BOOK ENTRY ONLY **NOT RATED**

In the opinion of Best Best & Krieger LLP, San Diego, California ("Bond Counsel"), under existing statutes, regulations, rulings and judicial decisions, and assuming certain representations and compliance with certain covenants and requirements described herein, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest on the Bonds is exempt from State of California personal income tax. See "CONCLUDING INFORMATION — Tax Matters" herein.

$8,850,000
CITY OF SAN DIEGO
REASSESSMENT DISTRICT NO. 2003-1
LIMITED OBLIGATION REFUNDING BONDS

Dated: Date of Delivery **Due: September 2, as shown below**

The City of San Diego (the "City") is issuing its City of San Diego Reassessment District 2003-1 Limited Obligation Refunding Bonds (the "Bonds") pursuant to the Refunding Act of 1984 for 1915 Improvement Act Bonds, being Division 11.5 of the Streets and Highways Code of the State of California (the "Act") and a Bond Indenture dated as of July 1, 2003 (the "Indenture") between the City and the U.S. Bank National Association, as fiscal agent (the "Fiscal Agent"). The Bonds will mature September 2 in each of the years and in the amounts shown in the maturity schedule below.

The Bonds will be issued as fully registered Bonds and, when delivered, will be registered in the name of Cede & Co., as nominee of the Depository Trust Company, New York, New York ("DTC"), and will be available to ultimate purchasers in the denomination of $5,000 or any integral multiple thereof under the book-entry system maintained by DTC. Ultimate purchasers of the Bonds will not receive physical certificates representing their interest in the Bonds. So long as the Bonds are registered in the name of Cede & Co., as nominee of DTC, references herein to the owners shall mean Cede & Co., and shall not mean the ultimate purchasers of the Bonds. Interest is payable on March 2, 2004, and semiannually thereafter on March 2 and September 2 each year. Payments of the principal of, premium, if any, and interest on the Bonds will be made directly to DTC, or its nominee, Cede & Co., by the Fiscal Agent, so long as DTC or Cede & Co. is the registered owner of the Bonds. Disbursements of such payments to DTC's Direct and Indirect Participants is the responsibility of DTC and disbursements of such payments to the Beneficial Owners is the responsibility of DTC's Direct and Indirect Participants, as more fully described herein. See "APPENDIX G – Book-Entry Only System."

The Bonds are subject to optional and mandatory redemption prior to maturity as described herein. See "THE BONDS – Redemption."

Proceeds of the Bonds will be used (i) to fund a Reserve Fund for the Bonds, (ii) to pay the costs of issuance of the Bonds, and (iii) to refund the limited obligation improvement bonds in the outstanding principal amount $9,630,000 (the "Prior Bonds") previously issued by the City under the Improvement Bond Act of 1915 (Division 10 of the California Streets and Highways Code) with respect to three assessment districts (the "Original Assessment Districts") formed pursuant to the Municipal Improvement Act of 1913 (Division 12 of the California Streets and Highways Code).

The Bonds are special limited obligations of the City payable solely from and secured by unpaid Reassessments (as defined herein) upon real property located in the Reassessment District, certain proceeds of foreclosure proceedings related thereto and other amounts held in certain funds maintained under the Indenture. See "*SOURCES OF PAYMENT FOR THE BONDS*." Unpaid Reassessments constitute fixed liens on the lots and parcels reassessed within the Reassessment District and do not constitute a personal indebtedness of the respective owners of such lots and parcels. Accordingly, in the event of delinquency, proceedings may be conducted only against the real property securing the delinquent Reassessment. Thus, the value of the real property within the Reassessment District, against which a Reassessment has been levied, is a critical factor in determining the investment quality of the Bonds. A summary of values of property within the Reassessment District is set forth herein. See "*RISK FACTORS*" and "*THE REASSESSMENT DISTRICT*."

MATURITY SCHEDULE

Maturity Date September 2	Amount	Interest Rate	Price	Yield	CUSIP
2004	$445,000	4.250%	102.331	2.000%	797283 RF 7
2005	480,000	4.250%	102.770	2.850%	797283 RG 5
2006	505,000	4.250%	102.589	3.350%	797283 RH 3
2007	525,000	4.250%	101.289	3.900%	797283 RJ 9
2008	550,000	4.500%	100.897	4.300%	797283 RK 6
2009	575,000	4.700%	100.000	4.700%	797283 RL 4
2010	600,000	5.000%	100.000	5.000%	797283 RM 2

$1,285,000 5.125% Term Bonds Due September 2, 2012, Price 99.105, Yield 5.250%, CUSIP 797283 RP 5
$1,430,000 5.500% Term Bonds Due September 2, 2014, Price 99.180, Yield 5.600%, CUSIP 797283 RR 1
$2,455,000 5.800% Term Bonds September 2, 2017, Price 99.049, Yield 5.900%, CUSIP 797283 RU 4

THE BONDS ARE NOT A DEBT OF THE CITY OR THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS, AND NONE OF THE CITY, THE STATE OF CALIFORNIA NOR ANY OF ITS OTHER POLITICAL SUBDIVISIONS ARE LIABLE THEREFOR. THE BONDS DO NOT CONSTITUTE AN INDEBTEDNESS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION RESTRICTION. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE BONDS.

The Bonds are offered when, as and if issued, subject to approval as to validity by Best Best & Krieger LLP, San Diego, California, Bond Counsel, and to certain other conditions. Certain legal matters will be passed upon for the City by Luce, Forward, Hamilton & Scripps LLP, San Diego, California, Disclosure Counsel, and for the City by Casey Gwinn, Esq., City Attorney. It is anticipated that the Bonds will be available for delivery through the facilities of DTC, on or about August 13, 2003.

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

Stone & Youngberg LLC

Dated: August 1, 2003

CITY OF SAN DIEGO
REASSESSMENT DISTRICT NO. 2003-1
San Diego County, California

CITY OF SAN DIEGO

Dick Murphy,
Mayor

Scott Peters
Councilmember, District 1
Michael Zucchet
Councilmember, District 2
Toni Atkins
Councilmember, District 3
Charles Lewis
Councilmember, District 4

Brian Maienschein
Councilmember, District 5
Donna Frye
Councilmember, District 6
Jim Madaffer
Councilmember, District 7
Ralph Inzunza
Councilmember, District 8

CITY OFFICIALS

Michael T. Uberuaga
City Manager

Casey Gwinn
City Attorney

Ed Ryan
City Auditor and Comptroller

Patricia T. Frazier
Deputy City Manager Financial and Management Services

Charles G. Abdelnour
City Clerk

Mary E. Vattimo
City Treasurer

PROFESSIONAL SERVICES

Bond Counsel
Best Best & Krieger LLP
San Diego, California

Reassessment Engineers
Dick Jacobs Associates
Solana Beach, California
MuniFinancial
Temecula, California

Fiscal Agent
U.S. Bank National Association
Los Angeles, California

Financial Advisor
Fieldman, Rolapp & Associates, Inc.
Irvine, California

Appraiser
Rasmuson Appraisal Consulting, Inc.
San Diego, California

Verification Agent
Causey Demgen & Moore
Denver, Colorado

Disclosure Counsel
Luce, Forward, Hamilton & Scripps LLP
San Diego, California

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GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

Use of Official Statement. This Official Statement is submitted in connection with the offer and sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not to be construed as a contract with the purchasers of the Bonds.

Limit of Offering. No dealer, broker, salesperson or other person has been authorized by the City to give any information or to make any representations in connection with the offer or sale of the Bonds 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 Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

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

Information Subject to Change. The information and expressions of opinion herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City, the Reassessment District, or any other entity described or referenced herein since the date hereof. All summaries of the documents referred to in this Official Statement 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.

Stabilization of Prices. In connection with this offering, the Underwriter may overallot or effect transactions which stabilize or maintain the market price of the Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriter may offer and sell the Bonds to certain dealers and others at prices lower than the public offering prices set forth on the cover page hereof and said public offering prices may be changed from time to time by the Underwriter.

Estimates and Forecasts. When used in this Official Statement and in any continuing disclosure by the City, in any press release and in any oral statement made with the approval of an authorized officer of the City or any other entity described or referenced herein, the words or phrases “will likely result,” “are expected to,” “will continue,” “is anticipated,” “estimate,” “project,” “forecast,” “expect,” “intend” and similar expressions identify “forward looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material.

THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXCEPTION FROM THE REGISTRATION REQUIREMENTS CONTAINED IN SUCH ACT. THE BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

CITY OF SAN DIEGO
REASSESSMENT DISTRICT NO. 2003-1
Regional Location Map

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OFFICIAL STATEMENT

$8,850,000
CITY OF SAN DIEGO
REASSESSMENT DISTRICT NO. 2003-1
LIMITED OBLIGATION REFUNDING BONDS

INTRODUCTORY STATEMENT

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

This Official Statement, including the cover page and appendices hereto, is provided to furnish certain information regarding the City of San Diego (the "City") and its $8,850,000 Reassessment District No. 2003-1 Limited Obligation Refunding Bonds (the "Bonds").

Purpose of the Bonds

The Bonds are being executed and delivered for the purpose of refunding certain outstanding assessment district bonds of the City described below. Proceeds of the sale of the Bonds will be used (i) to fund a Reserve Fund for the Bonds, (ii) to pay the costs of issuance of the Bonds, and (iii) to refund the Prior Bonds. See "*PLAN OF FINANCE – Sources and Uses of Funds*."

Sources of Payment of the Bonds

Pursuant to the provisions of the Refunding Act of 1984 for 1915 Improvement Act Bonds (Chapter 3 of Division 11.5 of the California Streets and Highways Code (the "Refunding Act"), the City is issuing the Bonds for the purpose of refunding three prior series of limited obligation improvement bonds of the City issued for the Original Assessment Districts (collectively, the "Prior Bonds"). The Bonds are payable from and secured by unpaid reassessments ("Reassessment") against those properties located within the City's Reassessment District No. 2003-1 (the "Reassessment District"). The Reassessment District includes 113 assessment parcels of property located in two non-contiguous areas of the City, of which 111 are subject to reassessment. The Reassessment District is composed of parcels formerly included in three separate Original Assessment Districts which totaled approximately 324 acres before prepayment of the original assessments on five parcels. See "*THE REASSESSMENT DISTRICT – Prepayments History*."

The Bonds will be issued pursuant to, and be secured by, the terms of the Indenture between the City and U.S. Bank National Association, as fiscal agent (the "Fiscal Agent"). See "*APPENDIX F – Summary of Legal Documents - The Bond Indenture.*" The Bonds are payable from annual Reassessment installments which, if paid when due, will be sufficient to provide for annual payments of principal and semiannual payments of interest on the Bonds. See "*SOURCES OF PAYMENT FOR THE BONDS*" and "*RISK FACTORS*" herein.

Limited Obligations

The Bonds are special obligations of the City. The Bonds shall not be deemed to constitute a debt or liability of the City, the State or of any political subdivision thereof. The City shall only be obligated to pay the principal of the Bonds and the interest thereon from the funds described herein, and neither the faith and credit nor the taxing power of the City, the State of California or any of its political subdivisions is pledged to the

payment of the principal of or the interest on the Bonds. See *"SOURCES OF PAYMENT FOR THE BONDS"* and *"RISK FACTORS"* herein.

Engineers' Report

Dick Jacobs Associates and MuniFinancial, Inc. (the "Reassessment Engineers") have prepared a written report (the "Engineers' Report") for the Reassessment District which contains, among other things, the amount of each Reassessment and the method of allocation. See " *THE REASSESSMENT DISTRICT– Assessed Value-to-Lien Ratios*" herein and "*APPENDIX A – Reassessment Diagram and Appraisal Reports.*"

Appraisal Reports

Rasmuson Appraisal Consulting, Inc. (the "Appraiser") has prepared a written report (the "Appraisal") appraising the market value of 14 parcels of property within the Reassessment District (the "Appraised Parcels") which (i) have assessed value-to-lien ratios of less than 3:1 based on assessed valuations determined by the County Tax Assessor as of January 1, 2002 and included in the 2002/03 tax roll, (ii) are responsible for more than 1% of the Reassessments but have an assessed value-to-lien ratio of less than 4-to-1, or (iii) have outstanding delinquencies and assessed value-to-lien ratios of less than 4-to-1, and (iv) were recommended by the Underwriter for inclusion or exclusion from the Appraisal. The Appraisal is qualified by certain assumptions and conditions described therein. See "*THE REASSESSMENT DISTRICT – Appraised Value-to-Lien Ratios*," and "*APPENDIX A – Reassessment Diagram and Appraisal Reports*" and "*APPENDIX B – General Information Regarding Reassessed Properties*."

