written consent of the Owner thereof.

(b) The Indenture and the rights and obligations of the Authority and of the Owners may also be amended at any time by a Supplemental Indenture which will become binding without the consent of any Owners of Bonds for any one or more of the following purposes:

(i) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained herein in regard to questions arising under the Indenture that the Authority may deem desirable or necessary and not inconsistent with the Indenture and that will not adversely affect the interests of the Owners; or

(ii) to make any other change or addition thereto that will not materially adversely affect the interests of the Owners, or to surrender any right or power reserved herein to or conferred herein on the Authority; provided, however, that the Owners will be given prompt notice of any such amendment and will receive a copy of the final executed Supplemental Indenture making such changes.

Disqualified Bonds. Bonds owned or held by or for the account of the Authority or the City will not be deemed Outstanding for the purpose of any consent or other action or any calculation of Outstanding Bonds provided in the Indenture, and will not be entitled to consent to or take any other action provided therein.

Endorsement or Replacement of Bonds After Amendment. After the effective date of any action taken as described in the Indenture, the Authority may determine that the Bonds may bear a notation by endorsement in form approved by the Authority as to such action, and in that case upon demand of the Owner of any Outstanding Bond and presentation of its Bond for such purpose at the Corporate Trust Office of the Trustee, a suitable notation as to such action will be made on such Bond. If the Authority will determine that a Bond will bear such a notation by endorsement pursuant to the Indenture, a new Bond so modified will be prepared and executed, and upon demand of the Owner of any Outstanding Bond, such new Bond will be exchanged at the Corporate Trust Office of the Trustee without cost to such Owner upon surrender of such Bond.

Amendment by Mutual Consent. The provisions of the Indenture will not prevent any Owner from accepting any amendment as to the particular Bonds owned by him, provided that due notation thereof is made on such Bonds.

Events of Default and Remedies of Holders

Events of Default and Acceleration of Maturities.

- (a) The following events will constitute events of default under the Indenture:
- (i) failure in the due and punctual payment of the interest on the Bonds when and as the same will become due and payable;
 - (ii) failure in the due and punctual payment of the principal of the Bonds when and as the same will become due and payable, whether at maturity as therein expressed or by proceedings for redemption;
 - (iii) failure by the Authority in the performance of any of the other agreements or covenants required in the Indenture to be performed by the Authority, as set forth in the Indenture, and such default will have continued for a period of 30 days after the Authority and the City will have been given notice in writing of such default by the Trustee or to the Authority, the City and the Trustee by Owners of 25% or more of the aggregate principal amount of the Bonds then Outstanding; or
 - (iv) if any event of default will have occurred and be continuing under Section 8.01 of the Agreement; or
 - (v) if the Authority will file a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction will assume custody or control of the Authority or of the whole or any substantial part of its property.
- (b) If one or more Events of Default will occur, then and in each and every such case during the continuance of such Event of Default, the Trustee may by notice in writing to the Authority and the City, declare the principal of all Bonds then Outstanding and the interest accrued thereon to be due and payable immediately. Upon any such declaration, the same will become due and payable, anything contained in the Indenture or in the Bonds to the contrary notwithstanding. These provisions are subject to the condition that if at any time after the entire principal amount of the unpaid Bonds and the accrued interest thereon will have been so declared due and payable and before any judgment or decree for the payment of the moneys due will have been obtained or entered, there will be deposited with the Trustee a sum sufficient to pay the unpaid principal amount of the Bonds due prior to such declaration and the accrued interest thereon, with interest on such overdue installments at the rate or rates applicable thereto in accordance with their terms, and the reasonable fees and expenses of the Trustee, and any and all other defaults known to the Trustee (other than in the payment the entire principal amount of the unpaid Bonds and the accrued interest thereon due and payable solely by reason of such declaration) will have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate will have been made therefor, then and in every such case the Trustee, by written notice to the City and the Authority, may rescind and annul such declaration and its consequences; but no such rescission and annulment will extend to or will affect any subsequent default or will impair or exhaust any right or power consequent thereon.

Proceedings by Trustee. Upon the occurrence and continuance of any Event of Default, the Trustee in its discretion may, and at the written request of Owners of 51% or more in aggregate principal amount of Bonds Outstanding will (but only to the extent indemnified to its satisfaction from fees and expenses, including attorneys' fees), do the following:

(a) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Owners and require the Authority to enforce all rights of the Owners of the Bonds, including the right to require the Authority to receive and collect Revenues and to enforce its rights under the Agreement and to require the Authority to carry out any other covenant or agreement with Owners of Bonds and to perform its duties under the Indenture;

(b) bring suit upon the Bonds;

(c) by action or suit in equity enjoin any acts or things that may be unlawful or in violation of the rights of the Owners; and

(d) as a matter of right, have receivers appointed for the Revenues and the issues, earnings, income, products and profits thereof, pending such proceedings, with such powers as the court making such appointment will confer.

Effect of Discontinuance or Abandonment. In case any proceeding taken by the Trustee on account of any default or Event of Default will have been discontinued or abandoned for any reason, or will have been determined adversely to the Trustee, then and in every such case, the Authority, the Trustee and the Owners will be restored to their former positions and rights under the Indenture, respectively, and all rights, remedies and powers of the Trustee will continue as though no such proceeding had been taken.

Rights of Owners.

(a) Anything in the Indenture to the contrary notwithstanding and subject to the limitations and restrictions as to the rights of the Owners in the Indenture, upon the occurrence and continuance of any Event of Default or the Owners of 51% or more in aggregate principal amount of the Bonds then Outstanding will have the right upon providing the Trustee security and indemnity reasonably satisfactory to it against the costs, expenses, and liabilities to be incurred therein or thereby, by an instrument in writing executed and delivered to the Trustee, to direct the method and place of conducting all remedial proceedings to be taken by the Trustee under the Indenture.

(b) The Trustee may refuse to follow any direction that conflicts with law or the Indenture or that the Trustee determines is prejudicial to rights of other Owners or would subject the Trustee to personal liability.

Restrictions on Owners' Actions.

(a) In addition to the other restrictions on the rights of Owners to request action upon the occurrence of an Event of Default and to enforce remedies set forth in the Indenture, no Owner of any of the Bonds will have any right to institute any suit, action or proceeding in equity or at law for the enforcement of any trust under the Indenture, or any other remedy under the Indenture or on said Bonds, unless:

(i) such Owner previously will have given to the Trustee written notice of an Event of Default as provided in the Indenture; and

(ii) the Owners of 51% or more in aggregate principal amount of the Bonds then Outstanding will have made written request of the Trustee to institute any such suit, action, proceeding or other remedy, after the right to exercise such powers or rights of action, as the case may be, will have

accrued, and will have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers granted in the Indenture, or to institute such action, suit or proceeding in its or their name; and

(iii) there will have been offered to the Trustee security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby; and

(iv) the Trustee will not have complied with such request within a reasonable time.

(b) Such notification, request and offer of indemnity are declared in every such case, at the option of the Trustee, to be conditions precedent to the execution of the trusts of the Indenture or for any other remedy under the Indenture. It is understood and intended, subject to the Indenture, that no one or more Owners of the Bonds secured by the Indenture will have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Indenture, or to enforce any right under the Indenture or under the Bonds, except in the manner therein provided, and that all proceedings at law or in equity will be instituted, and maintained in the manner therein provided, and for the equal benefit of all Owners of Outstanding Bonds.

Power of Trustee to Enforce. All rights of action under the Indenture or under any of the Bonds secured by the Indenture which are enforceable by the Trustee may be enforced by it without the possession of any of the Bonds, or the production thereof at the trial or other proceedings relative thereto. Any such suit, action or proceedings instituted by the Trustee will be brought in its own name, as Trustee, for the equal and ratable benefit of the Owners of the Bonds, subject to the provisions of the Indenture.

Remedies Not Exclusive. No remedy in the Indenture conferred upon or reserved to the Trustee or to the Owners of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy will be cumulative, and will be in addition to every other remedy given under the Indenture or now or hereafter existing at law or in equity or by statute.

Waiver of Events of Default; Effect of Waiver.

(a) The Trustee will waive any Event of Default under the Indenture and its consequences and rescind any declaration of acceleration, upon the written request of the Owners of 67% or more of the Outstanding Bonds. If any Event of Default will have been waived as provided in the Indenture, the Trustee will promptly give written notice of such waiver to the Authority and will give notice thereof by first class mail, postage prepaid to all Owners of Outstanding Bonds if such Owners had previously been given notices of such Event of Default. No such waiver, rescission and annulment will extend to or affect any subsequent Event of Default, or impair any right or remedy consequent thereon.

(b) No delay or omission of the Trustee or any Owner of the Bonds to exercise any right or power accruing upon any default or Event of Default will impair any such right or power or will be construed to be a waiver of any such default or Event of Default or an acquiescence therein. Every power and remedy given by the Indenture to the Trustee or the Owners of the Bonds, respectively may be exercised from time to time and as often as may be deemed expedient.

Application of Moneys.

(a) Any moneys received by the Trustee pursuant to the Indenture, together with any moneys that upon the occurrence of an Event of Default are held by the Trustee in any of the funds and accounts established under the Indenture (other than the Rebate Fund and other than moneys held for Bonds not presented for payment) will, after payment of all fees and expenses of the Trustee, and the fees and expenses of its counsel, be applied as follows:

(i) Unless the principal of all of the Outstanding Bonds will be due and payable:

(A) First – To the payment of the Owners of all installments of interest then due on the Bonds, in the order of the maturity of the installments of such interest and, if the amount available will not be sufficient to pay in full any particular installment, then to the payment ratably, according to the amounts due on such installment, to the Owners, without any discrimination or privilege;

(B) Second – To the payment of the Owners of the unpaid principal of any of the Bonds that will have become due (other than Bonds matured or called for redemption for the payment of which moneys are held pursuant to the provisions of the Indenture), in the order of their due dates and, if the amount available will not be sufficient to pay in full the principal of and premium, if any, on such Bonds due on any particular date, then to the payment ratably, according to the amount due on such date, to the Owners without any discrimination; and

(C) Third – To be held for the payment to the Owners as the same will become due of the principal of and interest on the Bonds, that may thereafter become due either at maturity or upon call for redemption prior to maturity and, if the amount available will not be sufficient to pay in full such principal and premium, if any, due on any particular date, together with interest then due and owing thereon, payment will be made in accordance with the Indenture.

(ii) If the principal of all of the Outstanding Bonds will be due and payable, to the payment of the principal and interest then due and unpaid upon the Outstanding Bonds without preference or priority of any of principal, or interest over the others or of any installment of interest, or of any Outstanding Bond over any other Outstanding Bond, ratably, according to the amounts due respectively for principal and interest, to the Owners without any discrimination or preference except as to any difference in the respective amounts of interest specified in the Outstanding Bonds.

(b) Whenever moneys are to be applied pursuant to the provisions of the Indenture, such moneys will be applied at such times, and from time to time, as the Trustee will determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. The Trustee will give, by mailing by first-class mail as it may deem appropriate, such notice of the deposit with it of any such moneys.

Defeasance

If the Authority will pay or cause to be paid to the Owners of all Outstanding Bonds the interest thereon and the principal thereof and the premiums, if any, thereon at the times and in the manner stipulated therein and in the Indenture, then the Owners of such Bonds will cease to be entitled to the pledge of the Revenues as provided in the Indenture, and all agreements, covenants and other obligations of the Authority to the Owners of such Bonds will cease, terminate and become void and be discharged and satisfied. In such event, the Trustee will execute and deliver to the Authority all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee will pay over or deliver to the Authority all money or securities or other property held by it pursuant to the Indenture that are not required for the payment of the interest on and principal of and redemption premiums, if any, on such Bonds.

Subject to the provisions of the above paragraph, when any of the Bonds will have been paid and if, at the time of such payment, the Authority will have kept, performed and observed all the covenants and promises in such Bonds and in the Indenture required or contemplated to be kept, performed and observed by the Authority or on its part on or prior to that time, then the Indenture will be considered to have been discharged in respect of such Bonds and such Bonds will cease to be entitled to the lien of the

Indenture and such lien and all agreements, covenants, and other obligations of the Authority therein will cease, terminate and become void and be discharged and satisfied as to such Bonds.

Notwithstanding the satisfaction and discharge of the Indenture or the discharge of the Indenture in respect of any Bonds, those provisions of the Indenture relating to the maturity of the Bonds, interest payments and dates thereof, exchange and transfer of Bonds, replacement of mutilated, destroyed, lost or stolen Bonds, the safekeeping and cancellation of Bonds, nonpresentation of Bonds, and the duties of the Trustee in connection with all of the foregoing, remain in effect and will be binding upon the Trustee and the Owners of the Bonds and the Trustee will continue to be obligated to hold in trust any moneys or investments then held by the Trustee for the payment of the principal of, redemption premium, if any, and interest on the Bonds, to pay to the Owners of Bonds the funds so held by the Trustee as and when such payment becomes due. Notwithstanding the satisfaction and discharge of the Indenture or the discharge thereof in respect of any Bonds, those provisions of the Indenture relating to the compensation of the Trustee will remain in effect and will be binding upon the Trustee and the Authority.