The City

The City is situated in the southwest portion of San Diego County, in the State of California. The City encompasses a land area of approximately 330 square miles and has an estimated population of 1.3 million. It is the seventh largest city in the nation and the second largest city in California. Additional information regarding the City is set forth in "*THE CITY*" herein and "*APPENDIX C – Supplemental Information Concerning the City of San Diego*" hereto.

Bond Owners' Risks

Prospective investors should review this Official Statement and the Appendices hereto in their entirety and should consider certain risk factors associated with the purchase of the Bonds, some of which have been summarized in the section entitled "*RISK FACTORS*" herein.

Continuing Disclosure

The City has covenanted for the benefit of the Owners and Beneficial Owners of the Bonds to provide certain financial information and operating data relating to the City and the Reassessment District by not later than April 1st following the end of the City's fiscal year ended June 30, commencing with the report for the 2002/03 Fiscal Year (the "Annual Report"), and to provide notice of the occurrence of certain enumerated events, if material. The Affiliated Companies (as defined below), which together constitute an "obligated person" under the Rule (as defined below), have covenanted, for the benefit of the Owners and Beneficial Owners of the Bonds to provide certain information relating to certain property in the Reassessment District on a semi-annual basis (the "Semi-Annual Report"), and to provide notice of the occurrence of certain material events. Each Annual Report will be filed by the City as Dissemination Agent, and the Semi-Annual Report will be filed by the Fiscal Agent, as Dissemination Agent on behalf of the Affiliated Companies, respectively, with each Nationally Recognized Municipal Securities Information Repository ("NRMSIR"). The notices of material events will be filed by the City or the Dissemination Agent on behalf of the City or the Affiliated Companies, as applicable, with each NRMSIR and the Municipal Securities Rulemaking Board. These covenants have been made in order to assist the Underwriters in complying with Rule 15c2-12(b)(5) (the "Rule") promulgated by the U.S. Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). See "*CONCLUDING INFORMATION -- Continuing Disclosure*" and "*APPENDIX D – Forms of Continuing Disclosure Agreements.*"

Forward Looking Statements

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the Exchange Act, and identifiable by the terminology used such as "plan," "expect," "estimate," "project," "budget" or 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. THE CITY DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THE FORWARD-LOOKING STATEMENTS SET FORTH IN THIS OFFICIAL STATEMENT.

Other Information

Brief descriptions of the Bonds, the Indenture and the Continuing Disclosure Agreements are included in this Official Statement. Such descriptions and information do not purport to be comprehensive or definitive. All references herein to the Indenture and the Continuing Disclosure Agreements are qualified in their entirety by reference to such documents. References herein to the Bonds are qualified in their entirety by reference to the form thereof included in the Indenture. Until the issuance and delivery of the Bonds, copies of the documents described herein may be obtained from the City, and after delivery of the Bonds, copies of such documents will be available at the corporate trust office of the Fiscal Agent located at Corporate Trust Division, 550 S. Hope Street, Suite 500, Los Angeles, California 90071.

PLAN OF FINANCE

Refunding of Prior Bonds

Proceeds of the sale of the Bonds, together with monies held in certain funds and accounts relating to the Prior Bonds, will be deposited in the Escrow Fund to be established pursuant to an Escrow Agreement, dated as of July 1, 2003 by and between the City and U.S. Bank National Association, as Escrow Agent, in an amount sufficient to pay the interest on the Prior Bonds due and payable on September 2, 2003, the principal of the Prior Bonds maturing on September 2, 2003 and the principal of and redemption premium on the other Prior Bonds in order to redeem such Prior Bonds on September 2, 2003. The monies held in the Escrow Fund will be invested in federal securities, are pledged solely for the payment of the Prior Bonds and such monies will not be available for the payment of the Bonds. All Prior Bonds issued with respect to the Original Assessment Districts will be redeemed on September 2, 2003, in the principal amounts and at the redemption prices (expressed as a percentage of the principal amount thereof) as shown below.

	Original Assessment Districts	Outstanding Prior Bonds	Redemption Price	Lien of Reassessments
1.	AD 4011 (De La Fuente Business Park – Phase I)	$2,800,000	103%	$2,685,000
2.	AD 4021 (De La Fuente Business Park – Phase II)	4,335,000	100%	3,685,000
3.	AD 4036 (International Business Center Project)	2,495,000	103%	2,480,000
TOTAL		$9,630,000		$8,850,000

The Original Assessment Districts, including their full names, are discussed in "*THE REASSESSMENT DISTRICT - Original Assessment Districts*" herein.

Sources and Uses of Funds

The following table sets forth estimated sources and uses relating to the issuance of the Bonds.

Sources of Funds	
Principal Amount of Bonds	$8,850,000.00
Net Original Issue Premium	1,917.60
Prior Bonds Reserve Fund	1,207,829.00
Prior Bonds Redemption Funds(1)	1,409,847.00
Total Sources	**$11,469,593.60**
Uses of Funds	
Deposit to Escrow Fund:	$10,128,228.03
Reserve Fund	$885,191.76
Costs of Issuance Fund(2)	310,000.00
Underwriter's Discount	146,025.00
Miscellaneous/Contingency	148.81
Total Uses	**$11,469,593.60**

(1) Represents assessment installments received by the City for payment of the Prior Bonds maturing on September 2, 2003 and interest due on all of the outstanding Prior Bonds due on September 2, 2003.
(2) Includes fees and expenses of Financial Advisor, Bond Counsel, Disclosure Counsel, Reassessment Engineers, Appraiser and Verification Agent, Official Statement printing, initial fees and expenses of the Fiscal Agent and other costs of issuing the Bonds.

Debt Service Schedule

The table below sets forth the scheduled annual debt service payments on the Bonds, assuming no optional redemption of the Bonds from prepayments of Reassessments or otherwise.

Year Ending September 2	Principal	Interest	Total	Year Ending September 2	Principal	Interest	Total
2004	$445,000	$475,601.58	$920,601.58	2011	$625,000	$286,896.26	$911,896.26
2005	480,000	432,846.26	912,846.26	2012	660,000	254,865.02	914,865.02
2006	505,000	412,446.26	917,446.26	2013	695,000	221,040.00	916,040.00
2007	525,000	390,983.76	915,983.76	2014	735,000	182,815.00	917,815.00
2008	550,000	368,671.26	918,671.26	2015	770,000	142,390.00	912,390.00
2009	575,000	343,921.26	918,921.26	2016	820,000	97,730.00	917,730.00
2010	600,000	316,896.26	916,896.26	2017	865,000	50,170.00	915,170.00

THE BONDS

Authority for Issuance of the Bonds

The proceedings for the levy of Reassessments within the Reassessment District and the authorization for the issuance of the Bonds were conducted pursuant to the Refunding Act of 1984 for 1915 Improvement Act Bonds (Division 11.5 of the California Streets and Highways Code) (the "Refunding Act"), Article XIIID of the Constitution of the State of California and the Proposition 218 Omnibus Implementation Act (Government Code Section 53750 and following) and the Bond Indenture dated as of July 1, 2003 (the "Indenture"), all as approved by resolutions adopted by the City Council. The Bonds are being issued pursuant to the Constitution and laws of the State of California (the "State"), including the Refunding Act and certain provisions of the Improvement Bond Act of 1915 (the "1915 Act") incorporated by reference into the Refunding Act, Resolution No. R-298079, adopted by the City Council on June 10, 2003 (the "Resolution") and the Indenture.

Denomination and Payment

The Bonds will be issued in the aggregate principal amount of $8,850,000 and will be dated as of the date of delivery of the Bonds. The Bonds will be issued in denominations of $5,000 each or any integral multiple thereof. They will mature on September 2 in each of the designated years, and in the principal amounts, shown on the cover page hereof.

Initially, the Bonds issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York, which will act as a securities depository for the Bonds. See "*APPENDIX G – Book-Entry Only System*" herein. All references herein to the owners or holders of the Bonds, as long as the Bonds are in book-entry only form, shall refer to DTC and not the Beneficial Owners of the Bonds.

The principal of, and premium, if any, on the Bonds will be payable upon maturity and surrender thereof at the office of the Fiscal Agent. Interest on the Bonds will be paid by check of the Fiscal Agent mailed by first class mail on each March 2 and September 2, commencing March 2, 2004 (each an "Interest Payment Date"), to the person in whose name the Bond is registered at the close of business on the fifteenth day of the month preceding the applicable Interest Payment Date (the "Record Date"), or by wire transfer to an account in the United States made on an Interest Payment Date upon written instructions received by the Fiscal Agent on or before the Record Date from an owner of $1,000,000 or more in aggregate principal amount of Bonds. For as long as the Bonds are in book-entry form and DTC is the securities depository, DTC or its nominee Cede & Co. will be the sole owner of the Bonds, and payment of principal and interest will be made only to such owner. Disbursal of such payments to beneficial owners is the responsibility of the DTC Direct Participants. See "*APPENDIX G – BOOK-Entry Only System*."

Each Bond will bear interest from the Interest Payment Date next preceding the date on which it is authenticated and registered, unless (i) said Bond is authenticated on or before an Interest Payment Date and after the close of business on the preceding Record Date, in which case it will bear interest from such Interest Payment Date; (ii) said Bond is authenticated prior to the first Record Date, in which case it shall bear interest from the date of delivery; or (iii) interest on any Bond is in default as of the date of authentication thereof, in which event interest on such Bond shall be payable from the date to which interest has been paid in full, until payment of its principal sum has been discharged. Interest shall be calculated based on a 360-day year comprised of twelve 30-day months.

Redemption

Mandatory Redemption. The Bonds are subject to mandatory redemption, in whole or part, on any Interest Payment Date on or after March 2, 2004, from the proceeds of the prepayment of a Reassessment, in whole or in part, on any parcel within the Reassessment District. The Bonds subject to mandatory redemption will be redeemed at a redemption price equal to the lesser of (i) 103% of the principal amount of the Bonds to be redeemed or (ii) the redemption premium which would apply in the event of an optional redemption under the Indenture, in each case, plus accrued interest on such amount to the redemption date.

Optional Redemption From Any Source of Funds. The Bonds maturing on or before September 2, 2012 are not subject to optional redemption prior to maturity. The Bonds maturing on or after September 2, 2013 shall be subject to optional redemption, in whole or part, on any Interest Payment Date on or after September 2, 2012 from any source of available funds, at a redemption price equal to the principal amount thereof, without premium, plus accrued interest to the date of redemption.

Optional Redemption From Residual Payments. The Bonds are subject to optional redemption, at the discretion of the City, in whole or in part on any March 2 or September 2, commencing March 2, 2004, from the proceeds of Residual Payments at a redemption price equal to the lesser of (i) 103% of the principal amount of the Bonds to be redeemed, or (ii) the redemption price that would apply in the event of an Optional Redemption From Any Source of Funds, in each case, plus accrued interest to the date of redemption. Residual Payments are funds representing (i) the payment of delinquent assessment installments for any of the Original Assessment Districts and (ii) the proceeds of the judicial foreclosure sale of any parcel within the Original Assessment Districts resulting from the delinquency in payment of assessment installments of the Original Assessment Districts received by the City and which have not been utilized to defease the Original Bonds. Residual Payments do not include assessments for annual administration or penalties and interest charges on delinquent installments that are payable to the Assessment District Delinquency Fund. See *"SOURCES OF PAYMENT FOR THE BONDS – Assessment District Delinquency Fund"* below.

Purchase in Lieu of Redemption

In lieu of redemption of any Bond pursuant to the provisions for mandatory redemption or optional redemption, amounts on deposit in the funds held by the Fiscal Agent for any such redemption may also be used and withdrawn by the Fiscal Agent at any time prior to selection of Bonds for redemption having taken place with respect to such amount, upon a written request for the purchase of such Bonds at public or private sale as and when and at such prices (including brokerage and other charges) as the City may in its discretion determine, but not in excess of the redemption price thereof plus accrued interest to the purchased date. All Bonds so purchased shall be delivered to the Fiscal Agent for cancellation.

Selection of Bonds for Redemption

Whenever less than all the outstanding Bonds are to be redeemed on any one date, the City will select the Bonds to be redeemed in such a way that the ratio of outstanding Bonds to issued Bonds shall be approximately the same in each maturity insofar as possible. The City will treat each Bond of a denomination of more than five thousand dollars ($5,000) as representing that number of Bonds of five thousand dollars ($5,000) denomination which is obtained by dividing the principal amount of such Bond by five thousand dollars ($5,000), and the portion of any Bond of a denomination of more than five thousand dollars ($5,000) to be redeemed shall be redeemed in an Authorized Denomination. Whenever provision is made in the Indenture for the redemption of less than all of the Bonds of a maturity, the Fiscal Agent shall select the Bonds to be redeemed from all Bonds of such maturity not previously called for redemption, by lot in any manner which the Fiscal Agent in its sole discretion shall deem appropriate.

Notice of Redemption

At least 30 but not more than 60 days prior to the redemption date, the Fiscal Agent shall give by registered or certified mail or by personal service a copy of such notice, to the respective owners of the Bonds to be redeemed at their addresses appearing on the Bond register. The actual receipt by the owner of any Bond of notice of such redemption shall not be a condition precedent thereto, and failure to receive such notice or any defect therein shall not affect the validity of the proceedings for the redemption of such Bonds, or the cessation of interest on the redemption date. A certificate by the Fiscal Agent that notice of such redemption has been given as provided in the Indenture shall be conclusive as against all parties, and it shall not be open to any Bond Owner to show that he or she failed to receive notice of such redemption.

The Indenture provides that neither failure of a Bond Owner to receive the notice described above nor any defect therein shall in any manner affect the redemption of the Bonds.

Effect of Redemption

If on a redemption date, money for the redemption of all the Bonds to be redeemed as provided in the Indenture, together with interest to such redemption date, shall be available therefor on such redemption date, and if notice of redemption thereof shall have been given as aforesaid, then from and after such redemption date, interest with respect to the Bonds to be redeemed shall cease to accrue. All money held for the redemption of Bonds shall be held in trust for the account of the registered owners of the Bonds so to be redeemed.

All Bonds paid at maturity or redeemed prior to maturity pursuant to the provisions of the Indenture shall be canceled upon surrender thereof and be delivered to or upon the order of the City. All or any portion of a Bond purchased by the City shall be canceled by the Fiscal Agent.

When any Bonds (or portions thereof), which have been duly called for redemption prior to maturity under the provisions of the Indenture, or with respect to which irrevocable instructions to call for redemption prior to maturity at the earliest redemption date have been given to the Fiscal Agent, in form satisfactory to it, and sufficient monies shall be held irrevocably in trust for the payment of the redemption price of such Bonds or portions thereof, all as provided in the Indenture, then such Bonds shall no longer be deemed outstanding and shall be surrendered to the Fiscal Agent for cancellation.

SOURCES OF PAYMENT FOR THE BONDS

Repayment of the Bonds

General. The Bonds are payable solely from and secured by unpaid Reassessments together with interest thereon, on parcels located within the Reassessment District. See "*PLAN OF FINANCE*" and "*THE REASSESSMENT DISTRICT*." Installments of Reassessments will be billed by the County on the general property tax bill to the owners and parcels within the Reassessment District. The County, upon collection, will remit the portion of the tax payment attributable to the Reassessment installments to the City. Upon receipt by the City, Reassessment installments are to be transferred to the Fiscal Agent and deposited into the Redemption Fund established under the Indenture to pay principal and interest payments on the Bonds as they become due.

Pursuant to the provisions of California Streets and Highways Code Section 8769, the City has determined not to obligate itself to advance funds from any funds, accounts or revenues of the City to cure any deficiency which may occur in the funds and accounts held under the Indenture for payment of the Bonds. If a delinquency occurs in the payment of any Reassessment installment, the City, at the end of the fiscal year of delinquency, has no duty to transfer to the Fiscal Agent under the Indenture the amount of the delinquency out of available funds of the City. While ad valorem property tax levies may be advanced to the City by the County in amounts in excess of actual collections under a tax collection mechanism known as the Teeter Plan, Reassessment installments collected on the tax roll are not covered by the Teeter Plan. NO OTHER FUNDS OF THE CITY ARE PLEDGED FOR PAYMENT OF DELINQUENT REASSESSMENT INSTALLMENTS. THE BONDS ARE NOT GENERAL OBLIGATIONS OF THE CITY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS. NEITHER THE FAITH IN CREDIT, NOR THE TAXING POWER OF THE CITY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE BONDS.

Redemption Fund. The Fiscal Agent is directed under the Indenture to establish and maintain a Redemption Fund into which will be placed all sums received for the collection of the Reassessments and the interest thereon. The City shall transfer or cause to be transferred to the Fiscal Agent within 30 business days of receipt by the City, (i) all sums received for the collection of the Reassessments and interest thereon, (ii) all sums received for the prepayment of Reassessments and (iii) at the discretion of the City, all delinquent installments received in payment of the original assessments of the Original Assessment Districts not refunded by the Reassessments and which have not been utilized to defease the Original Bonds (the "Residual Payments") Penalties and interest arising from delinquent Reassessment Installments and delinquent installments of the Original Assessment Districts are not pledged to the Bonds, and instead are deposited in the City's Assessment District Delinquency Fund. See "*SOURCES OF PAYMENT FOR THE BONDS – Assessment District Delinquency Fund*" below.

Prepayment Account. The Fiscal Agent is directed under the Indenture to establish a prepayment subaccount within the Redemption Fund to be known as the Prepayment Account. The Fiscal Agent shall deposit in the Prepayment Account all monies received from the City Treasurer representing the principal of and redemption premium on any prepaid Reassessments. Such amounts shall be identified in writing to the Fiscal Agent. Such monies shall be applied solely to the payment of principal of and premium on Bonds to be redeemed prior to maturity pursuant to the provisions of the Indenture.

Reserve Fund. In order to secure the timely payment of principal of and interest on the Bonds, the City is required, upon delivery of the Bonds, to deposit $885,191.76 in the Reserve Fund to be held by the Fiscal Agent. Such initial deposit shall equal the Reserve Requirement as of the date of delivery of the Bonds (the "Reserve Requirement"), which is the least of (i) maximum annual debt service on the Bonds, (ii) 125% of average annual debt service on the Bonds or (iii) 10% of the original principal amount of the Bonds less the original issue discount plus the original issue premium. The Fiscal Agent is required to maintain in the Reserve Fund an amount of money equal to the Reserve Requirement less any amounts transferred from the Reserve Fund in connection with the prepayment or expiration of Reassessments. The Reserve Requirement shall change as a result of the prepayment of any Reassessment. Amounts in the Reserve Fund will be used to pay debt service on the Bonds to the extent other monies are not available therefor.

Levy and Collection of Reassessments

Pursuant to the Refunding Act, installments of Reassessments will be billed by the County on the general property tax bill to the owner of parcels within the Reassessment District against which there are unpaid Reassessments. Installments of Reassessments billed against the parcels of property in the Reassessment District will be equal to the total principal and interest coming due on all of the Bonds that year, plus an administrative charge. The installments billed against each property each year represent a pro rata share of the amount needed to pay the total principal and interest on the Bonds coming due that year, based on the percentage which the unpaid Reassessment levied against that property bears to the total of unpaid Reassessments levied to repay the Bonds. Reassessments will be collected and are payable and become delinquent at the same time and in the same proportionate amounts and bear the same proportionate penalties and interest after delinquency as do general taxes, and the parcels upon which the Reassessments are levied are subject to the same provisions for sale and redemption as are properties for nonpayment of general taxes. Each Reassessment and each installment thereof and any interest and penalties thereon constitutes a lien against the parcel of land on which it is levied until paid. Only the Reassessments and installments thereof are pledged to secure the Bonds.

The lien of the Reassessments is co-equal to and independent of the lien for general ad valorem property taxes and other taxes, special taxes and charges collected on the property tax roll. The lien is subordinate to all fixed special assessment liens imposed prior to the date of recordation of the assessment lien for the Prior Bonds upon the same property, but has priority over all existing and future private liens and over all fixed special assessment liens which may thereafter be levied against the property.

Although the Reassessments constitute a fixed lien on the respective assessed parcels, they do not constitute personal indebtedness of the affected property owners. Further, there are no restrictions on the ability of property owners to sell parcels subject to Reassessments. No assurance can be given as to the ability or the willingness of any assessee to pay the annual installments of the Reassessments when due. The failure of an assessee to pay an annual installment of a Reassessment will not result in an increase in Reassessments against other parcels in the Reassessment District. See "*RISK FACTORS – Landowners Not Personally Liable for Payment*" herein.

The City has covenanted in certain circumstances to undertake and diligently prosecute foreclosure proceedings following a delinquency in the payment of Reassessments. See "*SOURCES OF PAYMENT FOR THE BONDS – Covenant to Foreclose*" below. The City is not required to bid at the foreclosure sale.

In the proceedings for the authorization and issuance of the Bonds, the City has determined not to obligate itself to advance any available funds from the City treasury to cover any deficiency or delinquency that may occur in the Redemption Fund by reason of the failure of a property owner to pay an annual installment of a Reassessment. This determination does not prevent the City, in its sole discretion, from so advancing such funds.

Assessment District Delinquency Fund

Pursuant to its Ordinance No. O-17882 adopted December 8, 1992, the City established its Assessment District Delinquency Fund, into which all penalties and interest on delinquent amounts assessed under provisions of the Improvement Bond Act of 1915 ("1915 Act"), the Mello-Roos Community Facilities District Act of 1982 ("1982 Act") or the Lighting and Landscape Improvement Act of 1972 ("1972 Act"), will be deposited to be used by the City for the costs incurred in fulfilling its obligations under assessment bond indentures and to protect the integrity of the districts. **Amounts deposited in the Assessment District Delinquency Fund are not pledged to payment of the Bonds, nor is the City obligated to use monies in the Assessment District Delinquency Fund in any particular instance**.

By Resolution No. R-297878 adopted April 22, 2003 in connection with formation of the Reassessment District, the City authorized the expenditure of $154,815.77 from the Assessment District Delinquency Fund to pay delinquent special assessments levied by Original Assessment District No. 4021 and to waive penalties and interest thereon with respect to what are now Reassessment parcels 85, 94-96 and 98. See "*THE REASSESSMENT DISTRICT – Appraised Value-to-Lien Ratios*" and *"- De La Fuente Business Park, Inc. v. The City of San Diego"* below.

The Assessment District Delinquency Fund had a balance, as of June 30, 2003, of approximately $618,665, which is available for use in connection with five 1915 Act and 1982 Act districts (including the Reassessment District) with a total of $153 million of bonds outstanding, and forty-one 1972 Act districts which do not have bonded debt.

Method of Reassessment Spread

The Refunding Act provides for the issuance of refunding bonds, payable from certain reassessments. Such refunding bonds may be issued to refund bonds originally issued under the 1915 Act, and the reassessments supersede the original assessments which secure such 1915 Act bonds. Therefore, the reassessment spread for each parcel will be roughly proportional to the original assessment spread. The City has retained MuniFinancial, Inc. and Dick Jacobs Associates (collectively, the "Reassessment Engineers") to calculate the Reassessments in accordance with the Refunding Act. Because the parcels did not meet the summary refunding test under the Refunding Act, the City fixed a time for a public hearing on the proposed reassessment and held an assessment ballot proceeding pursuant to Article XIII D of the Constitution of the State of California and the Proposition 218 Omnibus Implementation Act (Government Code Section 53750 and following). The assessment ballots submitted in support of the levy of the reassessments exceeded the assessment ballots in opposition to such levy therefore, there was not a majority protest to this levy of the reassessments.

A copy of the Engineers' Report on the Reassessment apportionment for the Reassessment District prepared by the Reassessment Engineer is available for inspection at the City of San Diego, Office of the City Clerk.

The 1915 Act requires that assessments, as levied pursuant to the provisions of the 1913 Act, must be based on the benefit that the subject properties receive from the works of improvement. The 1915 Act does not specify the method or formula that should be used in any particular special assessment district proceeding. That responsibility rests with the assessment engineer, who is retained by the City for the purpose of making an analysis of the facts and determining the correct apportionment of the assessment obligation. For the proceedings relating to the issuance of the Prior Bonds, the City retained assessment engineers for each of the Original Assessment Districts. The 1915 Act provides that the assessment engineer recommends the cost and method of apportionment of the assessments at the public hearing on the assessment district, and final authority and action with respect to the levy of the assessments rests with the City Council after hearing all testimony and evidence presented at the public hearing. Upon the conclusion of the public hearing, the City Council must take final action in determining whether or not the assessment apportionment has been made in direct proportion to the benefits received by the properties assessed.

In each of the Original Assessment Districts the assessment engineer, after first confirming that the proposed improvement project did in fact provide benefit to the parcels of land located within the respective assessment district, assessed the total cost of the improvement project against the assessable parcels of land in that assessment district.

Covenant to Foreclose

The Bonds issued under the Refunding Act are subject to the provisions of the 1915 Act with respect to foreclosure remedies. The 1915 Act provides that upon default in the payment of any installment of an assessment, the parcel securing such assessment shall be sold (and shall be subject to the right of redemption by the owner) in the same manner in which real property is sold for the nonpayment of general *ad valorem* property taxes.