Any Outstanding Bonds will prior to the maturity date or redemption date thereof be deemed to have been paid for purposes of the Indenture if: (i) in case any of such Bonds are to be redeemed on any date prior to their maturity date, the Authority will have given to the Trustee in form satisfactory to it irrevocable instructions to mail, on a date in accordance with the provisions of the Indenture, notice of redemption of such Bonds on said redemption date, said notice to be given in accordance with the Indenture; (ii) there will have been deposited with the Trustee either (A) money in an amount which will be sufficient; or (B) Federal Securities of which are not subject to redemption prior to maturity except by the holder thereof (including any such Permitted Investments issued or held in book-entry form on the books of the Department of the Treasury of the United States of America) and/or Pre-Refunded Municipals, the interest on and principal of which when due, and without any reinvestment thereof, will provide money that, together with the money, if any, deposited with the Trustee at the same time, will, as verified by an independent certified public accountant or other independent financial consultant acceptable to the Trustee, be sufficient, to pay when due the interest to become due on such Bonds on and prior to the maturity date or redemption date thereof, as the case may be, and the principal of and interest on such Bonds; and; (iii) in the event such Bonds are not by their terms subject to redemption within the next succeeding 60 days, the Authority will have given the Trustee in form satisfactory to it irrevocable instructions to mail as soon as practicable, a notice to the Owners of such Bonds and to the Securities Depositories and the Information Services that the deposit required by clause (ii) above has been made with the Trustee and that such Bonds are deemed to have been paid in accordance with the indenture and stating the maturity date or redemption date upon which money is to be available for the payment of the principal of and interest on such Bonds.

INSTALLMENT PURCHASE AGREEMENT

The Installment Purchase Agreement sets forth certain terms and conditions of the purchase of the Project by the City. Certain definitions under the provisions of the Installment Purchase Agreement are given and summarized below. Other provisions are summarized in the Official Statement under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2009A BONDS."

Selected Definitions

Accountant's Report

The term "Accountant's Report" means a report signed by an Independent Certified Public Accountant.

Acquisition Fund

The term “Acquisition Fund” means the fund by that name established pursuant to any Issuing Instrument.

Authority

The term “Authority” means the Public Facilities Financing Authority of the City of San Diego, a joint powers authority duly organized and existing under and by virtue of the laws of the State of California.

Authorized City Representative

The term “Authorized City Representative” means the Mayor, the City Manager or the Treasurer of the City or such other officer or employee of the City or other person who has been designated as such representative by resolution of the City Council of the City.

Authorizing Ordinance

The term “Authorizing Ordinance” means the ordinance pursuant to which the Installment Purchase Agreement was authorized and any additional Ordinance or official authorizing act of the Council of the City approving execution and delivery of any Supplement to the Installment Purchase Agreement or any Issuing Instrument.

Balloon Indebtedness

The term “Balloon Indebtedness” means, with respect to any Series of Obligations twenty-five percent (25%) or more of the principal of which matures on the same date or within a 12-month period (with sinking fund payments on Term Obligations deemed to be payments of matured principal), that portion of such Series of Obligations which matures on such date or within such 12-month period; provided, however, that to constitute Balloon Indebtedness the amount of indebtedness maturing on a single date or over a 12-month period must equal or exceed 150% of the amount of such Series Obligations which matures during any preceding 12-month period. For purposes of this definition, the principal amount maturing on any date shall be reduced by the amount of such indebtedness which is required, by the documents governing such indebtedness, to be amortized by prepayment or redemption prior to its stated maturity date.

Bond Counsel

The term “Bond Counsel” means a firm of attorneys which are nationally recognized as experts in the area of municipal finance.

Charter

The term “Charter” means the Charter of the City as it now exists or may hereafter be amended, and any new or successor Charter.

City

The term “City” means the City of San Diego, a municipal authority organized and existing under the Charter, and any successor to the City as a result of a transfer authorized under the Installment Purchase Agreement.

Code

The term “Code” means the Internal Revenue Code of 1986, and the regulations thereunder, as amended, and any successor provisions of law.

Components

The term “Components” means components of the Project specified in a Supplement.

Consultant

The term “Consultant” means the consultant, consulting firm, engineer, architect, engineering firm, architectural firm, accountant or accounting firm retained by the City to perform acts or carry out the duties provided for such consultant in the Installment Purchase Agreement. Such consultant, consulting firm, engineer, architect, engineering firm or architectural firm shall be nationally recognized within its profession for work of the character required. Such accountants or accounting firm shall be independent certified public accountants licensed to practice in the State of California.

Contracts

The term “Contracts” means any contract or lease of the City (including the Installment Purchase Agreement) authorized and executed by the City, the installment or lease payments of which are payable from the Net System Revenues and which are on a parity with Installment Payments.

Credit Provider

The term “Credit Provider” means any municipal bond insurance company, bank or other financial institution or organization which is performing in all material respects its obligations under any Credit Support arrangements for some or all of the Parity Obligations.

Credit Provider Reimbursement Obligations

The term “Credit Provider Reimbursement Obligations” means obligations of the City to repay, from Net System Revenues, amounts advanced by a Credit Provider as credit support or liquidity for Parity Obligations, which obligations shall be Parity Obligations or Subordinated Obligations, as designated by the City.

Credit Support

The term “Credit Support” means a policy of insurance, a letter of credit, a stand-by purchase agreement, revolving credit agreement or other credit arrangement pursuant to which a Credit Provider provides credit or liquidity support with respect to the payment of interest, principal or the purchase price of any Parity Obligations.

Debt Service

Except as otherwise provided in the next sentence, the term “Debt Service” means, for any Fiscal Year, the sum of (1) the interest payable during such Fiscal Year on all outstanding Parity Obligations, assuming that all outstanding Serial Parity Obligations are retired as scheduled and that all outstanding Term Parity Obligations are redeemed or paid from sinking fund payments as scheduled (except to the extent that such interest is to be paid from the proceeds of sale of any Parity Obligations), (2) that portion of the principal amount of all outstanding Serial Parity Obligations maturing on the next succeeding principal payment date which falls in such Fiscal Year (excluding Serial Obligations which at the time of issuance are intended to be paid from the sale of a corresponding amount of Parity Obligations), (3) that portion of the principal amount of all outstanding Term Parity Obligations required to be redeemed or paid on any redemption date which falls in such Fiscal Year (together with the redemption premiums, if any, thereon); provided that, (1) as to any Balloon Indebtedness, Tender Indebtedness and Variable Rate Indebtedness, interest thereon shall be calculated as provided in the definition of Maximum Annual Debt Service and principal shall be deemed due at the nominal maturity dates thereof; (2) the amount on deposit in a debt service reserve fund on any date of calculation of Debt Service shall be deducted from the amount of principal due at the final maturity of the Parity Obligations for which such debt service reserve fund was established and in each preceding year until such amount is exhausted; (3) the amount of any interest payable on any Parity Obligation for which there exists a Qualified Swap Agreement shall be the net amount payable by the City as provided in paragraph (iv) or paragraph (viii), as applicable, of the definition of Maximum Annual Debt Service; and (4) the amount of payments on account of Parity Obligations which are redeemed, retired or repaid on the basis of the accreted value due on the scheduled redemption, retirement or repayment date shall be deemed principal payments, and interest that is compounded and paid as part of the accreted value shall be deemed payable on the scheduled redemption, retirement or repayment date but not before.

Defaulted Obligations

The term “Defaulted Obligations” means Obligations in respect of which an Event of Default has occurred and is continuing.

District

The term “District” shall mean the San Diego Wastewater Management District created under Chapter 803 of 1992 Session Laws.

Engineer’s Report

The term “Engineer’s Report” means a report signed by an Independent Engineer.

Event of Default

The term “Event of Default” means an event described in the Installment Purchase Agreement, as described below.

Fiscal Year

The term “Fiscal Year” means the period beginning on July 1 of each year and ending on the next succeeding June 30, or any other twelve-month period selected and designated as the official Fiscal Year of the City.

Independent Certified Public Accountant

The term “Independent Certified Public Accountant” means any firm of certified public accountants appointed by the City, and each of whom is independent pursuant to the Statement on Auditing Standards No. 1 of the American Institute of Certified Public Accountants.

Independent Engineer

The term “Independent Engineer” means any registered engineer or firm of registered engineers of national reputation generally recognized to be well qualified in engineering matters relating to wastewater systems, appointed and paid by the City.

Installment Payment Date

The term “Installment Payment Date” means any date on which an Installment Payment is due as specified in or determined pursuant to a Supplement.

Installment Payments

The term “Installment Payments” means the Installment Payments scheduled to be paid by the City under and pursuant to the Installment Purchase Agreement and any Supplement.

Installment Payment Obligations

The term “Installment Payment Obligations” means Obligations consisting of or which are supported in whole by Installment Payments.

Issuing Instrument

The term “Issuing Instrument” shall mean any indenture, trust agreement, loan agreement, lease Installment Purchase Agreement or other instrument, including any Supplement, under which Obligations are issued or created.

Law

The term “Law” means the Charter and all laws of the State supplemental thereto.

Maintenance and Operation Costs of the Metropolitan System

The term “Maintenance and Operation Costs of the Metropolitan System” means (a) a Qualified Take or Pay Obligation related to the Metropolitan System and (b) reasonable and necessary costs spent or incurred by the City for maintaining and operating the Metropolitan System, calculated in accordance with generally accepted accounting principles, including (among other things) the reasonable expenses of management and repair and other expenses necessary to maintain and preserve the Metropolitan System in good repair and working order, and including administrative costs of the City attributable to the Components which are part of the Metropolitan System, salaries and wages of employees, payments to employees retirement systems (to the extent paid from Metropolitan System Revenues), overhead, taxes (if any), fees of auditors, accountants, attorneys or engineers and insurance premiums, and including all other reasonable and necessary costs of the City or charges required to be paid by it to comply with the terms of the Obligations the proceeds of which are used to acquire Components which are part of the Metropolitan System, including any amounts required to be deposited in the Rebate Fund pursuant to the Tax Certificate relating to the financing of Components which are part of the Metropolitan System, fees and expenses payable to any Credit Provider (other than in repayment of a Credit Provider Reimbursement Obligation), and including expenses incurred or accrued incident to the formation of an entity to which the City may transfer substantially all of the Metropolitan System pursuant to the Installment Purchase Agreement, but excluding in all cases (i) depreciation, replacement and obsolescence charges or reserves therefor, (ii) amortization of intangibles or other bookkeeping entries of a similar nature, (iii) costs of capital additions, replacements, betterments, extensions or improvements to the Metropolitan System, which under generally accepted accounting principles are chargeable to a capital account or to a reserve for depreciation, (iv) charges for the payment of principal and interest on any general obligation bond heretofore or hereafter issued for Metropolitan System purposes, and (v) charges for the payment of principal and interest on account of any Obligation.

Maintenance and Operation Costs of the Municipal System

The term “Maintenance and Operation Costs of the Municipal System” means (a) a Qualified Take or Pay Obligation related to the Municipal System and (b) the reasonable and necessary costs spent or incurred by the City for maintaining and operating the Municipal System, calculated in accordance with generally accepted accounting principles, including (among other things) the reasonable expenses of management and repair and other expenses necessary to maintain and preserve the Municipal System in good repair and working order, and including administrative costs of the City attributable to the Components which are part of the Municipal System, salaries and wages of employees, payments to employees retirement systems (to the extent paid from Municipal System Revenues), overhead, taxes (if any), fees of auditors, accountants, attorneys or engineers and insurance premiums, and including all other reasonable and necessary costs of the City or charges required to be paid by it to comply with the terms of the Obligations the proceeds of which are used to acquire Components which are part of the Municipal System, including any amounts required to be deposited in the Rebate Fund pursuant to the Tax Certificate relating to the financing of Components which are part of the Municipal System, fees and expenses payable to any Credit Provider (other than in repayment of a Credit Provider Reimbursement Obligation), but excluding in all cases (i) depreciation, replacement and obsolescence charges or reserves therefor, (ii) amortization of intangibles or other bookkeeping entries of a similar nature, (iii) costs of capital additions, replacements, betterments, extensions or improvements to the Municipal System, which under generally accepted accounting principles are chargeable to a capital account or to a reserve for depreciation, (iv) charges for the payment of principal and interest on any general obligation bond heretofore or hereafter issued for Municipal System purposes, and (v) charges for the payment of principal and interest on account of any Obligation.

Maintenance and Operation Costs of the Wastewater System

The term “Maintenance and Operation Costs of the Wastewater System” means (a) a Qualified Take or Pay Obligation and (b) the reasonable and necessary costs spent or incurred by the City for maintaining and operating the Wastewater System, calculated in accordance with generally accepted accounting principles, including (among other things) the reasonable expenses of management and repair and other expenses necessary to maintain and preserve the Wastewater System in good repair and working order, and including administrative costs of the City attributable to the Project and the Installment Purchase Agreement, salaries and wages of employees, payments to employees retirement systems (to the extent paid from System Revenues), overhead, taxes (if any), fees of auditors, accountants, attorneys or engineers and insurance premiums, and including all other reasonable and necessary costs of the City or charges required to be paid by it to comply with the terms of the Obligations, including the Installment Purchase Agreement, including any amounts required to be deposited in the Rebate Fund pursuant to the Tax Certificate, fees and expenses payable to any Credit Provider (other than in repayment of a Credit Provider Reimbursement Obligation), and expenses incurred or accrued incident to the formation of an entity to which the City may transfer substantially all of the Metropolitan System pursuant to the Installment Purchase Agreement, but excluding in all cases (i) depreciation, replacement and obsolescence charges or reserves therefor, (ii) amortization of intangibles or other bookkeeping entries of a similar nature, (iii) costs of capital additions, replacements, betterments, extensions or improvements to the Wastewater System which under generally accepted accounting principles are chargeable to a capital account or to a reserve for depreciation, (iv) charges for the payment of principal and interest on any general obligation bond heretofore or hereafter issued for Wastewater System purposes, and (v) charges for the payment of principal and interest on any debt service on account of any obligation on a parity with or subordinate to the Installment Payments.

Maximum Annual Debt Service

The term “Maximum Annual Debt Service” means, at any point in time, with respect to Parity Obligations then Outstanding, the maximum amount of principal and interest becoming due on the Parity Obligations in the then current or any future Fiscal Year, calculated by the City or by an Independent Certified Public Accountant as provided in this definition and provided to the Trustee. For purposes of calculating Maximum Annual Debt Service, the following assumptions shall be used to calculate the principal and interest becoming due in any Fiscal Year:

i) in determining the principal amount due in each year, payments shall (except to the extent a different subsection of this definition applies for purposes of determining principal maturities or amortization) be assumed to be made in accordance with any amortization schedule established for such debt, including the amount of any Parity Obligations which are or have the characteristics of commercial paper and which are not intended at the time of issuance to be retired from the sale of a corresponding amount of Parity Obligations, and including any scheduled mandatory redemption or prepayment of Parity Obligations on the basis of accreted value due upon such redemption or prepayment, and for such purpose, the redemption payment or prepayment shall be deemed a principal payment; in determining the interest due in each year, interest payable at a fixed rate shall (except to the extent subsection (ii) or (iii) of this definition applies) be assumed to be made at such fixed rate and on the required payment dates;

ii) if all or any portion or portions of an Outstanding Series of Parity Obligations constitutes Balloon Indebtedness or if all or any portion or portions of a Series of Parity Obligations or such payments then proposed to be issued would constitute Balloon Indebtedness, then, for purposes of determining Maximum Annual Debt Service, each maturity which

constitutes Balloon Indebtedness shall be treated as if it were to be amortized in substantially equal annual installments of principal and interest over a term of 25 years commencing in the year the stated maturity of such Balloon Indebtedness occurs, the interest rate used for such computation shall be determined as provided in (iv) or (v) below, as appropriate, and all payments of principal and interest becoming due prior to the year of the stated maturity of the Balloon Indebtedness shall be treated as described in (i) above;

iii) if any of the Outstanding Series of Parity Obligations constitutes Tender Indebtedness or if Parity Obligations proposed to be issued would constitute Tender Indebtedness, then for purposes of determining Maximum Annual Debt Service, Tender Indebtedness shall be treated as if the principal amount of such Parity Obligations were to be amortized in accordance with the amortization schedule set forth in such Tender Indebtedness or in the standby purchase or liquidity facility established with respect to such Tender Indebtedness, or if no such amortization schedule is set forth, then such Tender Indebtedness shall be deemed to be amortized in substantially equal annual installments of principal and interest over a term of 25 years commencing in the year in which such Series first subject to tender, the interest rate used for such computation shall be determined as provided in (iv) or (v) below, as appropriate;

iv) if any Outstanding Parity Obligations constitute Variable Rate Indebtedness (except to the extent paragraph (ii) relating to Balloon Indebtedness or paragraph (iii) relating to Tender Indebtedness applies), the interest rate on such Obligation shall be assumed to be 110% of the daily average interest rate on such Parity Obligations during the 12 months ending with the month preceding the date of calculation, or such shorter period that such Parity Obligations shall have been Outstanding; provided that in the event that such Variable Rate Indebtedness has been issued in connection with a Qualified Swap Agreement, the interest rate for purposes of computing Maximum Annual Debt Service shall be determined by (x) calculating the annualized net amount paid by the City under such Variable Rate Indebtedness and Qualified Swap Agreement (after giving effect to payments made under the Variable Rate Indebtedness and made and received by the City under the Qualified Swap Agreement) during the 12 months ending with the month preceding the date of calculation, or such shorter period that such Qualified Swap Agreement has been in effect, and (y) dividing the amount calculated in clause (x) by the average daily balance of the related Parity Obligations Outstanding during the 12-month period contemplated by clause (x);

v) if Parity Obligations proposed to be issued will be Variable Rate Indebtedness (except to the extent subsection (ii) relating to Balloon Indebtedness or subsection (iii) relating to Tender Indebtedness applies), then such Parity Obligations shall be assumed to bear interest at 110% of the average of the J.J. Kenny High Grade Index during the prior 12 months ending with the month preceding the date of sale of such additional Parity Obligations, or if that index is no longer published, another similar index selected by the City, or if the City fails to select a replacement index, an interest rate equal to 80% of the yield for outstanding United States Treasury bonds having an equivalent maturity, or if there are no such Treasury bonds having such maturities, 100% of the lowest prevailing prime rate of any of the five largest commercial banks in the United States ranked by assets; provided that in the event that such Variable Rate Indebtedness will be issued in connection with a Qualified Swap Agreement, the interest rate for purposes of computing Maximum Annual Debt Service shall be determined by (a) calculating the net amount to be paid by the City under such Variable Rate Indebtedness and Qualified Swap Agreement after giving effect to payments to be made under the Variable Rate Indebtedness and to be made and received by the City under the Qualified Swap Agreement) for the period during which the Qualified Swap Agreement is to be in effect and for this purpose any variable rate of interest agreed to be paid thereunder shall be deemed to be the rate at which the related Parity

Obligation shall be assumed to bear interest, and (b) dividing the amount calculated in clause (a) by the average principal amount of the related Parity Obligation to be Outstanding during the first year after the issuance of such Parity Obligation;

vi) if moneys or Permitted Investments have been deposited by the City into a separate fund or account or are otherwise held by the City or by a fiduciary to be used to pay principal and/or interest on specified Parity Obligations, then the principal and/or interest to be paid from such moneys, Permitted Investments or from the earnings thereon shall be disregarded and not included in calculating Maximum Annual Debt Service;

vii) if Parity Obligations are Paired Obligations, the interest thereon shall be the resulting linked rate or effective fixed rate to be paid with respect to such Paired Obligations; and

viii) in the event that an agreement or commitment which, at the time of calculation is a Qualified Swap Agreement is or is to be in effect with respect to a Parity Obligation which is not Variable Rate Indebtedness, the interest rate of such Parity Obligation for purposes of calculating Maximum Annual Debt Service shall be calculated as follows:

(a) for such a Qualified Swap Agreement which is in effect on the date of calculation, the interest rate shall be calculated in the same manner as is specified in paragraph (iv) for a Qualified Swap Agreement issued in connection with Variable Rate Indebtedness which is Outstanding on the date of calculation; and

(b) for such a Qualified Swap Agreement which is not in effect on the date of calculation, the interest rate shall be calculated in the same manner as is specified in paragraph (v) for a Qualified Swap Agreement to be issued in connection with Variable Rate Indebtedness to be Outstanding after the date of calculation, and for this purpose any variable rate of interest agreed to be paid thereunder shall be assumed to be the rate assumed for Variable Rate Indebtedness described in paragraph (v).

Maximum Rate

The term “Maximum Rate” means, on any day, the maximum interest rate allowed by law.

Metropolitan System

The term “Metropolitan System” means any and all facilities, properties and improvements designated by the City in its sole discretion as part of the Metropolitan System, and used for the conveyance from the Municipal System and treatment of sewage collected by the City through its Municipal System or by any of the Participating Agencies.

Metropolitan System Revenues

The term “Metropolitan System Revenues” means all income, rents, rates, fees, charges and other moneys derived from the ownership or operation of the Metropolitan System, including, without limiting the generality of the foregoing, (1) all income, rents, rates, fees, charges (including standby and capacity charges), or other moneys derived by the City from the wastewater services, facilities, and commodities or byproducts sold, furnished or supplied through the facilities of or in the conduct or operation of the business of the Metropolitan System, and including, without limitation, investment earnings on the operating reserves to the extent that the use of such earnings is limited to the Metropolitan System by or

pursuant to law, earnings on any Reserve Fund for Obligations the proceeds of which were used to finance improvements which are part of the Metropolitan System, or to fund or refund any such Obligations, but only to the extent that such earnings may be utilized under the Issuing Instrument for the payment of debt service for such Obligations; (2) the proceeds derived by the City directly or indirectly from the sale, lease or other disposition of a part of the Metropolitan System; (3) any amount received from the levy or collection of taxes which are solely available and are earmarked for the support of the operation of the Metropolitan System; (4) amounts received under contracts or agreements with governmental or private entities and designated for capital costs for Components which are to be part of the Metropolitan System; and (5) grants received from the United States of America or from the State of California for Components which are to be part of the Metropolitan System; provided, however, that Metropolitan System Revenues shall not include: (a) in all cases, customers' deposits or any other deposits or advances subject to refund until such deposits or advances have become the property of the City; and (b) the proceeds of borrowings. Notwithstanding the foregoing, there shall be deducted from Metropolitan System Revenues any amounts transferred into a Rate Stabilization Fund as contemplated by the Installment Purchase Agreement, and there shall be added to Metropolitan System Revenues any amounts transferred out of such Rate Stabilization Fund to pay Maintenance and Operation Costs of the Metropolitan System.

Moody's

The term "Moody's" means Moody's Investors Service, Inc., a Delaware corporation, and its successors, and if such corporation shall for any reason no longer perform the functions of a securities rating agency, "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency designated by the City.

Municipal System

The term "Municipal System" means any and all facilities, properties and improvements at any time owned, controlled or operated by the City, and designated by the City in its sole discretion as part of the Municipal System, for the collection of sewage from the points of origination thereof and the conveyance thereof to the Metropolitan System.

Municipal System Revenues

The term "Municipal System Revenues" means all income, rents, rates, fees, charges and other moneys derived from the ownership or operation of the Municipal System, including, without limiting the generality of the foregoing, (1) all income, rents, rates, fees, charges (including standby and capacity charges), or other moneys derived by the City from the wastewater services, facilities, and commodities or byproducts sold, furnished or supplied through the facilities of or in the conduct or operation of the business of the Municipal System, and including, without limitation, investment earnings on the operating reserves to the extent that the use of such earnings is limited to the Municipal System by or pursuant to law, earnings on any Reserve Fund for Obligations the proceeds of which were used to finance improvements which are part of the Municipal System, or to fund or refund any such Obligations, but only to the extent that such earnings may be utilized under the Issuing Instrument for debt service for such Obligations; (2) the proceeds derived by the City directly or indirectly from the sale, lease or other disposition of a part of the Municipal System; (3) any amount received from the levy or collection of taxes which are solely available and are earmarked for the support of the operation of the Municipal System; (4) amounts received under contracts or agreements with governmental or private entities and designated for capital costs for Components which are to be part of the Municipal System; and (5) grants

received from the United States of America or from the State of California for Components which are to be part of the Municipal System; provided, however, that Municipal System Revenues shall not include: (a) in all cases, customers' deposits or any other deposits or advances subject to refund until such deposits or advances have become the property of the City; and (b) the proceeds of borrowings. Notwithstanding the foregoing, there shall be deducted from Municipal System Revenues any amounts transferred into a Rate Stabilization Fund as contemplated by the Installment Purchase Agreement, and there shall be added to Municipal System Revenues any amounts transferred out of such Rate Stabilization Fund to pay Maintenance and Operation Costs of the Municipal System.

Net Proceeds

The term "Net Proceeds" means, when used with respect to any insurance, self insurance or condemnation award, the proceeds from such award remaining after payment of all expenses (including attorneys' fees) incurred in the collection of such proceeds.

Net Metropolitan System Revenues

The term "Net Metropolitan System Revenues" means, for any Fiscal Year, the Metropolitan System Revenues for such Fiscal Year less the Maintenance and Operation Costs of the Metropolitan System for such Fiscal Year.

Net Municipal System Revenues

The term "Net Municipal System Revenues" means, for any Fiscal Year, the Municipal System Revenues for such Fiscal Year less the Maintenance and Operation Costs of the Municipal System for such Fiscal Year.

Net System Revenues

The term "Net System Revenues" means, for any Fiscal Year, the System Revenues for such Fiscal Year less the Maintenance and Operation Costs of the Wastewater System for such Fiscal Year.

Obligations

The term "Obligations" means (i) obligations of the City for money borrowed (such as bonds, notes or other evidences of indebtedness) or as installment purchase payments under any contract (including Installment Payments), or as lease payments under any financing lease (determined to be such in accordance with generally accepted accounting principles), the principal and interest on which are payable from Net System Revenues; (ii) obligations to replenish any debt service reserve funds with respect to such obligations of the City; (iii) obligations secured by or payable from any of such obligations of the City; and (iv) obligations of the City payable from Net System Revenues under (a) any contract providing for payments based on levels of, or changes in, interest rates, currency exchange rates, stock or other indices, (b) any contract to exchange cash flows or a series of payments or (c) any contract to hedge payment, currency, rate spread or similar exposure, including but not limited to interest rate swap agreements and interest rate cap agreements.

Outstanding

The term “Outstanding,” when used as of any particular time with respect to Obligations, means all Obligations theretofore or thereupon executed, authenticated and delivered by the City or any trustee or other fiduciary, except (i) Obligations theretofore cancelled or surrendered for cancellation; (ii) Obligations paid or deemed to be paid within the meaning of any defeasance provisions thereof; (iii) Obligations owned by the City or the Authority; (iv) Obligations in lieu of or in substitution for which other Obligations have been executed and delivered; and (v) Obligations assumed by the District or other successor in accordance with the Installment Purchase Agreement.

Owner

The term “Owner” means any person who shall be the registered owner of any outstanding Obligation certificate or other evidence of a right to receive Installment Payments directly or as security for payment of the Obligation.

Paired Obligations

The term “Paired Obligations” shall mean any Series (or portion thereof) of Parity Obligations designated as Paired Obligations in a Supplement or related Issuing Instrument or other document authorizing the issuance or incurrence thereof, which are simultaneously issued or incurred (i) the principal of which is of equal amount maturing and to be redeemed (or cancelled after acquisition thereof) on the same dates and in the same amounts, and (ii) the interest rates which, taken together, result in an irrevocably fixed interest rate obligation of the City for the terms of such Paired Obligations.

Parity Installment Obligation

The term “Parity Installment Obligation” means Obligations consisting of or payable from Installment Payments which are not subordinated in right of payment to other Installment Payments.