The 1915 Act also provides that, as a cumulative remedy, in the event any installment of an assessment is not paid when due, the City may order the collection of the installment by the institution of a court action to foreclose the lien of such assessment. In such an action, the real property subject to the unpaid assessment may be sold at a judicial foreclosure sale. This foreclosure sale procedure is not mandatory. In the Indenture, the City has covenanted that it will determine or cause to be determined, no later than August 15 of each year in which the Bonds are outstanding, whether or not any owners of the real property within the Reassessment District are delinquent in the payment of Reassessment installments. If such delinquencies exist, the City shall order and cause to be commenced an action in the Superior Court to foreclose the lien of any Reassessment or installment thereof not paid when due, no later than the next following November 1 against any parcel that is subject to delinquencies of more than $7,500 or any group of parcels under common ownership with aggregate delinquencies of more than $7,500, except that during any period in which the amount on deposit in the Reserve Fund is less than the Reserve Requirement then the City shall commence foreclosure proceedings against any parcel that is subject to delinquencies of more than $2,500 or any group of parcels under common ownership with aggregate delinquencies of more than $2,500. The City further covenants in the Indenture to diligently prosecute any such foreclosure action.

In the event such judicial foreclosure or foreclosures are necessary, there may be a delay in payments to owners of the Bonds pending prosecution of the foreclosure proceedings and receipt by the City of the proceeds of the foreclosure sale. It is also possible that no acceptable bid for the purchase of the applicable parcel would be received at the foreclosure sale.

Judicial Foreclosure Sale Proceedings

The 1915 Act provides that the court in a foreclosure proceeding has the power to order a parcel securing delinquent assessments to be sold for an amount not less than all delinquent annual installments of the assessments, interest, penalties, costs, fees and other charges that are delinquent at the time the foreclosure action is ordered and certain other fees and amounts as provided in the 1915 Act (the "Minimum Price"). The court may also include subsequent delinquent assessments and all other delinquent amounts. These provisions also apply in foreclosure proceedings to recover delinquent Reassessments.

If the parcel is sold to a purchaser other than the City, the City shall pay the proceeds from the sale of the parcel after payment of any expenses related to the foreclosure into the Redemption Fund. The City has no obligation to advance any monies (other than the foreclosure sale proceeds) to the Redemption Fund. However, if the City for any reason voluntarily chooses to advance funds, then the City shall be reimbursed, from the proceeds of a sale, first for amounts advanced by it to the Redemption Fund to cover delinquent installments of the Reassessments and interest with respect to the parcel or parcels sold in such proceedings. Any funds in excess of the amount necessary to reimburse the City may be applied by the City to reimburse other funds, if any, used to cover delinquent installments of the Reassessments and interest or to pay interest and penalties, costs, fees and other charges, to the extent they were included in the sale proceeds.

If the parcel or parcels to be sold fails to sell for the Minimum Price, the City may petition the court to modify the judgment so that the parcel or parcels may be sold at a lesser price or without a Minimum Price. In certain circumstances, as provided in the 1915 Act, the court may modify the judgment after a hearing if the court makes certain determinations, including determinations that the sale at less than the Minimum Price will not result in an ultimate loss to the owners of the Bonds or that the owners of at least 75% of the principal amount of the Bonds outstanding have consented to the petition and the sale will not result in an ultimate loss to nonconsenting bondholders. The court may also make such modification of the judgment upon consent of the owners of at least 75% of the principal amount of the Bonds without determining that the sale will not result in an ultimate loss to the nonconsenting bondholders if: (i) the City is not obligated to advance available funds to cure a deficiency; (ii) no bids equal to or greater than the Minimum Price have been received at the foreclosure sale; (iii) no funds remain in the special reserve fund; (iv) the City has reasonably determined that a reassessment and refunding proceeding is not practicable or has in good faith endeavored to accomplish a reassessment and refunding and has not been successful, or has completed reassessment and refunding arrangements which will, to the maximum extent feasible, minimize the ultimate loss to the bondholders; and (v) no other remedy acceptable to the owners or holders of 75% or more of the principal amount of the outstanding Bonds, is reasonably available. Neither the parcel owner nor any holder of a security interest in the parcel, nor any defendant in the foreclosure action, nor any agent thereof, may purchase the parcel at the foreclosure sale for less than the Minimum Price. The assessment lien upon property sold at a lesser price than the Minimum Price is to be reduced by the difference between the Minimum Price and the sale price.

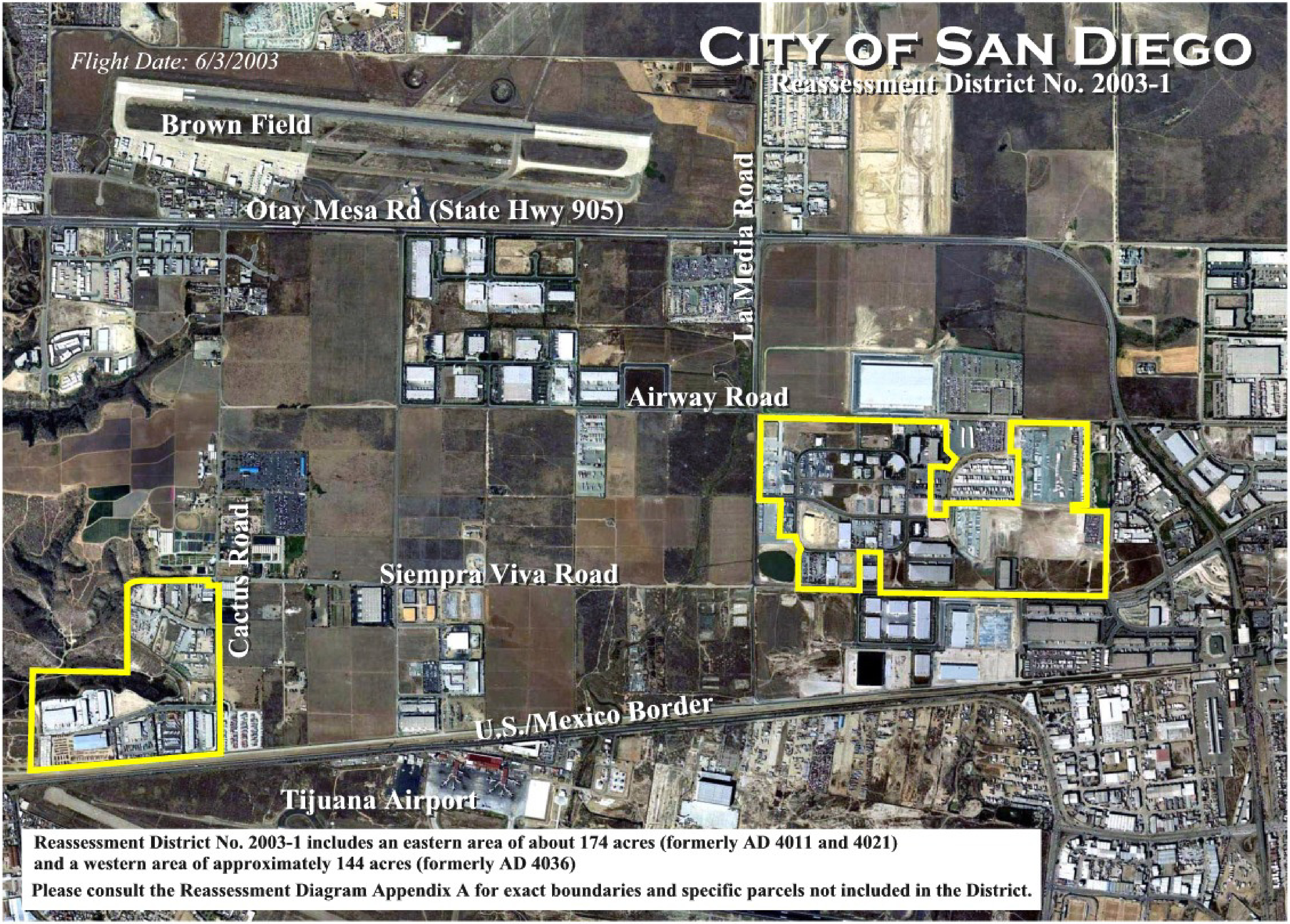
No assurance can be given that in the event of a foreclosure proceeding a parcel could be sold for the full amount of the delinquency or that any bid would be received for such parcel. See "*RISK FACTORS – Land Values*" herein. The ability of the City to foreclose the lien of a delinquent installment of a Reassessment may be limited by bankruptcy, insolvency or other laws generally affecting creditors' rights or by California law relating to judicial foreclosure. See "*RISK FACTORS – Bankruptcy and Foreclosure*."

Sales of Tax-Defaulted Property Generally

A parcel securing delinquent installments of a Reassessment that is not sold pursuant to the judicial foreclosure proceeding as described above may be sold, subject to redemption by the parcel owner, in the same manner and to the same extent as real property sold for nonpayment of general City property taxes. On or before June 30 of the tax year in which such delinquency occurs, the parcel becomes tax-defaulted. This initiates a five-year period during which the parcel owner may redeem the parcel. At the end of the five-year period the parcel becomes subject to sale by the County Treasurer and Tax Collector. Except in certain circumstances, as provided in the 1915 Act, the purchaser at any such sale takes such parcel subject to all delinquent installments of the Reassessment, interest and penalties, costs, fees and other charges which are not satisfied by application of the sales proceeds and subject to all prior assessments which may have priority.

THE CITY

The City of San Diego (the "City") is situated in the southwest portion of San Diego County (the "County"), in the State of California. The City encompasses a land area of approximately 330 square miles and has an estimated population of 1.3 million. The City is the seventh largest city in the nation and the second largest city in California. Over the past ten years, the City has experienced rapid growth and an expanding diversified economy. Recent growth has concentrated on four major areas: high-tech manufacturing and research (including electronics, communications equipment, scientific instruments, drugs and biomedical equipment); professional services; tourism and international trade. In addition to these expanding industries, the City benefits from a stable economic foundation composed of basic manufacturing (ship building, industrial machinery, television and video equipment, and printing and publishing), public and private higher education, health services, military and local government. Additional information regarding the City is set forth in "*APPENDIX C – Supplemental Information Concerning the City of San Diego*" hereto.


CITY OF SAN DIEGO
Reassessment District No. 2003-1
Flight Date: 6/3/2003
Brown Field
Otay Mesa Rd (State Hwy 905)
La Media Road
Airway Road
Siempra Viva Road
Cactus Road
U.S./Mexico Border
Tijuana Airport
Reassessment District No. 2003-1 includes an eastern area of about 174 acres (formerly AD 4011 and 4021)
and a western area of approximately 144 acres (formerly AD 4036)
Please consult the Reassessment Diagram Appendix A for exact boundaries and specific parcels not included in the District.

THE REASSESSMENT DISTRICT

General

The Reassessment District is located in the City of San Diego and includes 113 parcels of real property, of which 111 are subject to Reassessment. The Reassessment parcels are located in the southern portion of the City and are grouped in two noncontiguous areas as shown in the Reassessment Diagram. One portion of the Reassessment District abuts the boundary with Mexico. See "*APPENDIX A – Reassessment Diagram and Appraisal Reports*" hereto. The Reassessment District is composed of parcels formally included in the three Original Assessment Districts which totaled approximately 324 acres before the prepayment and termination of assessments on five parcels. See "THE REASSESSMENT DISTRICT – *Prepayments History*" below. There are now a total of 318.31 acres subject to Reassessment. The Original Assessment Districts, the Reassessments in each of those areas, the expiration of those Reassessments on the "Reassessment Maturity," shown below and certain value to lien information is provided in the following table:

Table 1
City of San Diego Reassessment District No. 2003-1
Original Assessment Districts

Original Assessment Districts	Reassessment Maturity	Total Assessed Value(1)	Total Reassessment Lien	Total Assessed Value-to-Lien Ratio
1. AD 4011 and 4021 (De La Fuente Business Park – Phase I and Phase II)	9/2/17	$51,604,507	$6,370,000	8.10
2. AD 4036 (International Business Center Project)	9/2/17	33,296,359	2,480,000	13.43
Reassessment District Total		$84,900,866	$8,850,000	9.59

(1) As shown in the San Diego County Tax Assessor's 2002-03 property tax roll.

Source: Reassessment Engineers

All of the public improvements financed by proceeds of the Prior Bonds issued with respect to the Original Assessment Districts have been completed. Those public improvements generally consist of a portion of the infrastructure items required to facilitate development of the properties now included within the Reassessment District. There are no monies remaining in the Improvement Funds of the Original Assessment Districts. See "*THE REASSESSMENT DISTRICT – Original Assessment Districts*" below for descriptions of each of the Original Assessment Districts, the public improvements completed therein, and current development status within each Original Assessment District.

Land Uses and Development Status

The City has retained the Reassessment Engineers to compile data presented in the following tables. The following defined terms appear in the following tables.

"Developed Property" includes (i) parcels that have an assessed value for improvements shown in the County Tax Assessor's 2002-03 tax roll (which reflect development activities through January 1, 2002) and (ii) parcels for which no assessed value of improvements is shown on the 2002-03 tax roll but for which the City has verified that a building permit was issued since January 1, 2002 and the Reassessment Engineers have confirmed that the County Tax Assessor's records available through June 17, 2003 indicate that assessed values for improvements will be included on the next tax roll.