Parity Obligations

The term “Parity Obligations” means (i) Parity Installment Obligations, (ii) Obligations the principal and interest of which are payable on a parity with Parity Installment Obligations, (iii) Qualified Take or Pay Obligations and (iv) Qualified Swap Agreements. Notwithstanding the foregoing, any amounts payable with respect to a Qualified Swap Agreement which represent termination payments or unwinding payments shall not be deemed to be Parity Obligations unless (a) such Qualified Swap Agreement expressly states that such termination payments or unwinding payments are to be considered Parity Obligations and (b) each Rating Agency which currently maintains a rating with respect to any Parity Obligation confirms in writing to the City that the inclusion of such termination payments or unwinding payments as Parity Obligations will not result in a downgrading, withdrawal or suspension of such rating.

Participating Agencies

The term “Participating Agencies” shall mean the cities and other agencies providing local sewage collection services within their respective areas and which (a) have entered into contracts with the City pursuant to which the City is providing sewage collection, transportation, treatment or disposal

services or (b) are having such services provided by the District or other successor to the City to which the Metropolitan System has been transferred pursuant to the Installment Purchase Agreement.

Paying Agent or Paying Agents

The term “Paying Agent” or “Paying Agents” means, with respect to an Installment Payment Obligation or Series of Installment Payment Obligations, the bank, trust company or other financial institution, if any, or other entities designated as the place or entity which shall make payment on such Installment Payment Obligation or a Series of Installment Payment Obligations and/or the interest thereon instead of or in addition to the City Treasurer’s office.

Payment Fund

The term “Payment Fund” means the fund designated in the Issuing Instrument as the fund into which Installment Payments are to be deposited for the purposes of paying principal or interest on related Obligations.

Permitted Investments

The term “Permitted Investments” means investments which pursuant to an Issuing Instrument are permissible for the investment of funds received from the sale of Obligations pursuant to the Issuing Document or from other funds held pursuant to the Issuing Document.

Project

The term “Project” means the construction, replacement and improvements to the Wastewater System described in Exhibit A to the Installment Purchase Agreement and as modified with respect to Components in conformance with the Installment Purchase Agreement.

Purchase Price

The term “Purchase Price” means the principal amount plus interest thereon owed by the City to the Authority under the terms hereof as provided in the Installment Purchase Agreement and as specified in a Supplement.

Qualified Swap Agreement

The term “Qualified Swap Agreement” means a contract or agreement, payable from Net System Revenues on a parity with Parity Obligations, intended to place Obligations on the interest rate, currency, cash flow or other basis desired by the City, including, without limitation, any interest rate swap agreement, currency swap agreement, forward payment conversion agreement or futures contract, any contract providing for payments based on levels of, or changes in, interest rates, currency exchange rates, stock or other indices, any contract to exchange cash flows or a series of payments, or any contract, including, without limitation, an interest rate floor or cap, or an option, put or call, to hedge payment, currency, rate, spread or similar exposure, between the City and the counterparty; provided that not less than 30 days prior to the City’s execution of such contract or agreement, each Rating Agency which maintains a rating with respect to any Parity Obligation receives notice in writing of the City’s pending execution thereof; provided further that at the time of origination each Rating Agency which maintains a

rating with respect to any Parity Obligation confirms in writing to the City that the City's execution and delivery of such contract will not result in a downgrading, withdrawal or suspension of such rating; and provided further, that the following requirements shall also be applicable, to the extent they are more restrictive than the foregoing conditions and so long as the Bond Insurer is insuring the payment of principal of and interest on any 1995 Bonds:

1. The provider of such contract or agreement must be rated at least A-/A3 or better by S&P and Moody's (the "Initial Rating Requirement").
2. After satisfaction of the Initial Rating Requirement, the long term indebtedness of such provider or the claims paying ability of such provider shall not fall below Baa2 or BBB by either S&P or Moody's.

Qualified Take or Pay Obligation

The term "Qualified Take or Pay Obligation" means the obligation of the City to make use of any facility, property or services, or some portion of the capacity thereof, or to pay therefor from System Revenues, or both, whether or not such facilities, properties or services are ever made available to the City for use, and there is provided to the City a certificate of an Independent Engineer to the effect that the incurrence of such obligation will not adversely affect the ability of the City to comply with the provisions of the Installment Purchase Agreement.

Rating Agencies

The term "Rating Agencies" means Moody's and S&P, or whichever of them is rating any Parity Obligations or any Subordinated Obligations, as applicable.

Rebate Fund

The term "Rebate Fund" means the fund by that name established pursuant to any Issuing Instrument.

Rebate Requirement

The term "Rebate Requirement" shall have the meaning specified in any Tax Certificate.

Reserve Fund Credit Facility

The term "Reserve Fund Credit Facility" shall mean a letter of credit, line of credit, surety bond, insurance policy or similar facility deposited in a Reserve Fund or Reserve Account in lieu of or in partial substitution for cash or securities on deposit therein.

Reserve Fund and Reserve Account

The terms "Reserve Fund" and "Reserve Account" shall have the meanings given to such terms in any Issuing Instrument or Supplement.

Reserve Requirement

The term “Reserve Requirement” shall have the meaning given to such term in any Issuing Instrument or Supplement.

“S&P”

The term “S&P” means Standard & Poor’s Corporation, a New York corporation, and its successors, and if such corporation shall for any reason no longer perform the functions of a securities rating agency, “S&P” shall be deemed to refer to any other nationally recognized securities rating agency designated by the City.

Serial Parity Obligations

The term “Serial Parity Obligations” means Serial Obligations which are Installment Payments or are payable on a parity with Parity Installment Obligations.

Serial Obligations

The term “Serial Obligations” means Obligations for which no sinking fund payments are provided.

Series

The term “Series” means Obligations issued at the same time or sharing some other, common term or characteristic and designated as a separate Series.

Sewer Revenue Fund

The term “Sewer Revenue Fund” has the meaning ascribed thereto in the Installment Purchase Agreement.

Subordinated Credit Provider

The term “Subordinated Credit Provider” means any municipal bond insurance company, bank or other financial institution or organization which is performing in all material respects its obligations under any Subordinated Credit Support arrangements for some or all of the Subordinated Obligations.

Subordinated Credit Provider Expenses

The term “Subordinated Credit Provider Expenses” means the fees and expenses payable to any Subordinated Credit Provider in connection with the provision of Subordinated Credit Support; provided, that the term “Subordinated Credit Provider Expenses” shall not include any Subordinated Credit Provider Reimbursement Obligations.

Subordinated Credit Provider Reimbursement Obligations

The term “Subordinated Credit Provider Reimbursement Obligations” means obligations of the City to repay, from Net System Revenues, amounts advanced by a Subordinated Credit Provider as credit support or liquidity for Subordinated Obligations, which obligation shall be a Subordinated Obligation.

Subordinated Credit Support

The term “Subordinated Credit Support” means a policy of insurance, a letter of credit, a stand-by purchase agreement, revolving credit agreement or other credit arrangement pursuant to which a Subordinated Credit Provider provides credit or liquidity support with respect to the payment of interest, principal or the purchase price of any Subordinated Obligations.

Subordinated Obligations

The term “Subordinated Obligations” means any Obligation (1) that is designated as a Subordinated Obligation in the Issuing Instrument creating such Obligation, (2) the payment of which is subordinated in right of payment to Parity Obligations and (3) that in the Issuing Instrument creating such Obligation there is an express statement that no Owner of such Obligation shall have any right to take any action or enforce any right that has a materially adverse effect on the interests of the Owners of the Installment Payment Obligations.

Supplement

The term “Supplement” means a Supplement, substantially in the form of Exhibit B to the Installment Purchase Agreement, providing for the payment of specific Installment Payments as the Purchase Price for Components of the Project, executed and delivered by the City and the Authority.

System Revenues

The term “System Revenues” means all income, rents, rates, fees, charges and other moneys derived from the ownership or operation of the Wastewater System, including, without limiting the generality of the foregoing, (i) all income, rents, rates, fees, charges (including standby and capacity charges), or other moneys derived by the City from the wastewater services, facilities, and commodities or byproducts sold, furnished or supplied through the facilities of or in the conduct or operation of the business of the Wastewater System, but including, without limitation, investment earnings on the operating reserves to the extent that the use of such earnings is limited to the Wastewater System by or pursuant to law, earnings on any Reserve Fund for Obligations but only to the extent that such earnings may be utilized under the Issuing Instrument for the payment of debt service for such Obligations; (ii) the proceeds derived by the City directly or indirectly from the lease of a part of the Wastewater System; (iii) any amount received from the levy or collection of taxes which are solely available and are earmarked for the support of the operation of the Wastewater System; (iv) amounts received under contracts or agreements with governmental or private entities and designated for capital costs; and (v) grants received from the United States of America or from the State of California; provided, however, that System Revenues shall not include: (a) in all cases, customers’ deposits or any other deposits or advances subject to refund until such deposits or advances have become the property of the City; and (b) the proceeds of borrowings. Notwithstanding the foregoing, there shall be deducted from System Revenues any amounts transferred, into a Rate Stabilization Fund as contemplated by the Installment

Purchase Agreement, and there shall be added to System Revenues any amounts transferred out of such Rate Stabilization Fund to pay Maintenance and Operation Costs of the Wastewater System.

Tax Certificate

The term “Tax Certificate” shall mean any certificate delivered with respect to the maintenance of the tax-exempt status of Tax-Exempt Installment Payment Obligations.

Tax-Exempt Installment Payment Obligations

The term “Tax-Exempt Installment Payment Obligations” means Installment Payment Obligations in respect of which it is intended that the interest component thereof will be excluded from gross income pursuant to Section 103 of the Code.

Tender Indebtedness

The term “Tender Indebtedness” means any Parity Obligations or portions of Parity Obligations, a feature of which is an option, on the part of the holders thereof, or an obligation, under the terms of such Parity Obligations, to tender all or a portion of such Parity Obligations to the City, a Paying Agent or other fiduciary or agent for payment or purchase and requiring that such Bonds or portions of Bonds or that such rights to payments or portions of payments be purchased if properly presented.

Term Parity Obligations

The term “Term Parity Obligations” means Term Obligations which are Parity Installment Obligations or are payable on a parity with Parity Installment Obligations.

Term Obligations

The term “Term Obligations” means Obligations which are payable on or before their specified maturity dates from sinking fund payments established for that purpose and calculated to retire such Obligations on or before their specified maturity dates.

Trustee

The term “Trustee” means a financial institution acting in its capacity as Trustee under and pursuant to the any Issuing Instrument, and its successors and assigns.

Variable Rate Indebtedness

The term “Variable Rate Indebtedness” means any portion of indebtedness evidenced by Parity Obligations the interest rate on which is not established at the time of incurrence of such indebtedness and has not, at some subsequent date, been established at a rate which is not subject to fluctuation or subsequent adjustment, excluding Paired Obligations.

Wastewater Service

The term “Wastewater Service” means the wastewater collection and treatment services made available or provided by the Wastewater System.

Wastewater System

The term “Wastewater System” means any and all facilities, properties and improvements at any time owned, controlled or operated by the City as part of the Sewer Revenue Fund for the collection, treatment, distribution, administration, disposal or reclamation of waste, including the Municipal System and the Metropolitan System. After any transfer of the Metropolitan System permitted by the Installment Purchase Agreement, the term “Wastewater System” shall mean the Municipal System with respect to the City and the Metropolitan System with respect to the transferee.

General

The Installment Purchase Agreement provides the terms and conditions of the purchase of the Project by the City. Certain provisions of the Installment Purchase Agreement are summarized below. These summaries do not purport to be complete or definitive and are qualified in their entirety by reference to the full terms of the Installment Purchase Agreement.

Acquisition and Construction of the Project. The Authority has agreed to cause the Project to be constructed, acquired and installed by the City, as agent of the Authority. The City will enter into contracts and provide for, as agent of the Authority, the complete construction, acquisition and installment of the Project. The City has agreed that it will cause the construction, acquisition and installation of the Project to be diligently performed. Except to the extent of proceeds of the Obligations which are deposited in the Acquisition Fund, the Authority will be under no liability of any kind or character whatsoever for the payment of any cost of any Components. In the event the proceeds of the Obligations deposited in the Acquisition Fund are insufficient to complete the construction, acquisition and installation of Components, the City will cause to be deposited in the Acquisition Fund (or otherwise appropriate and encumber) from and to the extent of available amounts on deposit in the Sewer Revenue Fund (or other lawfully available moneys) an amount equal to that necessary to complete the construction, acquisition and installation of such Components.

The Authority will not undertake to cause any Component of the Project to be constructed, acquired or installed unless and until the City and the Authority have entered into a Supplement specifying the components of the Project to be installed, the date of completion, the Purchase Price to be paid by the City under the Installment Purchase Agreement for that Component of the Project, and the Installment Payments or the method of calculating Installment Payments.

Changes to the Project. From time to time, the City may modify or amend the description of the Project, to eliminate any part thereof and/or to substitute another Project or Projects, all without obtaining any consent, by filing such modification or amendment with the Authority and the Trustee; provided however, that no such amendment will substitute a Project or Projects which are not to be owned by the Sewer Revenue Fund or will in any way impair the obligations of the City contained in any Supplement executed prior to such amendment. The City may substitute other improvements for those listed as Components in any Supplement, but only if the City first files with the Authority and the Trustee a certificate of an Authorized City Representative: (a) identifying the Components to be substituted and the Components they replace; (b) stating that the substituted Components will be owned by the Sewer Revenue Fund; and (c) stating that with respect to Components financed with Tax-Exempt Installment

Obligations, the estimated costs of construction, acquisition and installation of the substituted improvements are not less than such costs for the improvements previously planned.