"Under Construction" includes parcels for which a building permit was issued since January 1, 2002, but the Reassessment Engineers were not able to confirm that the County Tax Assessor's records available through June 17, 2003 indicate that assessed values for improvements will be included on the next tax roll.

"Undeveloped Property" are those parcels for which no assessed value of improvements is included on the 2002-03 tax roll and for which no building permit has been issued through June 17, 2003.

The entire Reassessment District is zoned for industrial use. As summarized in the following table, portions of the Reassessment District are Developed Property that are responsible for $5,031,166 or 56.8% of the total Reassessment lien. Property that is Under Construction is responsible for $345,337 or 3.9% of the total Reassessment lien. Undeveloped property within the Reassessment District is responsible for $3,421,691 or 38.7% of the total Reassessment lien. Of the 38.7% of Undeveloped Property within the Reassessment District, two of the Affiliated Companies (Otay Mesa Property LP and Otay Acquisitions LP) own 45.3% of the Undeveloped Property. See *"THE REASSESSMENT DISTRICT – Largest Ownerships"* and *"- Affiliated Companies"* below. There are two parcels owned by the United States of America that are not assessed by the County Tax Assessor, however these parcels are improved. See *"THE REASSESSMENT DISTRICT – Appraised Value-to-Lien Ratios"* below.

Table 2
City of San Diego Reassessment District No. 2003-1
Development Status and Land Use Summary

Land Uses	Number of Parcels	2002/03 Assessed Value	Reassessment Lien	Percentages Parcels	Percentages Liens	Assessed Value-to-Lien
Developed Property	50	$69,349,041	$5,031,166	45.0%	56.8%	13.78
Under Construction	4	1,324,883	345,337	3.6%	3.9%	3.84
Undeveloped Property	55	14,226,942	3,421,691	49.5%	38.7%	4.16
Federal Property (1)	2	0	51,806	1.8%	0.6%	N/A
Grand Totals:	111	$84,900,866	$8,850,000	100%	100%	9.59

(1) Two properties owned by the United States of America with a zero assessed value.

Source: City of San Diego; Reassessment Engineers.

Further detail regarding the development status and land use types within the Reassessment District is provided in the following table:

Table 3
City of San Diego Reassessment District No. 2003-1
Development Status and Land Use Detail

			2002/03 Assessed Values (1)				Percentages		
Development Status and Land Use Type	Number of Parcels No.	Number of Acres	Land	Improvement	Total	Reassessment Lien	Parcels	Lien	Assessed Value-to-Lien
Developed Property									
1 to 3 story misc. store bldg	3	7.08	$1,674,220	$1,261,577	$2,935,797	$232,897	2.7%	2.6%	12.61
Industrial Garage, Parking Lot	12	33.93	5,651,492	1,783,256	7,434,748	1,035,463	10.8%	11.7%	7.18
Factory Light Manufacturing	2	14.65	1,866,192	3,845,400	5,711,592	404,658	1.8%	4.6%	14.11
Wherehousing Process Storage	29	93.90	14,368,567	36,031,865	50,400,432	3,224,033	26.1%	36.4%	15.63
Industrial Condos	4	5.76	757,276	2,109,196	2,866,472	134,115	3.6%	1.5%	21.37
Total Developed	50	155.32	$24,317,747	$45,031,294	$69,349,041	$5,031,166	45.0%	56.8%	13.78
Under Construction	4	5.95	$1,324,883	$0	$1,324,883	$345,337	3.6%	3.9%	3.84
Undeveloped	55	153.56	$14,226,942	$0	$14,226,942	$3,421,691	49.5%	38.7%	4.16
Other									
Government Owned (USA)	2	3.47	$0	$0	$0	$51,806	1.8%	0.6%	N/A
Totals	**111**	**318.30**	**$39,869,572**	**$45,031,294**	**$84,900,866**	**$8,850,000**	**100.0%**	**100.0%**	**9.59**

(1) Assessed values only reflect improvements completed through January 1, 2002. Development data includes building permits issued through June 17, 2003, and transfer of ownership data from the Assessor through June 17, 2003.

Source: City of San Diego; Reassessment Engineer

According to the Assessor's 2002/03 property tax roll, 45 parcels in the Reassessment District had assessed values for improvements which reflects the development status of those parcels as of January 1, 2002, and 5 parcels have no assessed value for improvements but the Reassessment Engineers have verified that building permits have been issued since January 1, 2002 for construction on those parcels and that the County Tax Assessor has indicated that assessed values for improvements will be included on the next tax roll. Since that time, additional parcels within the Reassessment District have been developed. According to information obtained by the Reassessment Engineers, 4 parcels have started construction, with construction substantially complete. 55 parcels remain Undeveloped lots.

Assessed Value-to-Lien Ratios

The San Diego County Assessor (the "Assessor") assesses taxable value ("assessed value") of all real property within the County as of January 1 of each year at 100% of its "full cash value." The assessed value of a parcel represents its full cash value as determined by the Assessor as of the parcel's most recent assessment, plus an inflation factor of not more than 2% per year since the date of such assessment. A new assessment of an assessed parcel to its then current fair market value will occur only upon a change of ownership, commencement of new construction with respect to such parcel or a successful appeal of the assessed value by the parcel owner. Assessed values shown on the Assessor's 2002/03 tax roll reflect activities through the January 1, 2002 "lien date" for that tax roll. The 2002/03 tax roll does not reflect activities since January 1, 2002 (such as changes of ownership or new construction) that could result in reductions or increases to assessments of "full cash value" for the 2003/04 tax roll that will be based on data available to the Assessor as of the January 1, 2003. Accordingly, the 2002/03 tax roll assessed values may not necessarily be representative of the actual market value of the property in the Reassessment District. There is no assurance that, in the event of a foreclosure sale for a delinquent Reassessment installment, any bid would be received for such property or that any bid received would be sufficient to pay such delinquent Reassessment installment. See "*RISK FACTORS – Land Values*" herein.

The following table illustrates the breakdown of the assessed value-to-lien ratios on all parcels within the District receiving a Reassessment based on the 2002/03 tax roll which was compiled by the Assessor using available data through January 1, 2002:

Table 4
City of San Diego Reassessment District No. 2003-1
Assessed Value-to-Lien Ratio Ranges

Assessed Value-to-Lien Range	Number of Parcels	2002/03 Assessed Values			Aggregate Reassessment Lien	Assessed Value-to-Lien Ratio	% of Lien
		Land	Improvement	Total			
20:1 to 29.99:1	13	5,256,039	18,387,679	23,643,718	$955,347	24.75	10.8%
10:1 to 19.99:1	14	10,919,534	22,895,273	33,814,807	2,227,551	15.18	25.2%
5:1 to 9.99:1	38	13,465,244	3,612,674	17,077,918	2,547,446	6.70	28.8%
3:1 to 4.99:1	33	7,435,041	135,668	7,570,709	1,942,987	3.90	22.0%
2:1 to 2.99:1	9	2,318,538	0	2,318,538	862,391	2.69	9.7%
1:1 to 1.99:1	2	475,176	0	475,176	262,472	1.81	3.0%
Less than 1:1 (1)	2	0	0	0	51,806	n/a	0.6%
Total	111	$39,869,572	$45,031,294	$84,900,866	$8,850,000	9.59	100.0%

(1) Includes two parcels owned by the United States of America with a zero assessed value.

Source: City of San Diego; Reassessment Engineers

The above table shows that 11 parcels in the Reassessment District have assessed value-to-lien ratios of less than 3-to-1 based on the Assessor's 2002/03 property tax roll that reflects development activities through January 1, 2002 and 2 parcels are owned by the United States of America which have no assessed value assigned to them by the County Tax Assessor. **The City has not sought the opinion of any appraiser as to the current**

market values of any of the parcels within the Reassessment District except those discussed in the following section.

Appraised Value-to-Lien Ratios

In connection with the issuance of the Bonds, the City authorized Rasmuson Appraisal Consultants, Inc. ("Appraiser") to prepare written appraisal reports (the "Appraisal") appraising the market value of 14 parcels of property within the Reassessment District (the "Appraised Parcels"). The Appraisal focuses on those 14 parcels which, (i) have an assessed value-to-lien ratio of less than 3-to-1 based on assessed values shown on the 2002/03 tax roll, (ii) are responsible for more than 1% of the Reassessments but have an assessed value-to-lien ratio of less than 4-to-1, or (iii) have outstanding delinquencies and assessed value-to-lien ratio of less than 4-to-1, and (iv) were recommended by the Underwriter for inclusion or exclusion from the Appraisal. Portions of the Appraisal are set forth in "*APPENDIX A – Reassessment Diagram and Appraisal Reports*" hereto. According to the Appraisal the retail fair market value, or bulk sale value, as applicable, of the Appraised Parcels as of July 1, 2003, subject to the limiting conditions as set forth in the Appraisal, is as summarized in the following table. See "*APPENDIX B – General Information Regarding Reassessed Properties.*"

Table 5
City of San Diego Reassessment District No. 2003-1
Appraised Value-to-Lien Ratios

Reassessment Number	Reassessment Lien	% of Lien	2002/03 Assessed Valuations(1)	Assessed Value-to-Lien	7/1/03 Appraised Value(2)	Appraised Value-to-Lien	7/1/03 Appraised Bulk Sale Value	Appraised Bulk Sale Value-to-Lien
Group 1								
11	$54,713	0.6%	$162,591	2.97	$323,000	5.90		
12	43,843	0.5%	130,640	2.98	259,700	5.92		
15	58,169	0.7%	169,412	2.91	344,800	5.93		
41	37,703	0.4%	112,560	2.99	241,700	6.41		
Sub Total Group 1	$194,428	2.2%	$575,203	2.96	1,169,200	6.01	$1,000,000	5.14
Group 2								
85	$23,887	0.3%	$53,028	2.22	393,000	16.48		
94	443,708	5.0%	1,117,923	2.52	7,715,500	17.39		
95	48,063	0.5%	175,567	3.65	985,800	20.51		
96	146,102	1.7%	266,861	1.83	1,872,800	12.82		
98	116,371	1.3%	208,315	1.79	1,491,700	12.82		
Sub Total Group 2	$778,131	8.8%	$1,821,694	2.34	12,459,400	16.01	$10,400,000	13.37
Other Parcels								
6	$52,211	0.6%	$143,939	2.76	183,100	3.51		
10	59,124	0.7%	174,302	2.95	350,100	5.92		
30	31,336	0.4%	112,749	3.60	200,500	6.40		
89	23,141	0.3%	0	n/a	465,700	20.12		
90	28,665	0.3%	0	n/a	576,900	20.13		
Grand Total	$1,167,036	13.2%	$2,827,887	2.42	$15,404,900	13.20	$11,400,000	9.77

(1) All assessed values are for land only. None of the parcels have been assessed for improvements.
(2) This shows Appraisal opinion for each parcel of the retail value of the land only.
(3) A bulk sale value is stated for each of Group 1 and Group 2.

Source: City of San Diego; Reassessment Engineer

The Appraiser's valuation assumes fee simple ownership of the property, free and clear of any liens or encumbrances. The Appraisal reflects the Appraiser's estimation of:

(i) For each parcel, the retail market value of the land only. Where a parcel is improved, the Appraisal briefly indicates the nature of the improvement, but does not offer an opinion of the improvement value.

(ii) In addition, the Appraisal estimates the bulk sale value of two groups of parcels:

Group 1: Those parcels identified as Reassessment Nos. 11, 12, 15 and 41, which are all smaller parcels located in close proximity to the District's Northwestern corner;

Group 2: Those parcels identified as Reassessment Nos. 85, 94 , 96 and 98, which are larger parcels located in Eastern portion of the District.

In the event that undeveloped property were to be sold in a "bulk sale," the value of the property could be significantly less than the retail value. The Appraiser's opinion bulk sale value of the Group 1 and Group 2 properties is also set forth in the above table. In considering the estimates of value evidenced by the Appraisal, it should be noted that the Appraisal is based upon a number of standard and special assumptions which affected the estimates as to value. See APPENDIX A – *Reassessment Diagram And Appraisal Reports* hereto. The Appraisal set forth the Appraiser's opinion as to value as of July 1, 2003 based upon data available at that time. Consequently the Appraisal does not reflect any changes to value that might have occurred due to occurrences after the Appraisal was prepared or which may occur in the future.

Included among the assumptions made in the Appraisal are assumptions that no conditions exist that are not discoverable through normal, diligent investigation which would affect the use and the value of the property and that no hazardous materials which may cause a loss in value of the property exist within the property appraised. The Appraiser did not observe any hazardous material in the Reassessment District, however, it expressly disclaims, in the Appraisal, any expertise with respect to detection of such substances or responsibility for such substances. The Appraiser assumes no responsibility for building permits, zoning changes, engineering or other services or duties connected with legally utilizing the property.