Substituted Components may include or consist of an undivided interest in such Components, in which event the costs associated with the substituted Components over and above the undivided interest need not be deposited in the Acquisition Fund (or otherwise appropriated and encumbered); provided that the certificate of an Authorized City Representative specifies that the funds necessary to complete the substituted Components are on deposit in the Acquisition Fund or otherwise appropriated and encumbered.

Installment Payments

Purchase Price. The City will pay the Purchase Price for any Components being purchased as provided in a Supplement. The Purchase Price to be paid by the City to the Authority under any Supplement to the Installment Purchase Agreement, solely from Net System Revenues and from no other sources, is the sum of the principal amount of the City's obligations under any Supplement plus the interest to accrue on the unpaid balance of such principal amount from the effective date and over the term of the Supplement, subject to prepayment provisions as provided therein.

The principal amount of the Installment Payments and the interest accrued thereon to be made by the City under a Supplement will be paid as specified in such Supplement Interest will be payable in an amount not exceeding the Maximum Rate, at such intervals and according to such interest rate formulas as specified a Supplement or by reference to any Issuing Instrument to which such Supplement relates, and will be payable with such frequency as will be specified therein.

Installment Payments. The City may, subject to any rights of prepayment provided in a Supplement, pay to the Authority, solely from Net System Revenues and from no other sources, the Purchase Price in Installment Payments over a period not to exceed the maximum period permitted by law, as provided in a Supplement.

In the event that a Trustee notifies the City that the amount on deposit in a Reserve Fund or Reserve Account is less than the Reserve Requirement, the City will deposit or cause to be deposited, solely from Net System Revenues, in such Reserve Fund or Reserve Account such amounts on a monthly basis as are necessary to increase the amount on deposit therein to the Reserve Requirement in the ensuing six months.

The obligation of the City to make the Installment Payments solely from Net System Revenues is absolute and unconditional, and until such time as the Purchase Price has been paid in full (or provision for the payment thereof has been made), the City will not discontinue or suspend any Installment Payments required to be made by it when due, whether or not the Project or any part thereof is operating or operable or has been completed, or its use is suspended, interfered with, reduced or curtailed or terminated in whole or in part, and such Installment Payments will not be subject to reduction whether by offset or otherwise and will not be conditioned upon the performance or nonperformance by any party of any agreement for any cause whatsoever.

The City agrees and covenants under the Installment Purchase Agreement that all System Revenues will be received by the City in trust and will be deposited when and as received in the Sewer Revenue Fund. The City agrees and covenants to maintain the Sewer Revenue Fund so long as any Installment Payments or payments due by the City under any Qualified Swap Agreement remain unpaid, and all moneys in the Sewer Revenue Fund will be so held in trust and applied and used solely as provided in the Installment Purchase Agreement.

Selected Covenants of the City

Compliance with Installment Purchase Agreement; Ancillary Agreements. The City will punctually pay Parity Obligations in strict conformity with the terms thereof and with the terms of the Installment Purchase Agreement, and will faithfully observe and perform all the agreements, conditions, covenants and terms contained in the Installment Purchase Agreement, and will not terminate the Installment Purchase Agreement for any cause including, without limiting the generality of the foregoing, any acts or circumstances that may constitute failure of consideration, destruction of or damage to the Project, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State or any political subdivision of either or any failure of the Authority to observe or perform any agreement, condition, covenant or term contained in the Installment Purchase Agreement, whether express or implied, or any duty, liability or obligation arising out of or connected therewith or the insolvency, or deemed insolvency, or bankruptcy, or liquidation of the Authority, or any force majeure, including, acts of God, tempest, storm, earthquake, war, rebellion, riot, civil disorder, acts of public enemies, blockade or embargo, strikes, industrial disputes, lack of transportation facilities, fire, explosion, or acts or regulations of governmental authorities.

The City will faithfully observe and perform all the agreements, conditions, covenants and terms contained in the Installment Purchase Agreement, including Supplements, and any Issuing Instrument or Qualified Swap Agreement relating to Parity Obligations required to be observed and performed by it and, except as otherwise provided in the Installment Purchase Agreement, each of the agreements, conditions, covenants and terms contained in each such contract and agreement is an essential and material term of the purchase of and payment for each Component by the City pursuant to, in accordance with, and as authorized under the Law.

Against Encumbrances, Sale or Competitive Facilities. The City will not make any pledge of or place any lien on the Net System Revenues except as otherwise provided in the Installment Purchase Agreement. The City will not sell, lease or otherwise dispose of the Wastewater System or any part thereof essential to the proper operation of the Wastewater System or to the maintenance of the System Revenues, except as provided in the Installment Purchase Agreement. Further, the City will not, except as otherwise provided in the Installment Purchase Agreement, enter into any agreement or lease which impairs the operation of the Wastewater System or any part thereof necessary to secure adequate Net System Revenues for the payment of the Parity Obligations or which would otherwise impair the rights of the Authority with respect to the System Revenues or the operation of the Wastewater System. Any real or personal property which ahs become nonoperative or which is not needed for the efficient and proper operation of the Wastewater System, or any material or equipment which has become worn out, may be sold if such sale will not materially reduce the Net System Revenues and if the proceeds of such sale are deposited in the Sewer Revenue Fund.

Except as permitted under the Installment Purchase Agreement, the City will not, to the extent permitted by existing law, construct, acquire, maintain or operate and will not, to the extent permitted by existing law and within the scope of its powers, permit any other public or private agency, district or political subdivision or any person whomsoever to acquire, construct, maintain or operate within the City any wastewater system competitive with the City's Wastewater System.

Transfer of Metropolitan System Components. Notwithstanding anything to the contrary in the Installment Purchase Agreement, the City may transfer ownership of substantially all of the Metropolitan System, including amounts in the Sewer Revenue Fund attributable to the Metropolitan System, and any amounts in the Rate Stabilization Fund agreed upon by the City and the transferee as being attributable to the Metropolitan System, to the District or any other governmental agency whose primary purpose is to provide wastewater treatment and disposal service, provided such entity agrees to assume all Obligations

the proceeds of which were used to acquire Components which are part of the Metropolitan System and all other obligations relating to the Metropolitan System which are payable from Metropolitan System Revenues, Net Metropolitan System Revenues, System Revenues or Net System Revenues, including but not limited to salaries and benefits payable to employees who are to become employees of such entity, all accounts payable, Qualified Swap Agreements, Credit Provider Reimbursement Obligations and all other obligations with respect thereto such as capital improvement expenditure obligations and tort claims, and the obligation to pay fines, penalties or damages arising out of or relating to violation of federal, state or local laws or regulations which are applicable or purported to be applicable to the operation of the Metropolitan System and provided that the following conditions are met:

(a) there will not have occurred and be continuing an Event of Default under the terms of the Installment Purchase Agreement, or any other Issuing Instrument or Qualified Swap Agreement or any Termination Event (as defined in a Qualified Swap Agreement) under any Qualified Swap Agreement;

(b) there will have been delivered to the Trustee an opinion of Bond Counsel to the effect that the proposed transfer will not have an adverse effect on the exclusion from gross income for federal income tax purposes of the interest component of Tax-Exempt Installment Payment Obligations;

(c) the entity will have obtained all necessary licenses, permits and consents from all governmental agencies or authorities having or asserting jurisdiction over the activities of the Metropolitan System;

(d) there will be delivered to all trustees for any Obligations and to any Qualified Swap Provider an opinion of counsel, who may be the City Attorney of the City, to the effect that the Supplements referred to in clauses (h)(1) and (h)(2) below are valid, binding and enforceable against the transferee in the case of a Supplement referred to in clause (h)(1) below and against the City in the case of a Supplement referred to in a clause (h)(2) below;

(e) the City obtains or provides a certificate prepared by a Consultant showing that (i) the estimated Net Metropolitan System Revenues for the next 12 months following the date of transfer will be at least equal to 1.20 times the Maximum Annual Debt Service for all Outstanding Parity Obligations to be assumed by the transferee, assuming for this purpose that the Outstanding Parity Obligations to be assumed by the transferee will include all such Obligations; and (ii) the estimated Net Municipal System Revenues for the next 12 months following the date of transfer will be at least equal to 1.20 times the Maximum Annual Debt Service for all Outstanding Parity Obligations not to be assumed by the transferee, assuming for this purpose that the Outstanding Parity Obligations not to be assumed by the transferee will include all such Obligations;

(f) there will be delivered to the Trustee a notice of each of the Rating Agencies then providing ratings on all Obligations to be outstanding immediately after the transfer, reconfirming the ratings on all such Obligations in effect immediately prior to such transfer, without giving effect to any bond insurance, letter of credit, guarantee or other credit support for such Obligations, or alternatively, all such Obligations will be defeased or paid in full prior to such transfer;

(g) there will be delivered to each Owner notice of the intended transfer of Metropolitan System Components not less than 30 nor more than 60 days prior to the expected transfer date; and

(h) incident to a transfer of the Metropolitan System permitted by the Installment Purchase Agreement:

(1) the transferee will execute and deliver to the Trustee a Supplement which will contain the following:

(A) the assumption and indemnification by the transferee of all obligations of the City under the Installment Purchase Agreement, but only as they relate to the Metropolitan System, including Obligations the proceeds of which were used to acquire Components for the Metropolitan System;

(B) a pledge by the transferee of Net Metropolitan System Revenues for the payment of assumed Parity Obligations which will be in substantially the same form as the pledge of the City under the Installment Purchase Agreement of Net System Revenues to secure the payment of all Parity Obligations;

(C) representations of the transferee substantially in the form provided by the City under the Installment Purchase Agreement, but only as to the Obligations assumed by the transferee and the covenants to be contained in such Supplement;

(D) covenants of the transferee relating to the acquisition, construction and changes to the Project, but only as to the Components which are or are to be part of the Metropolitan System;

(E) covenants of the transferee relating to Purchase Payments and Installment Payments, but only as they relate to Parity Obligations being assumed by the transferee and the Net Metropolitan System Revenues;

(F) covenants of the transferee relating to the allocation of System Revenues, but limited only to Parity Obligations assumed by the transferee and moneys deposited from Metropolitan System Revenues and Net Metropolitan System Revenues;

(G) covenants of the transferee relating to Additional Obligations, but only within respect to Parity Obligations payable from Net Metropolitan System Revenues (for this purpose the calculations and coverages contemplated thereby will relate only to Metropolitan System Revenues, Maintenance and Operations Costs of the Metropolitan System and Net Metropolitan System Revenues);

(H) covenants of the transferee substantially in the form provided by the City under the Installment Purchase Agreement, (exclusive of covenants relating to the transfer of the Metropolitan System and subcontracting), but only to the extent of the Metropolitan System and Installment Payment Obligations payable from Metropolitan System Revenues and Net Metropolitan System Revenues and Installment Payment Obligations assumed by or of the transferee.

(I) Events of Default and remedies substantially in the form set forth in the Installment Purchase Agreement, but only relating to Parity Obligations assumed by the transferee; and

(J) covenants of the transferee relating to benefits of the Installment Purchase Agreement amendments of the Installment Purchase Agreement and the effective date, but only with respect to Parity Obligations assumed by the transferee;

(2) the City will execute and deliver a Supplement which will reaffirm all of the City's representations and warranties under the Installment Purchase Agreement and each Supplement, the pledge provided for in, and each of the covenants of the City contained in the Installment Purchase Agreement or any Supplement, provided that such representations, warranties, pledges and covenants will be limited solely and exclusively to the Municipal System, Municipal System Revenues, Maintenance and Operations Costs of the Municipal System and Net Municipal System Revenues, as the case may be.

Upon execution and delivery of such Supplements and upon satisfaction of the conditions specified above, the City will be relieved and discharged from any and all Installment Payment Obligations payable from Net System Metropolitan Revenues and which have been assumed by a transferee.

Maintenance and Operation of the Wastewater System; Budgets. The City will maintain and preserve the Wastewater System in good repair and working order at all times and will operate the Wastewater System in an efficient and economical manner and will pay all Maintenance and Operation Costs of the Wastewater System as they become due and payable. The City will adopt and file with the Authority, on or before the effective date of the Installment Purchase Agreement, a budget approved by the City Council of the City setting forth the estimated Maintenance and Operation Costs of the Wastewater System for the period from such date until the close of the then current Fiscal Year. On or before August 1, of each Fiscal Year, the City will adopt, and on or before 120 days after the beginning of the Fiscal Year, file with the Authority a budget approved by the City Council of the City setting forth the estimated Maintenance and Operation Costs of the Wastewater System for such Fiscal Year. Any budget may be amended at any time during any Fiscal Year and such amended budget will be filed by the City with the Authority.

Amount of Rates and Charges; Rate Stabilization Fund. The City will fix, prescribe and collect rates and charges for the Wastewater Service which will be at least sufficient (a) to pay during each Fiscal Year all Obligations, (other than Parity Obligations) payable in such Fiscal Year, and (b) to yield during each Fiscal Year Net System Revenues equal to one hundred twenty percent (120%) of the Debt Service for such Fiscal Year. The City may make adjustments from time to time in such rates and charges and may make such classification thereof as it deems necessary, but will not reduce the rates and charges then in effect unless the Net System Revenues from such reduced rates and charges will at all times be sufficient to meet the requirements of the Installment Purchase Agreement.

The City may establish, as a fund within the Sewer Revenue Fund, a fund denominated the Rate Stabilization Fund. From time to time the City may deposit into the Rate Stabilization Fund, from current System Revenues, such amounts as the City will determine and the amount of available current System Revenues will be reduced by the amount so transferred. Amounts may be transferred from the Rate Stabilization Fund solely and exclusively to pay Maintenance and Operation Costs of the Wastewater System, and any amounts so transferred will be deemed System Revenues when so transferred. All interest or other earnings upon amounts in the Rate Stabilization Fund may be withdrawn therefrom and accounted for as System Revenues.