The information contained herein is a summary only of certain information contained in the Appraisal and such information is qualified in its entirety by the complete Appraisal reports. See "APPENDIX A - *Reassessment Diagram and Appraisal Reports*."

In comparing the appraised value of real property within the Reassessment District and the principal amount of the Bonds, it should be noted that only real property upon which there is a delinquent Reassessment can be foreclosed, and the real property within the District cannot be foreclosed upon as a whole to pay delinquent Reassessments. In any event, individual parcels may be foreclosed upon to pay delinquent installments of the Reassessments levied only against such parcels.

The 14 Appraised Parcels are distributed among 5 owners as summarized in the following table:

Table 6
City of San Diego Reassessment District No. 2003-1
Appraised Value to-Lien Ratios by Owner

	Owner	No. of Parcels	Reassessment Lien	% of Total Lien (1)	2002/03 Assessed Value	Assessed Value – to-Lien	Appraised Value	Appraised Value-to-Lien (3)
1.	Otay Mesa Property LP	6	$830,342	9.4%	$1,965,633	2.37	12,642,500	15.23
2.	Otay Acquisitions LP	4	194,428	2.2%	575,203	2.96	1,169,200	6.01
3.	Garcia Produce LLC	1	59,124	0.7%	174,302	2.95	350,100	5.92
4.	United States of America (2)	2	51,806	0.6%	0	n/a	1,042,600	20.13
5.	Vazquez, Jose	1	31,336	0.4%	112,749	3.60	200,500	6.40
	Totals	14	$1,167,036	13.2%	$2,827,887	2.42	15,404,900	13.20

(1) Total lien assumed to be $8,850,000.
(2) Appraisal of land only. There are two concrete tilt-up structures on these parcels that are not appraised.
(3) Appraised retail value-to-lien ratios.

Source: City of San Diego; Reassessment Engineers

The above table summarizes certain data regarding the 14 Appraised Parcels which is presented in full in *"APPENDIX B - General Information Regarding Reassessed Properties"* hereto.

Two Reassessment Parcels, 89 and 90, are owned by the United States of America (the "USA Parcels") which are responsible for 0.6% of the total Reassessment lien. The USA Parcels are subject to the lien of the Original Assessment Districts and the Reassessment lien, however, for as long as they are owned by the United States of America, they are not subject to foreclosure of the lien of either the Original Assessment Districts or the Reassessment District. The USA Parcels have been continuously in default since Fiscal Year 1992-93. While the United States government acknowledges an obligation to pay assessments, it has not done so. The City continues to work with the United States government to have the United States government make payments of the amount due to the Original Assessment Districts and to the Reassessment District. Thus far, the City has not elected to use the Assessment District Delinquency Fund to cure these defaults and there can be no assurance that the City will do so in the future. See *"SOURCES OF PAYMENT FOR THE BONDS – Assessment District Delinquency Fund"* above. If the United States government subsequently transfers the USA Parcels to a private party, such private party will receive title to the USA Parcel subject to all delinquent liens of the Original Assessment Districts and the Reassessment District and the City shall then have the power to foreclose the lien of either the Original Assessment District or the Reassessment District.

Largest Ownerships

The following table illustrates the ten largest property ownerships within the Reassessment District and the total Reassessment allocated to such owners' properties:

Table 7
City of San Diego Reassessment District No. 2003-1
Ten Largest Reassessment Assessees Owner and Land Use

			Percentage of Development Category of Reassessment Liens (1)				
Land Uses	Number of Parcels	Reassessment Lien Amt	Developed	Under Construction	Undeveloped	Percent of Total Reassessment Lien	Assessed Value-to-Lien Ratio
Otay Mesa Property LP (2)	14	$1,065,407			31.1%	12.0%	3.01
San Diego International Center LLC	2	820,541	16.3%			9.3%	16.39
Otay Acquisitions LP (2)	13	651,911	3.3%		14.2%	7.4%	5.74
Mexbros Holdings, Inc.	6	491,967		100.00%	4.3%	5.6%	4.15
McMahon Real Estate Investment LLC	1	352,492	7.0%			4.0%	12.96
RKR DLFY LLC (2)	1	316,998	6.3%			3.6%	9.33
House M Family LP	1	318,213	6.3%			3.6%	28.12
Keller Uchida Realty Resources LLC	1	235,286	4.7%			2.7%	11.24
AGM LLC	3	226,047	4.5%			2.6%	9.20
Otay Distribution Center LLC	1	204,304	4.1%			2.3%	24.03
TOTAL	43	$4,683,166	52.4%	100.00%	45.6%	52.9%	10.37

(1) Shows the percentage of Reassessment lien charged to Developed Property, Under Construction, and Undeveloped Property, respectively. For example, Otay Mesa Property LP owns 31.1% of the land in the District that is categorized as Undeveloped. See Table 3 for the total percentage in each category.
(2) Part of the Affiliated Companies that are responsible for 24.8% of the total Reassessment lien.

Source: City of San Diego; Reassessment Engineers.

Prepayments History

As indicated in the following table, five parcels have prepaid all of their original assessment since formation of the applicable Original Assessment District, with a corresponding reduction in the outstanding Prior Bonds. Any prepayments of the reassessments will be used to redeem Bonds prior to maturity. See *"THE BONDS – Redemption"* herein.

Table 8
Original Assessment Districts
Historical Prepayments

Fiscal Year	Original Assessment District No.	APN	Total Parcels Prepaid	Total Prepayments (1)
1999/2000	4011	646-150-18	1	$74,976
2002/2003	4021	646-210-21 & 24	2	$259,604
2003/2004	4021	646-210-22 & 23	2	$202,015
Total			5	$536,595

(1) Based on original assessment amount.

Source: City of San Diego

Original Assessment Districts

AD 4011. Assessment District No. 4011 (De La Fuente Business Park – Phase I) ("AD 4011") issued $4,896,711.44 of its Prior Bonds dated April 17, 1989 to fund the acquisition and construction of certain street, water, sewer, drainage and utility improvements, together with appurtenances and appurtenant work. AD 4011 contained 52 assessed parcels of approximately 287 acres at the time of district formation. One of those parcels, responsible for approximately 1% of the assessment liens of AD 4011, was prepaid in full and is not subject to Reassessment Liens.

AD 4011 provided for improvements to 51 fully subdivided lots, aggregating approximately 57 acres and provided only a small portion of required improvements to "Parcel No. 52," which comprised an additional approximately 230 acres. After formation of AD 4011, Parcel No. 52 was the subject of further subdivision maps, and a portion of Parcel No. 52 became the subject of subsequent assessment proceedings for AD 4021. Thus, for a portion of Parcel No. 52 the liens of AD 4011 and AD 4021 are overlapping.

AD 4021. Assessment District No. 4021 (De La Fuente Business Park - Phase II) ("AD 4021") issued $5,987,154.40 of its Prior Bonds dated July 17, 1992 to fund the construction and acquisition of public works, including street, water, sewer, drainage and utility improvements, together with appurtenances and appurtenant work. AD 4021 provided for improvements for 34 fully subdivided parcels and a portion of the required improvements for the 15 remaining parcels, together comprising some 144 acres of land. Four parcels prepaid in full. The portion of AD 4021 remaining subject to the lien of Reassessments is composed of 45 parcels of approximately 139 total acres, all of which are zoned for industrial uses.

The following table presents information about the Reassessments Lien on both AD 4011 and AD 4021 because those Original Assessment Districts are overlapping. On a combined basis, AD 4011 and AD 4021 are composed of 95 parcels zoned for industrial uses. Of those 95 parcels, 38 parcels are Developed Property, and 2 parcels are Developed Property but are owned by the United States government with the result that they have zero assessed value even though they are developed with buildings. See *"THE REASSESSMENT DISTRICT – Appraised Value-to-Lien Ratios"* above. There are 4 parcels that are Under Construction. A total of 51 parcels remain as Undeveloped Property.

Table 9
Original Assessment Districts 4011 and 4021
Development Status and Land Use Summary

Land Uses	Number of Parcels	2002/03 Assessed Value	Reassessment Lien Amt	Percentages(1) Parcels	Liens	Assessed Value-to-Lien Ratio
Developed Property	38	$38,640,384	$2,987,222	34.2%	33.8%	12.94
Under Construction	4	1,324,883	345,337	3.6%	3.9%	3.84
Undeveloped Property	51	11,639,240	2,985,635	45.9%	33.7%	3.90
Other (2)	2	0	51,806	1.8%	0.6%	n/a
Total:	95	$51,604,507	$6,370,000	85.6%	72.0%	8.10

(1) Percentages are of the entire Reassessment District.
(2) Includes two United States of America owned properties with zero assessed value.

Source: City of San Diego; Reassessment Engineer.

AD 4036. Assessment District No. 4036 (International Business Center Project) ("AD 4036") issued $4,171,930.68 of its Prior Bonds dated September 1, 1990, to fund the acquisition of street, sidewalk, street lights, water, sewer, storm drain, gas, electric and telephone improvements, together with appurtenances and appurtenant work. The entire area within AD 4036 contains approximately 131 acres, of which 122 acres are subject to the lien of Reassessments. AD 4036 is composed of 17 parcels, 16 of which are zoned for industrial uses. Of those 17 parcels, 12 parcels are Developed Property, 4 parcels are Undeveloped Property, and one parcel is owned by the United States of America and is not subject to Reassessment. See *"THE REASSESSMENT DISTRICT– Land Uses and Development Status"* above.

Table 10
Original Assessment District 4036
Development Status and Land Use Summary

Land Uses	Number of Parcels	2002/03 Assessed Value	Reassessment Lien	Percentages(1) Parcels	Liens	Assessed Value-to-Lien Ratio
Developed Property	12	$30,708,657	$2,043,944	10.8%	23.10%	15.02
Undeveloped Property	4	2,587,702	436,056	3.6%	4.93%	5.93
Total:	16	$33,296,359	$2,480,000	14.4%	28.02%	13.43

(1) Percentages are of the entire Reassessment District.

Source: City of San Diego; Reassessment Engineer.

Tax Delinquency History

The Original Assessment Districts have experienced some delinquencies in the collection of assessment installments since their formation. Delinquencies through June 20, 2003, totaling $113,235, were still outstanding. The following table summarizes the historical assessment installment delinquencies since formation of the Original Assessment Districts:

Table 11
City of San Diego Reassessment District No. 2003-1
Delinquency History

Fiscal Year	Number of Parcels Assessed	Total Levy	Delinquent Installments (1)	Percent Delinquent	Amount Remaining Delinquent(1)	Percent Remaining Delinquent
2002-2003	129	$1,195,333	$22,899	1.92%	$22,899	1.92%
2001-2002	127	1,232,834	36,527	2.96%	22,587	1.83%
2000-2001	124	1,217,147	132,693	10.90%	16,668	1.37%
1999-2000	128	1,230,942	42,374	3.44%	6,661	0.54%
1998-1999	128	1,218,615	162,818	13.36%	6,534	0.54%
1997-1998	128	1,300,675	173,160	13.31%	6,814	0.52%
1996-1997	128	1,322,290	565,183	42.74%	7,027	0.53%
1995-1996	128	1,335,556	512,919	38.40%	6,951	0.52%
1994-1995	128	1,327,174	225,939	17.02%	6,783	0.51%
1993-1994	128	1,340,212	725,682	54.15%	6,760	0.50%
1992-1993	128	1,343,293	722,398	53.78%	3,551	0.26%
1991-1992	77	778,067	34,516	4.44%	–	0.00%
1990-1991	61	409,345	11,967	2.92%	–	0.00%
1989-1990	61	472,094	5,425	1.15%	–	0.00%
					$113,235	

(1) Does not include penalties and interest.

Source: City of San Diego, as of June 20, 2003

A substantial portion of the Delinquent Installments were incurred by Border Business Park, Inc. (subsequently renamed De La Fuente Border Business Park, Inc.). See *"THE REASSESSMENT DISTRICT – Development Agreement Litigation"* below. Original Assessment District Nos. 4011 and 4021 issued their bonds in April 1989 and July, 1992, respectively. De La Fuente Border Business Park, Inc., who was the primary property owner in both districts, was delinquent in payment of their assessment installments for both AD 4011 and AD 4021 beginning in December, 1992. In response to certain of these delinquencies, the City filed the following foreclosure actions involving De La Fuente Border Business Park, Inc.:

Case No. 669497 (consolidated with Case No. 669496): Judgment was entered in August, 1994, covering 11 parcels in AD 4011. This action covered delinquent assessments for tax year 1992/1993 and tax year 1993/1994. Delinquent assessments associated with this action totaled $197,648. Four of the 11 parcels were cured by De La Fuente Border Business Park, Inc. at, but prior to, the foreclosure sale in May, 1995. The remaining seven parcels were sold at the foreclosure sale to National Enterprises, Inc.