Insurance. The City will procure and maintain or cause to be procured and maintained insurance on the Wastewater System with responsible insurers, or provide self insurance reserves, in such amounts

and against such risks (including accident to or destruction of the Wastewater System) as are usually covered in connection with wastewater systems similar to the Wastewater System. In the event of any damage to or destruction of the Wastewater System caused by the perils covered by such insurance or self insurance, the Net Proceeds thereof will be applied to the reconstruction, repair or replacement of the damaged or destroyed portion of the Wastewater System. The City will begin such reconstruction, repair, or replacement promptly, after such reconstruction, repair or replacement as expeditiously as possible, and will pay out of such Net Proceeds all costs and expenses in connection with such reconstruction, repair or replacement so that the same will be completed and the Wastewater System will be free and clear of all claims and liens unless the City determines that such property or facility is not necessary to the efficient operation of the Wastewater System and therefore determines not to reconstruct, repair or replace such project or facility. If such Net Proceeds exceed the costs of such reconstruction, repair or replacement, then the excess Net Proceeds will be deposited in the Sewer Revenue Fund and be available for other proper uses of funds deposited in the Sewer Revenue Fund.

The City will procure and maintain such other insurance which it will deem advisable or necessary to protect its interests and the interests of the Authority, which insurance will afford protection in such amounts and against such risks as are usually covered in connection with wastewater systems similar to the Wastewater System; provided that any such insurance may be maintained under a self-insurance program so long as such self-insurance is maintained in the amounts and manner usually maintained in connection with wastewater systems similar to the Wastewater System and is, in the opinion of an accredited actuary, actuarially sound.

All policies of insurance required to be maintained in the Installment Purchase Agreement will, to the extent reasonably obtainable, provide that the Authority and the Trustee will be given 30 days' written notice of any intended cancellation thereof or reduction of coverage provided thereby. The City will certify to the Authority and Trustee annually or on or before August 31 that it is in compliance with the insurance requirements provided in the Installment Purchase Agreement.

Accounting Records, Financial Statements and Other Reports. The City will keep appropriate accounting records in which complete and correct entries will be made of all transactions relating to the Wastewater System, which records will be available for inspection by the Authority and the Trustee at reasonable hours and under reasonable conditions.

The City will prepare and file with the Authority and the Trustee, annually after the close of each Fiscal Year, the following:

- (1) within 270 days financial statements of the Sewer Revenue Fund for the preceding Fiscal Year prepared in accordance with generally accepted accounting principles, together with an Accountant's Report thereon;
- (2) within 45 days, a detailed report as to all insurance policies maintained and self-insurance programs maintained by the City with respect to the Wastewater System as of the close of such Fiscal Year, including the names of the insurers which have issued the policies and the amounts thereof and the property or risks covered thereby; and
- (3) the City will furnish a copy of the financial statements referred to above to any Owner of the Bonds requesting a copy thereof.

Payment of Taxes and Compliance with Governmental Regulations. The City will pay and discharge all taxes, assessments and other governmental charges which may be lawfully imposed upon the Wastewater System or any part thereof or upon the System Revenues when the same will become due.

The City will duly observe and conform with all valid regulations and requirements of any governmental authority relative to the operation of the Wastewater System or any part thereof, but the City will not be required to comply with any regulations or requirements so long as the validity or application thereof will be contested in good faith.

Collection of Rates and Charges; No Free Service. The City will have in effect at all times rules and regulations for the payment of bills for Wastewater Services, and that such regulations will provide that where the City furnishes water to the property receiving Wastewater Service, the Wastewater Service charges will be collected together with the water rates upon the same bill providing for a due date and a delinquency date for each bill. In each case where such bill remains unpaid in whole or in part after it becomes delinquent, the City may disconnect such premises from the water service, and such premises will not thereafter be reconnected to the water service except in accordance with City operating rules and regulations governing such situations of delinquency. The City will not permit any part of the Wastewater System or any facility thereof to be used or taken advantage of free of charge by any authority, firm or person, or by any public agency (including the United States of America, the State and any city, county, district, political subdivision, public corporation or agency of any thereof).

Eminent Domain Proceeds. If all or any part of the Wastewater System will be taken by eminent domain proceedings, then subject to the provisions of any Authorizing Ordinance, the Net Proceeds thereof will be applied to the replacement of the property or facilities so taken, unless the City determines that such property or facility is not necessary to the efficient or proper operation of the Wastewater System and therefore determines not to replace such property or facilities. Any Net Proceeds of such award not applied to replacement or remaining after such work has been completed will be deposited in the Sewer Revenue Fund and be available for other proper uses of funds deposited in the Sewer Revenue Fund.

Tax Covenants. There will be included in each Supplement relating to Tax-Exempt Installment Payment Obligations such covenants as are deemed necessary or appropriate by Bond Counsel for the purpose of assuring that interest on such Installment Payment Obligations will be excluded from gross income under Section 103 of the Code.

Operate Wastewater System. The City will operate the Wastewater System in an efficient and economical manner, provided that the City may remove from the service on a temporary or permanent basis such part or parts of the Wastewater System so long as (a) Net System Revenues are equal to 120% of the Debt Service for the then current Fiscal Year and for each Fiscal Year thereafter to and including the Fiscal Year during which the last Installment Payment is due as evidenced by an Engineer's Report on file with the City, and (b) the City will have filed with the Trustee an opinion of nationally recognized Bond Counsel to the effect that the removal of such part or parts of the Wastewater System will not adversely affect the exclusion from gross income for federal income tax purposes of the interest on Tax-Exempt Installment Payment Obligations.

Additional Covenants. The City may provide additional covenants pursuant to any Supplement, including covenants relating to any Credit Support obtained for Installment Payment Obligations; provided, however, that such additional covenants do not materially and adversely affect the right of Owners of Outstanding Obligations issued prior to any such Supplement.

Prepayment of Installment Payments

Provisions may be made in any Supplement for the prepayment of Installment Payments, in whole or in part, in such multiples and in such order of maturity and from funds of any source, and with

such prepayment premiums and other terms as are specified in the Supplement. Said Supplement will also provide for any notices to be given relating to such prepayment.

Events of Default and Remedies of the Authority

The following will be “events of default” under the Installment Purchase Agreement:

- (a) failure in the due and punctual payment of or on account of any Parity Obligation as the same will become due and payable;
- (b) failure by the City in the performance of any of the agreements or covenants required to be performed by it under the Installment Purchase Agreement (other than as specified in (a) above), and such default will have continued for 60 days after the City has been given notice in writing of such default by the Authority;
- (c) if any Event of Default specified in any Supplement, Authorizing Ordinance or Issuing Instrument will have occurred and be continuing; or
- (d) if the City files a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction will approve a petition filed with or without the consent of the City seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction will assume custody or control of the City or of the whole or any substantial part of its property;

then and in each case during the continuance of such event of default, the Authority will upon the written request of the Owners of 25% or more of the aggregate principal amount of all Series of Parity Installment Obligations Outstanding, voting collectively as a single class, by written notice to the City, declare the entire unpaid principal amount thereof and the accrued interest thereon to be due and payable immediately, and upon any such declaration the same will become immediately due and payable; anything to the contrary contained in the Installment Purchase Agreement notwithstanding, provided, that with respect to a Series of Parity Installment Obligations which is credit enhanced by Credit Support, acceleration will not be effective unless the declaration is consented to by the related Credit Provider and, provided further, that nothing in the Installment Purchase Agreement will affect the rights of the parties to a Qualified Swap Agreement to terminate such Qualified Swap Agreement. If at any time after the entire principal amount of all Series of Parity Installment Obligations and the accrued interest thereon have been so declared due and payable and before any judgment or decree for the payment of the moneys due will have been obtained or entered, the City will deposit with the Authority a sum sufficient to pay the unpaid principal amount of all such Series of Parity Installment Obligations and the unpaid payments of any other Parity Obligations referred to in clause (a) above due prior to such declaration and the accrued interest thereon, with interest on such overdue installments at the rate or rates applicable thereto in accordance with their terms, and the reasonable expenses of the Authority, and any and all other defaults known to the Authority (other than in the payment of the entire principal amount of the unpaid Parity Installment Obligations and the accrued interest thereon due and payable solely by reason of such declaration), will have been made good or cured to the satisfaction of the Authority or provision deemed by the Authority to be adequate will have been made therefor, then the Authority, by written notice to the City, may rescind and annul such declaration and its consequences; but no such rescission and annulment will extend to or will affect any subsequent default or will impair or exhaust any right or power consequent thereon.

Subject to the Installment Purchase Agreement and, with respect to any Subordinated Obligation, the Issuing Instrument creating that Subordinated Obligation, the Owners of Subordinated Obligations may enforce the provisions of the Installment Purchase Agreement for their benefit by appropriate legal proceedings. Notwithstanding anything to the contrary in the Installment Purchase Agreement, no Owner of Subordinated Obligations will have any right to take any action or enforce any right that has a materially adverse effect on the interests of the Owners of the Installment Payment Obligations and the Authority will not take any action to enforce, on behalf of any Owner of Subordinated Obligations, any such right.

The payment of Subordinated Obligations will be subordinated in right of payment to payments of the Parity Obligations (except for any payment in respect to the Subordinated Obligations from the Reserve Funds or Reserve Accounts securing such Subordinated Obligations). In any Event of Default, Owners of Parity Obligations will be entitled to receive payment thereof in full before the Owners of Subordinated Obligations are entitled to receive payment thereof (except for any payment in respect of the Subordinated Obligations from Reserve Funds or Reserve Accounts securing such Subordinated Obligations) and the Owners of the Subordinated Obligations will become subrogated to the rights of such Owners of Parity Obligations to receive payments with respect thereto.

Application of Net System Revenues Upon Acceleration

All Net System Revenues received after the date of the declaration of acceleration by the Authority as provided in the Installment Purchase Agreement will be applied in the following order:

(a) First, to the payment of the costs and expenses of the Authority if any, in carrying out the provisions of the Installment Purchase Agreement, including reasonable compensation to its accountants and counsel;

(b) Second, to the payment of the entire principal amount of the unpaid Parity Installment Obligations and the unpaid principal amount of all other Parity Obligations and the unpaid principal thereon, with interest on the overdue installments at the rate or rates of interest applicable thereto in accordance with their respective terms. In the event there are insufficient Net System Revenues to pay the entire principal amount and accrued interest on all Parity Obligations, then accrued interest (and payments due to the counterparty to a Qualified Swap Agreement) will first be paid and any remaining amount will be paid on account of principal, and in the event there are insufficient Net System Revenues to fully pay either interest or principal in accordance with the foregoing, then payment will be protected with a priority based upon the total amounts due in the priority; and

(c) Third, to the payment of the entire principal amount of the unpaid Subordinated Obligations and the accrued interest thereon, with interest on the overdue installments at the rate or rates of interest applicable thereto in accordance with their respective terms. In the event there are insufficient Net System Revenues to pay the entire principal amount and accrued interest on all Subordinated Obligations, then accrued interest will first be paid and any remaining amount will be paid on account of principal, and in the event there are insufficient Net System Revenues to fully pay either interest or principal in accordance with the foregoing, then payment will be prorated within a priority based upon the total amounts due in the priority.

Other Remedies of the Authority

The Authority will have the right, subject to receipt of consent from any Credit Provider with respect to a particular Series of Parity Installment Obligations: (a) by mandamus or other action or proceeding or suit at law or in equity to enforce its rights against the City or any councilmember, officer

or employee thereof, and to compel the City or any such councilmember or officer or employee to perform and carry out its or his duties under the Law and the agreements and covenants required to be performed by it or him contained in the Installment Purchase Agreement; (b) by suit in equity to enjoin any acts or things which are unlawful or violate the rights of the Authority; or (c) by suit in equity upon the happening of an Event of Default to require the City and its councilmembers, officers and employees to account as the trustee of an express trust.

Discharge of Obligations

If (a) the City will pay or cause to be paid or there will otherwise be paid to the Owners all Outstanding Installment Payment Obligations of a Series the interest thereon and the principal thereof and the redemption premiums, if any, thereon or if all Outstanding Obligations will be deemed to have been paid at the times and in the manner stipulated in the applicable Issuing Instrument, or (b) the transfer of ownership of substantially all of the Metropolitan System, as contemplated by the Installment Purchase Agreement will have occurred, then all agreements, covenants and other obligations of the City under the Installment Purchase Agreement will thereupon cease, terminate and become void and be discharged and satisfied (but only as to such Series in the case of any event described in (a) and only as provided in the Installment Purchase Agreement in the case of a transfer of the Metropolitan System) except for the obligation of the City to pay or cause to be paid all sums due thereunder.

Amendments

The Installment Purchase Agreement may be amended with respect to a Series of Installment Payment Obligations in writing as may be mutually agreed by the City and the Authority, with the written consent of any Credit Provider which is providing insurance until the final maturity or payment in full of one or more maturities of such Installment Payment Obligations, or any other Credit Provider for such Installment Payment Obligations and the Owners of a majority in aggregate principal amount of such Installment Payment Obligations then Outstanding, provided that no such amendment will (a) extend the payment date of any Installment Payment, or reduce the amount of any Installment Payment without the prior written consent of the Owner of each Obligation so affected, (b) reduce the percentage of Installment Payment Obligations the consent of the Owners of which is required for the execution of any amendment of the Installment Purchase Agreement, or (c) amend the provisions of transfer of the Metropolitan System Components without an unqualified opinion of nationally recognized Bond Counsel to the effect that such amendment does not adversely affect the exclusion of the interest portion of the Installment Payments received by the Owners of Tax-Exempt Installment Payment Obligations from gross income under Section 103 of the Code. Notwithstanding the foregoing, so long as the City has any obligations under a Qualified Swap Agreement, it will not amend or modify, or consent to the amendment or modification of, the Installment Purchase Agreement that would in any way adversely affect (i) the rights of a counterparty to a Qualified Swap Agreement under the Installment Purchase Agreement, or (ii) the obligations of the City under the Installment Purchase Agreement to such a counterparty without the prior written consent of such Qualified Swap Provider.