Case No. 676625: Judgment was entered in February, 1995, covering 35 parcels in both AD 4011 and AD 4021. This action covered delinquent assessments for tax year 1993/1994 and the first installment for tax year 1994/1995. Delinquent assessments associated with this action totaled $655,808. The judgment was satisfied in September, 1995 through payment of the judgment amount by Banque Nationale De Paris, which was the underlying lender on the foreclosed parcels.

Case No. 698281: Judgment was entered in November, 1996, covering the same 35 parcels referenced in the case above, within both AD 4011 and AD 4021. This action covered delinquent assessments for the second installment of tax year 1994/1995 and both installments for tax year 1995/1996. Delinquent assessments associated with this action totaled $662,269. The judgment was satisfied as to 27 of the parcels in June, 1997, through payment of the applicable judgment amounts by Banque Nationale De Paris, which was the underlying lender on those foreclosed parcels. The judgment was satisfied as to the remaining eight parcels in May, 2003 through payment of the remaining $154,815 of delinquent assessments from the Special Assessment District Delinquency Fund, in connection with the formation of the Reassessment District. See *"SECURITY FOR THE BONDS – Assessment District Delinquency Fund"* above.

De La Fuente Border Business Park, Inc. no longer owns any land within the Reassessment District, but the Affiliated Companies, that are controlled by De La Fuente, continue to own land in the Reassessment District that is responsible for 24.8% of the Reassessments. The Affiliated Companies are not now delinquent in the payment of assessments except for Reassessment Number 50 that Otay Mesa Property LP acquired recently at a deed of trust foreclosure sale subject to delinquent installments of the Original Assessment Districts.

Of the Amount Remaining Delinquent, approximately $6,000 per year is due to the USA Parcels which have been delinquent since 1992-93. See *"THE REASSESSMENT DISTRICT – Appraised Value-to-Lien Ratios"* above.

Affiliated Companies

Otay Mesa Property L.P., a California limited partnership ("Otay Mesa"); Otay Acquisitions LP, a California limited partnership ("Otay Acquisitions"); R.K.R. DLFY LP, a California limited partnership ("RKR"); Fine Particle LLC, a California limited liability company ("Fine Particle"); and South Otay Business Park LLC, a California limited liability company ("South Otay"), which the City has determined, for purposes of this Official Statement and the Bond offering, are affiliated with one another (the "Affiliated Companies"). Each of the Affiliated Companies is ultimately under the common control of Roque de la Fuente II ("De La Fuente"). The Affiliated Companies are responsible for 24.8% of the reassessments. The Affiliated Companies have agreed to provide semi-annual reports for the benefit of Bond owners. See *CONCLUDING INFORMATION – Continuing Disclosure* below. The following is a brief description of each of the Affiliated Companies and their property within the Reassessment District.

Otay Mesa Property L.P. Otay Mesa is a California limited partnership whose general partner is SD Commercial, LLC, a California limited liability company ("SD Commercial"). SD Commercial has two members, National Enterprises, Inc. and International Property Enterprises, Inc., which are California and Nevada corporations, respectively. Each corporation is 100% owned by three trusts established for children of De La Fuente. David Wick is the President of both corporations. Otay Mesa owns 107.36 acres in the Reassessment District, all of which are undeveloped. The property is used for truck parking and storage.

Otay Acquisitions LP. Otay Acquisitions is a California limited partnership whose general partner is SD Commercial. Otay Acquisitions owns 10.29 acres in the Reassessment District, and has developed 3.35 of those acres. It has no current plans to develop its remaining acreage. The developed portion of its property is used for a truck stop and the remainder is used for a truck parking and storage lot.

R.K.R. DLFY LP. RKR is a California limited partnership whose general partner is SD Commercial. RKR owns 6.97 acres in the Reassessment District, all of which are developed. The property has an office building on it, with approximately 121,056 square feet of space. The property is fully leased to five tenants, most of whom are in the import-export business.

Fine Particle LLC. Fine Particle is a California limited liability company whose members are Jose Luis Andreu and Fine Particles Technology Corp. Mr. Andreu is the Managing Member of Fine Particle and President of Fine Particles Technology Corp. Three trusts established for children of De La Fuente own 45% of the outstanding stock of Fine Particles Technology Corp., and the remaining stock is owned by unrelated parties. Fine Particle owns 1.28 acres in the Reassessment District, which it uses for industrial purposes. There is an 18,000 square foot building on the property that was completed in 1999. The property is currently used for industrial purposes and is leased to Holiday Foliage, which manufacturers artificial Christmas trees.

South Otay Mesa Business Park LLC. South Otay is a California limited liability company whose sole member is Fine Particles Technology Corp. Mr. Andreu is the Managing Member of South Otay. South Otay owns 4.04 acres in the Reassessment District, and uses its property for industrial purposes. The property has two buildings on it with approximately 40,000 square feet of space. The buildings were completed in 2002. South Otay leases this space to various tenants, including Reliable Containers, Online Trading and five transportation companies.

Development Agreement Litigation

In November 1986, Border Business Park, Inc. (subsequently renamed De La Fuente Border Business Park, Inc.) entered into a development agreement (the "Development Agreement") with the City relating to the development of a 312 acre industrial park which constitutes a portion of Original Assessment District Nos. 4011 and 4021. In mid 1995 De La Fuente Border Business Park, Inc. filed suit against the City alleging that the City engaged in a pattern of conduct aimed at thwarting the developer's rights under the Development Agreement, which resulted in breaches of the Development Agreement and unconstitutional "takings" of private property for public use. Specifically, plaintiff claimed the City "took" plaintiff's property by: (i) publicly discussing a proposal to build an international airport in the Otay Mesa region; and (ii) diverting commercial truck traffic on to public streets adjacent to plaintiff's property. The specific breaches of the Development Agreement alleged in the lawsuit include changes in the City-wide construction standards; denials of conditional use permits; delay in permit processing; imposition of Housing Trust Fund Fees; diversion of Development Impact Fees; and mismanagement of adjacent City-owned property. The disclosure of plans for a new regional airport, and the diversion of border-bound traffic, which were alleged as the basis for inverse condemnation claims, was also alleged as contract breaches.

On January 2, 2001, a San Diego County Superior Court jury returned a special verdict in the amount of $94.5 million against the City. The jury award consisted of three parts: $29.2 million for breach of the Development Agreement; $25.5 million for inverse condemnation relating to planning of a regional airport; and $39.8 million for inverse condemnation relating to excessive traffic. In subsequent court action the City was granted a new trial on the contract claim (in the amount of $29.2 million of the $94.5 million) thus leaving in effect $65.3 million of inverse condemnation damages plus approximately $26.0 million in pre-judgment interest for a total of $91.3 million, which will accrue interest at the rate of approximately 5.7 per annum until the judgment is paid. The judgment is not being paid pending appeal. While the City believes it has sound legal theories for its appeal, no assurance can be given that the City's pursuit of this challenge will be successful. In the event the City is not successful on appeal, and on retrial, if any, the judgment, including any interest will have to paid from the City's treasury, most likely over a period of ten years with additional interest during that period to the extent that there is not insurance coverage or a shortfall in coverage. See *"LITIGATION – De La Fuente Border Business Park v. City of San Diego"* below.

De La Fuente Border Business Park, Inc. is controlled by Roque de la Fuente II ("De La Fuente") who also has a controlling interest in the Affiliated Companies. Although the judgment against the City is in the name of De La Fuente Border Business Park, Inc. (which no longer owns property within the Reassessment District), the various property owners, including the Affiliated Companies, have rights and obligations under the Development Agreement which runs with the land. It is not known what effect the pendency, or settlement, of De La Fuente Border Business Park v. City of San Diego may have on the willingness of the Affiliated Companies to pay their reassessments. See *"RISK FACTORS – Development Agreement Litigation"* below. The Development Agreement requires the construction of further infrastructure, which City staff estimates at approximately $19.5 million, to complete the development contemplated by the Development Agreement. No assurance can be given as to when, or if, this infrastructure will be constructed.

Original Assessment District Nos. 4011 and 4021 issued its bonds in April, 1989 and July, 1992. De La Fuente Border Business Park, Inc. was delinquent in payment of the assessment installments beginning in December, 1992. The City filed a series of foreclosure actions and obtained judgments. The pattern of delinquencies continued until the spring of 1997 when a substantial portion of the property subject to the foreclosure judgment was successfully sold. The remaining eight parcels remained delinquent until the City authorized $154,815.77 to be paid from the Assessment District Delinquency Fund in connection with the formation of the Reassessment District. See "*SECURITY FOR THE BONDS – Assessment District Delinquency Fund"* and *THE REASSESSMENT DISTRICT – Tax Delinquency History"* above.

Overlapping Debt

Contained within the Reassessment District's boundaries are overlapping local agencies providing public services, some of which have outstanding bonds or other indebtedness. The direct and overlapping debt of the Reassessment District is shown in the table below. Tax and revenue anticipation notes and revenue bonds are excluded from the debt statement. The following table does not include authorized but unissued debt. Furthermore, other public agencies may levy assessments and special taxes on property within the Reassessment District.

Table 12
City of San Diego Reassessment District No. 2003-1
Statement of Direct and Overlapping Debt

CITY OF SAN DIEGO REASSESSMENT DISTRICT NO. 2003-1

2003-03 Assessed Valuation: $85,423,873

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	Debt 7/1/03	
Metropolitan Water District	0.008%	$ 35,544	
San Diego County Water Authority	0.042	691	
Southwestern Community College District	0.371	146,693	
Sweetwater Union High School District	0.441	159,267	
San Ysidro School District	4.383	839,345	
City of San Diego	0.085	13,337	
City of San Diego Open Space Park District	0.085	31,004	
City of San Diego Reassessment District No. 2003-1	**100.**	-	(1)
TOTAL GROSS DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		$1,225,881	
Less: City of San Diego Open Space Park District		31,004	
TOTAL NET DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		$1,194,877	
OVERLAPPING GENERAL FUND OBLIGATION DEBT:			
San Diego County General Fund Obligations	0.040%	$ 190,340	
San Diego County Pension Obligations	0.040	329,758	
San Diego County Superintendent of Schools Obligations	0.040	827	
Otay Municipal Water District Certificates of Participation	0.711	185,073	
Southwestern Community College District General Fund Obligations	0.400	13,820	
Sweetwater Union High School District Certificates of Participation	0.482	108,281	
San Ysidro School District Certificates of Participation	4.674	456,416	
City of San Diego General Fund Obligations	0.085	466,816	
TOTAL GROSS OVERLAPPING GENERAL FUND OBLIGATION DEBT		$1,751,831	
Less: Otay Municipal Water District Certificates of Participation (100% self-supporting)		185,073	
TOTAL NET OVERLAPPING GENERAL FUND OBLIGATION DEBT		$1,566,758	
GROSS COMBINED TOTAL DEBT		$2,977,212	(2)
NET COMBINED TOTAL DEBT		$2,761,635	

(1) Excludes refunding 1915 Act bonds. Excludes issues to be refunded.
(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Source: California Municipal Statistics, June 23, 2003.

Ratios to 2002-03 Assessed Valuation:

Direct Debt	**- %**
Total Gross Direct and Overlapping Tax and Assessment Debt	1.44%
Total Net Direct and Overlapping Tax and Assessment Debt	1.40%
Gross Combined Total Debt	3.49%
Net Combined Total Debt	3.23%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/02: $126,017

RISK FACTORS

Prospective investors should carefully consider the following risk factors before making an investment in the Bonds.

Limited Obligations

The ability of the City to pay the principal of and interest on the Bonds depends upon the receipt by the Fiscal Agent of sufficient Reassessments, amounts on deposit in the Reserve Fund and interest earnings on amounts in the funds and accounts for the Bonds established by the Indenture. A number of risks that could prevent the City from repaying the Bonds are outlined below.

The Bonds are subject to optional and mandatory redemption prior to their respective stated maturities. Mandatory redemption from prepayments of unpaid Reassessments may occur. See *"THE BONDS - Redemption"* herein

Except as expressly provided in the Indenture, the City will not have any obligation or liability to the Bond Owners with respect to the payment when due of the Bonds, or with respect to the observance or performance by the City of other agreements, conditions, covenants and terms required to be observed or performed by it under the Bonds, the Indenture or any related documents or with respect to the performance by the Fiscal Agent of any duty required to be performed by it under the Indenture.

Under the Indenture, the Fiscal Agent is under no obligation to institute any suit or take any remedial action or to enter any appearance in or in any way defend any suit in which it may be made defendant, or to take any action or exercise any rights or powers under the Indenture at the request, order or direction of any Bond Owners or otherwise until it is indemnified to its satisfaction, against any and all reasonable costs and expenses, outlays and counsel fees and other disbursements, and against all liability not due to its negligence or willful default, provided, however, that if the Fiscal Agent intends to rely on the Indenture as a basis for non-action it is required to so inform the Bond Owners (as appropriate) and the City as soon as possible.