With the written consent of any Credit Provider, the Installment Purchase Agreement and the rights and obligations of the City and the Authority thereunder may also be amended or supplemented at any time by an amendment or supplement to the Installment Purchase Agreement which will be come binding upon the execution by the City and the Authority, without the written consent of any Owner of Installment Obligations, but only to the extent permitted by law and only upon receipt of an unqualified opinion of nationally recognized Bond Counsel selected by the City and approved by the Authority to the effect that such amendment or supplement is permitted by the provisions of the Installment Purchase Agreement and is not inconsistent therewith and does not adversely affect the exclusion of the interest portion of the Installment Payments received by the Owners from gross income for federal tax purposes,

and only (a) to add to the covenants and agreements of the Authority or the City or to surrender any right or power reserved to or conferred upon the Authority or the City, and which will not adversely affect the interests of the Owners of the Installment Payment Obligations; (b) to cure, correct or supplement any ambiguous or defective provision contained in the Installment Purchase Agreement or in regard to questions arising thereunder, as the Authority or the City may deem necessary or desirable and which will not adversely affect the interests of the Owners of the Installment Payment Obligations; and (c) to make such other amendments or modifications which will not materially adversely affect the interests of the Owners of the Installment Payment Obligations.

2009-1 SUPPLEMENT

The term “2009-1 Supplement” means the 2009-1 Supplement dated as of May 1, 2009 by and between the City and the Authority, supplementing and amending the Agreement. The 2009-1 Supplement to Master Installment Agreement sets for the certain terms and conditions of the purchase of the Refunded Components of the Project by the City. Certain provisions of the 2009-1 Supplement are given and summarized below.

Installment Payments. Pursuant to the 2009-1 Supplement, the City agrees to purchase the Components from the Authority by making Installment Payments comprised of a principal portion and interest portion which equal the debt service payments payable on the Series 2009A Bonds. See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2009A BONDS” in this Official Statement.

Tax Exemption. The City will not directly or indirectly use or permit the use of any proceeds of the Series 2009A Bonds or any other funds of the City or of the Project or take or omit to take any action that would cause the Series 2009A Bonds to be “private activity bonds” within the meaning of Section 141 of the Code, or obligations which are “federally guaranteed” within the meaning of Section 149(b) of the Code.

The City covenants that it will not take any action, or fail to take any action, if such action or failure to take action would adversely affect the exclusion from gross income of the interest represented by the Series 2009A Bonds under Section 103 of the Code. The City will not directly or indirectly use or permit the use of any proceeds of the Series 2009A Bonds or any other funds of the City, or take or omit to take any action, that would cause the Series 2009A Bonds to be “arbitrage bonds” within the meaning of Section 148(a) of the Code. To that end, the City will comply with all requirements of Section 148 of the Code to the extent applicable to the Series 2009A Bonds. In the event that at any time the City is of the opinion that for purposes of the Installment Purchase Agreement it is necessary to restrict or limit the yield on the investment of any moneys held by the Trustee under the Indenture or otherwise, the City will so instruct the Trustee in writing, and will cause the Trustee to take such action as may be necessary in accordance with such instructions.

Without limiting the generality of the foregoing, the City agrees that there will be paid from time to time all amounts required to be rebated to the United States of America pursuant to Section 148(f) of the Code and any temporary, proposed or final Treasury Regulations as may be applicable to the Series 2009A Bonds from time to time. This covenant will survive payment in full or defeasance of the Series 2009A Bonds. The City specifically covenants to pay or cause to be paid to the United States of America at the times and in the amounts determined under the 2009-1 Supplement the Rebate Requirement, as described in the Tax Certificate, and to otherwise comply with the provisions of the Tax Certificate executed by the City in connection with the execution and delivery of the Series 2009A Bonds.

Notwithstanding any provision of the tax covenants of the 2009-1 Supplement, if the City provides to the Trustee an opinion of nationally recognized Bond Counsel to the effect that any action required under the tax covenants contained in the 2009-1 Supplement is no longer required, or to the effect that some further action is required, to maintain the exclusion from gross income of the interest on the Series 2009A Bonds pursuant to Section 103 of the Code, the City may rely conclusively on such opinion in complying with the provisions thereof, and the covenants under the 2009-1 Supplement will be deemed to be modified to that extent.

Continuing Disclosure. The City covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate. Notwithstanding any other provision of the 2009-1 Supplement, failure of the City to comply with the Continuing Disclosure Certificate will not be considered a default of any kind under the 2009-1 Supplement or the Installment Purchase Agreement; however, the Trustee may (and, at the request of any Participating Underwriter or the Owners of at least 25% in aggregate principal amount of the Series 2009A Bonds, will) or any Owner or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the City to comply with its obligations under the 2009-1 Supplement. For purposes of the 2009-1 Supplement, “Beneficial Owner” means any person who has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Series 2009A Bonds (including persons holding Series 2009A Bonds through nominees, depositories or other intermediaries).

APPENDIX D

FORM OF BOND COUNSEL OPINION

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

RE: *\$453,775,000 Public Facilities Financing Authority of the City of San Diego
Senior Sewer Revenue Bonds, Series 2009A*

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the Public Facilities Financing Authority of the City of San Diego (the "Authority") of \$453,775,000 aggregate principal amount of its Senior Sewer Revenue Bonds, Series 2009A (the "Bonds"). The Bonds are being issued pursuant to an Indenture, dated as of May 1, 2009 (the "Indenture"), by and between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

As bond counsel, we have examined the Indenture, the Master Installment Purchase Agreement, dated as of September 1, 1993, by and between the City and the Authority, as amended and supplemented, including as supplemented by the 2009-1 Supplement dated as of May 1, 2009 (collectively, the "Installment Purchase Agreement"), the Tax and Nonarbitrage Certificate, executed by the Authority and the City and dated the date hereof (the "Tax Certificate"), opinions of counsel to the Authority, the City and the Trustee, certificates of the Authority, the City, the Trustee and others, copies, certified to us as being true and complete, of the proceedings of the City and of the Authority for the authorization and issuance of the Bonds, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein, although in doing so, we have not undertaken to verify independently the accuracy of the factual matters represented, warranted or certified therein, and we have assumed the genuineness of all signatures thereto. We express no opinion as to any provision in the Indenture or the Installment Purchase Agreement with respect to the priority of any pledge or security interest, indemnification, or governing law. We advise you that we have not made or undertaken to make any investigation of the state of title to any of the real property or ownership of any personal property described in the Installment Purchase Agreement, or of the accuracy or sufficiency of the description of such property contained therein, and we express no opinion with respect to such matters.

We have, with your approval, assumed that all items submitted to us as originals are authentic and that all items submitted as copies conform to the originals.

On the basis of such examination, our reliance upon the assumptions contained herein and our consideration of such questions of law as we considered relevant, and subject to the limitations and qualifications in this opinion, we are of the opinion that:

1. The Bonds constitute the legally valid and binding limited obligations of the Authority;

2. The Indenture has been duly executed and delivered by, and constitutes the legally 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 held by the Trustee in any fund or account established pursuant to the Indenture, other than amounts on deposit in 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 in the Indenture;

3. The Installment Purchase Agreement has been duly authorized, executed and delivered by, and constitutes the legally valid and binding obligation of, the Authority and the City, enforceable in accordance with its respective terms. The pledge by the City of Net System Revenues creates a legally valid and enforceable lien on Net System Revenues in favor of the Authority; and

4. The Bonds are not a lien or charge upon the funds or property of the Authority except to the extent of Revenues referred to in paragraph 2 above. Neither the faith and credit nor the taxing powers of the City, the State of California or of any political subdivision thereof is pledged to the payment of the principal of or interest on the Bonds.

The opinions set forth in paragraphs 1 and 2 above assume that the Trustee has duly authenticated the Bonds and that the Indenture is the legally valid, binding and enforceable agreements of the Trustee. In addition, the enforceability of the agreements, covenants and obligations described in paragraphs 1, 2 and 3 above may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting creditors' rights generally (including, without limitation, fraudulent conveyance laws). In addition, the enforceability of such agreements, covenants and obligations is subject to the effect of general principles of equity, including, without limitation, concepts of materiality, reasonableness, good faith and fair dealing, the possible unavailability of specific performance or injunctive relief, regardless of whether considered in a proceeding in equity or at law, and the limitations on legal remedies against government entities in the State of California. We express no opinion regarding the availability of equitable remedies.

5. The Internal Revenue Code of 1986 (the "Code") sets forth certain requirements that must be met subsequent to the issuance and delivery of the Bonds for interest thereon to be and remain excluded from gross income for federal income tax purposes. Noncompliance with such requirements could cause the interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issue of the Bonds. Pursuant to the Installment Purchase Agreement, the Indenture and the Tax Certificate, the City and the Authority have each covenanted to comply with the applicable requirements of the Code in order to maintain the exclusion of the interest on the Bonds from gross income for federal income tax purposes pursuant to Section 103 of the Code. In addition, the City and the Authority have made certain additional covenants, representations and certifications in the Installment Purchase Agreement, the Indenture and the Tax Certificate. We have not independently verified compliance with such covenants or the accuracy of those representations and certifications.

Under existing law, assuming compliance with the above-mentioned tax covenants and the accuracy of the above-mentioned representations and certifications, we are of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code. We are also of the opinion that such interest is not treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations. Interest on the Bonds is excluded from the adjusted current earnings of corporations for purposes of computing the alternative minimum tax imposed on corporations.

6. We are also of the opinion that the interest on the Bonds is exempt from personal income taxes of the State of California under present state law.

7. We are further of the opinion that the difference between the principal amount of the Bonds maturing on May 15, 2020, the Bonds maturing on May 15, 2026 through May 15, 2029, inclusive, the 2034 5.250% Term Bonds and the 2039 Term Bonds (collectively the “Discount Bonds”) and the initial offering price to the public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers) at which price a substantial amount of such Discount Bonds of the same maturity was sold constitutes original issue discount which is excluded from gross income for Federal income tax purposes to the same extent as interest on the Series 2009A Bonds. Further, such original issue discount accrues actuarially on a constant interest rate basis over the term of each Discount Bond and the basis of each Discount Bond acquired at such initial offering price by an initial purchaser thereof will be increased by the amount of such accrued original issue discount. The accrual of original issue discount may be taken into account as an increase in the amount of tax-exempt income for purposes of determining various other tax consequences of owning the Discount Bonds, even though there will not be a corresponding cash payment.

Except as stated in the preceding four paragraphs, we express no opinion as to any other federal or state tax consequences of the ownership, receipt of interest on or disposition of the Bonds. Furthermore, we express no opinion as to any federal, state or local tax law consequences with respect to the Bonds, or the interest thereon, if any action is taken with respect to the Bonds or the proceeds thereof upon the advice or approval of other counsel.

This opinion is expressly limited to the matters set forth above and we render no opinion, whether by implication or otherwise, as to any other matters. We assume no obligation to update or supplement this opinion to reflect any facts or circumstances which may hereafter come to our attention or any changes in laws which may hereafter occur.

We call attention to the fact that the opinions expressed herein and the exclusion of interest due on the Bonds from gross income for federal income tax purposes may be affected by actions taken or omitted or events occurring or failing to occur after the date hereof. We have not undertaken to determine, or inform any person, whether any such actions are taken, omitted, occur or fail to occur.

We express no opinion regarding the accuracy or completeness of any materials provided to the purchasers in the course of their due diligence exercise or otherwise made available to them.

Respectfully submitted,

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APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate, dated as of May 1, 2009 (the “Disclosure Certificate”) is executed and delivered by The City of San Diego (the “City”) in connection with the issuance of \$453,775,000 Public Facilities Financing Authority of the City of San Diego Senior Sewer Revenue Bonds, Series 2009A (Payable Solely From Installment Payments Secured By Wastewater System Net Revenues) (the “Series 2009A Bonds”). The Series 2009A Bonds are being issued by the Public Facilities Financing Authority of the City of San Diego (the “Authority”) pursuant to the provisions of the Joint Exercise of Powers Act (commencing with Section 6500) of the Government Code of the State of California and an Indenture, dated as of May 1, 2009 (the “Indenture”), by and between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”). The proceeds of the Series 2009A Bonds are being used to acquire certain capital improvements to the City’s Wastewater System, pay in full the Authority’s Subordinate Sewer Revenue Notes, Series 2007 (the “Series 2007 Notes”), refund a portion of the Authority’s Senior Sewer Revenue Bonds, Series 1997A and Senior Sewer Revenue Bonds, Series 1997B, fund the Reserve Fund and pay costs of issuance with respect to the Series 2009A Bonds. In connection therewith, the City, as an “obligated person” with respect to the Series 2009A Bonds (within the meaning of the Rule, as defined herein), covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the holders and beneficial owners of the Series 2009A Bonds and in order to assist the Participating Underwriter in complying with the Rule.

Section 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

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

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

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

“MSRB” shall mean the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934, as amended.

“National Repository” shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently recognized by the Securities and Exchange Commission are currently set forth in the SEC website located at <http://www.sec.gov/info/municipal/nrmsir.htm>. Effective July 1, 2009, National Repository shall mean the MSRB and information to be submitted pursuant to this Disclosure Certificate shall be submitted to the MSRB instead of to one or multiple nationally recognized municipal securities information repositories and state information depositories.

“Official Statement” means the Official Statement, dated May 6, 2009, relating to the Series 2009A Bonds.

“Participating Underwriter” shall mean any of the original Underwriters of the Series 2009A Bonds required to comply with the Rule in connection with offering of the Series 2009A 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 Repository” shall mean any public or private repository or entity designated by the State of California as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Certificate, there is no State Repository. Effective July 1, 2009, information to be submitted pursuant to this Continuing Disclosure shall be submitted, without duplication, to the MSRB instead of to a State Repository, if any.

Section 3. Provision of Annual Reports.

(a) The City shall, or upon written direction shall cause the Dissemination Agent to, not later than 270 days after the end of the City’s fiscal year (which currently ends June 30th), commencing with the report for the Fiscal Year 2009 (each, a “Filing Date”), provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate for so long as the Series 2009A Bonds remain outstanding. Not later than fifteen (15) Business Days prior to each Filing Date, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). 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 Certificate; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report, and later than the Filing Date for the filing of the Annual Report, if not available by such Filing Date. If the City’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c) hereof. The City shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent may conclusively rely upon such certification of the City and shall have no duty or obligation to review such Annual Report.

(b) If the City is unable to provide to the Repositories an Annual Report by the date required in subsection (a), the City shall send a notice to the Municipal Securities Rulemaking Board and any appropriate State Repository in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

(i) determine each year prior to the Filing Date the name and address of each National Repository and each State Repository, if any; and

(ii) if the Dissemination Agent is other than the City, and such information is available to it, file a report with the City certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided and listing all the Repositories to which it was provided.

Section 4. Content of Annual Reports. The City’s Annual Report shall contain or incorporate by reference the following:

(a) The audited financial statements for the most recently completed Fiscal Year prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. 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) Financial information and operating data with respect to the City, as such information and data relate to the City’s Metropolitan Wastewater Department and the Sewer Revenue Fund, for the most recently completed fiscal year of the type included in the Official Statement, if any, in the following categories (to the extent not included in the City’s audited financial statements):

(i) An update of the information contained in the table of the Official Statement entitled “Metropolitan Sub-System City and Participating Agencies Flow and Capacity Rights” of the Official Statement (exclusive of the information contained under the column heading “Estimated Population”);

(ii) An update of the information contained in the table of the Official Statement entitled “Wastewater System Total Annual Flow”;

(iii) An update of the information contained in the table of the Official Statement entitled “Wastewater System Historical Sources of Sewer Service Charge Revenues”;

(iv) An update of the information contained in the table of the Official Statement entitled “Municipal Sub-System Ten Largest Customers”;

(v) An update of the information contained in the table of the Official Statement entitled “Approved Rate Increases for Single Family Residential, Multifamily and Commercial and Industrial Customers”, including rate(s) approved by the City Council for the most recently completed fiscal year that will become effective in a future fiscal year;

(vi) An update of the information contained in the table of the Official Statement entitled “Sewer Customer Accounts Receivable and Shut-Offs”;

(vii) An update of the information contained in the table of the Official Statement entitled “Municipal Sub-System Sewer Revenue Fund Historical Capacity Charge Revenues”;

(viii) An update of the information contained in the table of the Official Statement entitled “Rate History for Sewer Capacity Charges”;

(ix) Information contained in the table of the Official Statement entitled “Statements of Revenues, Expenses and Changes in Fund Net Assets” will be available in the City’s comprehensive annual financial report for the most recently completed fiscal year or updated information will be presented in tabular form comparable to the referenced table;

(x) An update of the information contained in the table of the Official Statement entitled “Sewer Revenue Fund Reserves” for the most recently completed fiscal year;

(xi) Information contained in the table of the Official Statement entitled “Calculation of Historic Parity Debt Service Coverage” will be available in the City’s comprehensive annual financial report for the most recently completed fiscal year or updated information will be presented in tabular format comparable to referenced table;

(xii) An update of the information contained in the Official Statement under the heading “WASTEWATER SYSTEM FINANCIAL OPERATIONS – Labor Relations” for the most recently completed fiscal year.

(xiii) An update of the information contained under the heading “WASTEWATER SYSTEM FINANCIAL OPERATIONS – Insurance and Liability Claims” and the table of the Official Statement entitled “Liability Claims Budgeted and Expenditures”;

(xiv) An update of the information contained under the heading “WASTEWATER SYSTEM FINANCIAL OPERATIONS – Investment of Funds” and information in the table of the Official Statement entitled “City of San Diego Pooled Investment Fund”;

(xv) Information contained in the table of the Official Statement entitled “City of San Diego Schedule of Funding Progress”;

(xvi) An update of the information contained under the heading “WASTEWATER SYSTEM FINANCIAL OPERATIONS – Wastewater System Share of Contribution to Pension System and NPO”; and

(xvii) An update of the information contained under the heading “WASTEWATER SYSTEM FINANCIAL OPERATIONS – Postemployment Healthcare Benefits”.

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 Repositories. The City shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Series 2009A Bonds, if material:

- (i) Principal and interest payment delinquencies.
- (ii) Non-payment related defaults.
- (iii) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (iv) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (v) Substitution of credit or liquidity providers, or their failure to perform.
- (vi) Adverse tax opinions or events affecting the tax-exempt status of the Series 2009A Bonds.
- (vii) Modifications to rights of Bondholders.
- (viii) Contingent or unscheduled Bond calls.
- (ix) Defeasances.

(x) Release, substitution, or sale of property securing repayment of the Series 2009A Bonds.

(xi) Rating changes.

(b) Whenever the City obtains knowledge of the occurrence of a Listed Event, the City shall as soon as possible determine if such event would be material under applicable Federal securities law.

(c) If the City determines that knowledge of the occurrence of a Listed Event would be material under applicable Federal securities law, the City shall promptly file a notice of such occurrence with the Repositories. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(viii) and (ix) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds pursuant to the Indenture.

(d) If the Dissemination Agent has been instructed by the City to report the occurrence of a Listed Event, the Trustee shall file a notice of such occurrence with the Repositories with a copy to the City. Notwithstanding the foregoing notice of Listed Events described in subsections (a)(viii) and (ix) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to the holders of affected Bonds pursuant to the Indenture.

Section 6. Termination of Reporting Obligation. The City's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Series 2009A Bonds. If such termination occurs prior to the final maturity of the Series 2009A Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

Section 7. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be the City. The Dissemination Agent may resign as Dissemination Agent by providing thirty days written notice to the City and the Trustee. The Dissemination Agent shall not be responsible for the content of any report or notice prepared by the City. The Dissemination Agent shall have no duty to prepare any information report nor shall the Dissemination Agent be responsible for filing any report not provided to it by the City in a timely manner and in a form suitable for filing.

The City may satisfy its obligations hereunder to file any notice, document or information with a National Repository or State Repository by filing the same with any dissemination agent or conduit, including any "central post office" or similar entity, assuming or charged with responsibility for accepting notices, documents or information for transmission to such National Repository or State Repository, to the extent permitted by the SEC or SEC staff or required by the SEC. For this purpose, permission shall be deemed to have been granted by the SEC staff if and to the extent the dissemination agent or conduit has received an interpretive letter, which has not been revoked, from the SEC staff to the effect that using the agent or conduit to transmit information to the National Repository and State Repository will be treated for purposes of the Rule as if such information were transmitted directly to the National Repository and State Repository.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived (provided no amendment that modifies or increases its duties or obligations of the Dissemination Agent shall be effective without the consent of the Dissemination Agent), provided that 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 with respect to the Series 2009A Bonds, or type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Series 2009A Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by holders of the Series 2009A Bonds in the manner provided in the Indenture for amendments to the Indenture with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Series 2009A Bonds.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first annual financial information filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing financial statements, the annual financial information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the City to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative. A notice of the change in the accounting principles shall be sent to the Repositories in the same manner as for a Listed Event under Section 5(c).

Section 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate 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 Certificate. 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 Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. Default. In the event of a failure of the City to comply with any provision of this Disclosure Certificate, any Participating Underwriter or any holder or beneficial owner of the Series 2009A Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate,

and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the City for its services provided hereunder in accordance with its schedule of fees as amended from time to time and shall be reimbursed for all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent 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 Series 2009A Bondholders, or any other party. Other than in the case of negligence, gross negligence or willful misconduct of the Dissemination Agent, the Dissemination Agent shall not have any liability to the Series 2009A Bondholders or any other party for any monetary damages or financial liability of any kind whatsoever related to or arising from any breach of any obligation of the Dissemination Agent. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Series 2009A Bonds.

Section 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, the Participating Underwriter and holders and beneficial owners from time to time of the Series 2009A Bonds, and shall create no rights in any other person or entity.

THE CITY OF SAN DIEGO

By: _____
Authorized Signatory

Attest:

City Clerk

APPROVED AS TO FORM:
JAN I. GOLDSMITH, City Attorney

By: _____
Name: _____
Deputy City Attorney

EXHIBIT A

FORM OF NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Obligor: The City of San Diego
Name of Issue: \$453,775,000 Public Facilities Financing Authority of the City of San Diego
Senior Sewer Revenue Bonds, Series 2009A (Payable Solely From Installment
Payments Secured By Wastewater System Net Revenues) (the “Bonds”).
Date of Issuance: May 13, 2009

NOTICE IS HEREBY GIVEN that the City of San Diego has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Certificate dated as of May 1, 2009 executed and delivered by the City. The City anticipates that the Annual Report will be filed by _____.

Dated: _____

THE CITY OF SAN DIEGO

By: _____
Title: _____

APPENDIX F

INFORMATION REGARDING THE BOOK-ENTRY ONLY SYSTEM

THE INFORMATION IN THIS APPENDIX F CONCERNING THE DEPOSITORY TRUST COMPANY, NEW YORK, NEW YORK AND ITS BOOK-ENTRY SYSTEM HAS BEEN OBTAINED FROM SOURCES THAT THE CITY, THE AUTHORITY AND THE UNDERWRITERS BELIEVE TO BE RELIABLE, BUT THE CITY, THE AUTHORITY AND THE UNDERWRITERS TAKE NO RESPONSIBILITY FOR THE ACCURACY THEREOF.

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Public Facilities Financing Authority of the City of San Diego Senior Sewer Revenue Bonds, Series 2009A (Payable Solely From Installment Payments Secured by Wastewater System Net Revenues) (the “Series 2009A Bonds”). The Series 2009A Bonds will be issued as fully-registered securities 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 certificate will be issued for each coupon of each maturity of each Series of the Series 2009A Bonds, each in the principal amount attributable to such coupon of such maturity, and will be deposited with DTC.

DTC, the world’s largest securities 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 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 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 is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. 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 Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org. Information on these websites is not incorporated herein.

Purchases of the Series 2009A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2009A Bonds on DTC’s records. The ownership interest of each actual purchaser of each Series 2009A 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. 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 the Series 2009A 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 Series 2009A Bonds, except in the event that use of the book-entry system for the Series 2009A Bonds is discontinued.

To facilitate subsequent transfers, all Series 2009A 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 the Series 2009A Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2009A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2009A 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. The City and the Authority will not have any responsibility or obligation to such Direct Participants and Indirect Participants or the persons for whom they act as nominees with respect to the Series 2009A Bonds. Beneficial Owners of the Series 2009A Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2009A Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Series 2009A Bond documents. For example, Beneficial Owners of the Series 2009A Bonds may wish to ascertain that the nominee holding the Series 2009A Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. The conveyance of notices and other communications by DTC to DTC Participants, by DTC Participants to Indirect Participants and by DTC 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. Any failure of DTC to advise any DTC Participant, or of any DTC Participant or Indirect Participant to notify a Beneficial Owner, of any such notice and its content or effect will not affect the validity of the redemption of the Series 2009A Bonds called for redemption or of any other action premised on such notice. Redemption of portions of the Series 2009A Bonds by the Authority will reduce the outstanding principal amount of Series 2009A Bonds held by DTC. In such event, DTC will implement, through its book-entry system, a redemption by lot of interests in the Series 2009A Bonds held for the account of DTC Participants in accordance with its own rules or other agreements with DTC Participants and then DTC Participants and Indirect Participants will implement a redemption of the Series 2009A Bonds for the Beneficial Owners.

Redemption notices shall be sent to DTC. If less than all of the Series 2009A Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2009A Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Trustee 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 Series 2009A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of, premium, if any, and interest on the Series 2009A 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 Trustee, on payable dates 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 nor its nominee, or the Trustee, subject to any statutory, or regulatory requirements as may be in effect from time to time. Payments of principal of, premium, if any, and interest on the Series 2009A Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

NONE OF THE CITY, THE AUTHORITY OR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS WITH RESPECT TO THE PAYMENTS OR THE PROVIDING OF NOTICE TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS OR THE SELECTION OF BONDS FOR PREPAYMENT.

DTC may discontinue providing its services as depository with respect to the Series 2009A Bonds at any time by giving reasonable notice to the City, the Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, bond certificates are required to be printed and delivered.

The City and the Authority may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, bond certificates will be printed and delivered to DTC.

In the event that the book-entry system is discontinued as described above, the requirements of the Indenture will apply. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Authority believes to be reliable, but the Authority takes no responsibility for the accuracy thereof.

None of the City, the Authority, the Trustee or the Underwriters can and do not give any assurances that DTC, the Participants or others will distribute payments of principal of, premium, if any, and interest on the Series 2009A Bonds paid to DTC or its nominee as the registered owner, or will distribute any prepayment notices or other notices, to the Beneficial Owners, or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. None of the City, the Authority, the Trustee or the Underwriters are responsible or liable for the failure of DTC or any Participant to make any payment or give any notice to a Beneficial Owner with respect to the Series 2009A Bonds or an error or delay relating thereto.

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