Limited Obligation Upon Delinquency

The City is not obligated to advance City funds for delinquent assessment installments in order to make payments under the Bonds. The only obligation of the City is to transfer amounts to the Fiscal Agent under the terms of the Indenture, and to commence and diligently prosecute foreclosure proceedings as provided therein. The Indenture does not contain a provision allowing for the acceleration of the principal of the Bonds in the event of a payment default or other default under the terms of the Bonds or the Indenture. The City will establish a Reserve Fund and initially deposit therein a portion of bond proceeds. If a delinquency occurs in the debt service funds for the Bonds, the City will transfer to such funds an amount from the Reserve Fund equal to such delinquency. During a period of delinquency if there are insufficient funds in the Reserve Fund, a delay may occur in payments to Bond Owners.

Delinquency in Payment of Reassessments

Under the provisions of the Act, Reassessment installments, from which funds for the payment of annual installments of principal of and interest on the Bonds are derived, will be billed to properties in the Reassessment District against which there are unpaid Reassessments on an annual basis. Such Reassessment installments are due and payable and bear the same penalties and interest for non-payment as do regular property tax payments.

In order to pay debt service on the Bonds, it is necessary that Reassessment Installments are paid in a timely manner. Should the installments not be paid on time, the City will not be able to make timely payments of principal and interest on the Bonds. The City has established the Reserve Fund to cover delinquencies for a period of time. The City has covenanted in the Indenture under certain circumstances following a delinquency in the payment of Reassessments to undertake and diligently prosecute judicial foreclosure proceedings. However, judicial foreclosure can be a slow and lengthy process due to crowded court calendars, active defense by a delinquent owner, bankruptcy filings by a delinquent owner or other factors beyond the City's control. There can be no assurance that the Reserve Fund would not be exhausted in the event of material delinquencies, long foreclosure proceedings or failed foreclosure sales.

Failure by owners of the parcels to pay installments of Reassessments when due, depletion of the Reserve Fund, delay in foreclosure proceedings, or the failure to sell parcels which have been subject to foreclosure proceedings for amounts sufficient to cover the delinquent installments of Reassessments levied against such parcels may result in the inability of the City to make full or punctual payments of debt service on the Bonds and Bond Owners would therefore be adversely affected.

Development Agreement Litigation

It is not known what effect the pendency, or settlement, of De La Fuente Border Business Park v. City of San Diego may have on the willingness of the Affiliated Companies to pay their reassessments. See *"THE REASSESSMENT DISTRICT – Tax Delinquency History," "- Affiliated Companies"* and *"- Development Agreement Litigation"* and *"LITIGATION – De La Fuente Border Business Park v. City of San Diego"* herein.

Landowners Not Personally Liable for Payment

Unpaid Reassessments do not constitute a personal indebtedness of the owners of the parcels within the Reassessment District and the owners have made no commitment to pay the principal of or interest on the Bonds or to support payment of such obligations in any manner. There is no assurance that the owners have the ability to pay the Bonds or the Reassessment installments or that, even if they have the ability, they will choose to pay such installments. An owner may elect to not pay the assessments when due and cannot be legally compelled to do so. If an owner decides it is not economically feasible to develop or continue owning its property encumbered by the lien of the Reassessment, or decides that for any other reason it does not want to retain title of the property, such owner may choose not to pay Reassessments and to allow the property to be foreclosed. Such a choice may be made due to a decrease in the market value of the property, or for other reasons. A successful foreclosure of the property would result in such owner's interest being transferred to another party. Neither the City, nor any Owner of the Bonds will have the ability to seek payment from the owners of the property of any Reassessment or any principal or interest due on the Bonds, and will not have the ability to control who becomes a subsequent owner of any property within the Reassessment District.

Land Values

The value of the land within the Reassessment District is a critical factor in determining the investment quality of the Bonds. If a property owner is delinquent in the payment of a Reassessment installment, the City's only remedy is to commence foreclosure proceedings in an attempt to obtain funds to pay the Reassessment installment. Reductions in land values due to a downturn in the economy, physical events such as earthquakes or floods, stricter land use regulations, environmental constraints or other events could adversely impact the security of the Reassessment and the Bonds.

The 2002/03 assessed value of the parcels is an estimate of the value as determined by the County at the time a parcel was last transferred and does not necessarily reflect the current market value. The appraised value of the parcels is an estimate of the value as determined by the Appraiser. There can be no assurance that the County's assessed valuation or the Appraiser's appraised valuation of the parcels is an accurate representation of their fair market value. No assurance can be given that the assumptions of the Assessor are correct, or that the values of the property in the Reassessment District will not decline in the future, if one or more events, such as natural disasters or adverse economic conditions, occur.

No assurance can be given that, should a parcel with delinquent Reassessments be foreclosed upon, any bid will be received for such property or, if a bid is received, that such bid will be sufficient to pay all delinquent assessments with respect thereto.

Concentration of Undeveloped Property Ownership

The Reassessment District includes 55 parcels of Undeveloped Property which bear 38.7% of the total Reassessments. Of this Undeveloped Property, 27 parcels bear 45.3% of the total Reassessment on Undeveloped Property, which are held by the Affiliated Companies. See Tables 3 and 7 above. Because of this concentration of ownership, the timely payment of the Bonds could depend upon the willingness and ability of the these property owners to pay the Reassessments with respect to their property when due. The only asset of each owner of property within the Reassessment District which constitutes security for the Bonds, is that owner's real property located within the Reassessment District and subject to the Reassessment. The Bonds are not corporate or personal obligations of the property owner.

Bankruptcy and Foreclosure

The payment of property owners' Reassessment installments and the ability of the City to foreclose the lien of a delinquent unpaid assessment, may be limited by bankruptcy, insolvency or other laws generally affecting creditors' rights or by the laws of the State relating to judicial foreclosure. Although bankruptcy proceedings would not cause the assessment lien to become extinguished, bankruptcy of a property owner could result in a delay in the City prosecuting Superior Court foreclosure proceedings. Such a delay would increase the likelihood of a delay or a default in payment of the principal of and interest on the Bonds and the possibility that delinquent assessment installments would eventually not be paid in full. Moreover, amounts received upon foreclosure sales may not be sufficient to fully repay outstanding Bonds. The various legal opinions to be delivered concurrently with the delivery of the Bonds (including Bond Counsel's approving legal opinion) will be qualified as to the enforceability of the various legal instruments by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally. See *"SOURCES OF PAYMENT FOR THE BONDS – Judicial Foreclosure Sale Proceedings"* above.

Future Overlapping Indebtedness

The ability of an owner of land within the Reassessment District to pay the Reassessments could be affected by the existence of other taxes and assessments imposed upon the property subsequent to the date of issuance of the Bonds. In addition, other public agencies whose boundaries overlap those of the Reassessment District could, without the consent of the Reassessment District, and in certain cases without the consent of the owners of the land within the Reassessment District, impose additional taxes or assessment liens on the property within the Reassessment District to finance public improvements to be located inside of or outside of the Reassessment District.

The Reassessments and each installment thereof and any interest and penalties thereon constitute a lien against the parcels on which they were imposed until the same are paid. Such lien is subordinate to all fixed special assessment liens previously imposed upon the same property, but has priority over all private liens and over all fixed special assessment liens which may thereafter be created against the property. Such lien is co-equal to and independent of the lien for general taxes and any lien imposed under the Mello-Roos Community Facilities Act of 1982, as amended.

Failure to Develop Land

The property within the Reassessment District subject to the Reassessment lien which secures payment of the Bonds includes vacant land. The incentive for certain property owners in the Reassessment District to pay their Reassessment installments when due could be reduced if the development potential of their property is diminished. No assurance can be given that such development potential of the vacant land in the Reassessment District will not be diminished.

The development potential of the vacant land in the Reassessment District is based, in part, on the assumption that discretionary approvals to construct a commercial or industrial building, or in some cases, to further subdivide land and build several commercial or industrial buildings can be obtained from the appropriate governmental agencies. The future development of the land within the District may be adversely affected by existing or future governmental policies, or both, restricting or controlling the development of land in the Reassessment District. See also *"RISK FACTORS – Future Land Use Regulations and Growth Control Initiatives"* below. There can be no assurance that the owners of the vacant land in the Reassessment District will be able to secure all of the necessary discretionary approvals necessary to develop their properties. A failure to be able to secure those discretionary approvals could reduce the desire of the property owners to pay their annual Reassessment installments when due.

In addition to reducing the ability and/or willingness of the owners of the vacant land in the Reassessment District to make Reassessment installment payments when due, and a reduction of the development potential of the land could adversely affect land values and reduce the proceeds which could be collected at a foreclosure sale in the event that Reassessment installments are not paid when due. See *"RISK FACTORS – Land Values"* above.

Except as described herein, no property owner has provided the City with any information about its development plan, its financial resources for such plan, its experience or its abilities, nor has any such property owner participated in any other way in the issuance of the Bonds. Furthermore, the City has not made, and will not make, any investigation of any property owner. Therefore, no representation is made herein as to the experience, abilities, or financial resources of any such property owner or the likelihood that any such property owner will be successful in developing its property. Purchasers of the Bonds should not assume that any property owner will have the experience, abilities, or financial resources necessary to successfully develop such property. A failure to complete final development of such property would likely make the resale thereof more difficult, thereby limiting diversification of ownership. Such lack of diversification could be perceived as adversely affecting the security for the Bonds, which could reduce the value and marketability thereof.

Future Land Use Regulations and Growth Control

It is possible that future growth control initiatives could be enacted by the voters or future local, State or Federal land use regulations could be adopted by governmental agencies and be made applicable to the development of the vacant land within the Reassessment District with the effect of negatively impacting the ability of the owners of such land to complete the development of such land if they should desire to develop it. See also *"RISK FACTORS – Endangered Species"* below. This possibility presents a risk to prospective purchasers of the Bonds in that an inability to complete desired development increases the risk that the Bonds will not be repaid when due. The owners of the Bonds should assume that any reduction in the permitted density or significant increase in the cost of development of the vacant land due to more restrictive land use regulations would cause the values of the vacant land within the Reassessment District to decrease due to diminished development potential. A reduction in land values increases the likelihood that in the event of a default in payment of Reassessment installments, a foreclosure action will result in inadequate funds to repay the Bonds when due. See *"RISK FACTORS – Land Values"* above.

Under current State law, it is generally accepted that proposed development is not exempt from future land use regulations until building permits have been issued and substantial work has been performed and substantial liabilities have been incurred in good faith reliance on the permits. Because future development of property in the District will occur over time, if at all, the application of future land use regulations to the development of the vacant land could cause significant delays and cost increases not currently anticipated, thereby reducing the development potential of the property and the ability or willingness of owners of such land to pay the Reassessment installments when due or causing land values of such land within the District to decrease substantially.

Endangered Species

At present, certain undeveloped properties within the Reassessment District may be inhabited by certain animal species which either the California Fish and Game Commission or the United States Fish and Wildlife Service has proposed for addition to the endangered species list. Furthermore, new species are proposed to be added to the State and federal protected lists on a regular basis. Any action by the State or federal governments to protect species located on or adjacent to the property within the Reassessment District could negatively impact the ability of the owners of vacant land to develop such land. This, in turn, could reduce the likelihood of timely payment of the Reassessment installments levied against such vacant land and would likely reduce the value of such land and the potential revenues available at the foreclosure sale for delinquent Reassessment installments. While existing development within the District has conformed to current standards and permit requirements, there can be no guaranty that these standards and requirements will not change and make future development more difficult or expensive. See *"RISK FACTORS – Failure to Develop Land"* and *"RISK FACTORS – Land Values"* above.

Geologic, Topographic and Climatic Conditions

The market value of the land and improvements within the Reassessment District can be adversely affected by a variety of factors, particularly those which may impair infrastructure and other public improvements and private improvements of the parcels and the continued habitability and enjoyment of such public and private improvements. Such additional factors include, without limitation, geologic conditions (such as earthquakes), topographic conditions (such as earth movements and floods) and climatic conditions (such as droughts and fire hazard).

The seismic risks to a structure are dependent upon several factors, including: the distance of the structure from the fault, the character of the earthquake, the nature of construction, and the geologic conditions underlying a structure. Ground surface rupture tends to occur along lines of previous faulting, where fault displacement intersects the ground surface. Displacement may either occur suddenly during an earthquake or it may occur slowly as the fault "creeps" over a long period of time. The City has experienced significant earthquakes in the past.

These factors are taken into account in the design of public improvements and are taken into account in the design of other infrastructure and public improvements, the design of which must be approved by the City. Further, City building codes require that these factors be taken account in the design of private improvements of the parcels, and the City has adopted the 1988 Uniform Building Code standards, with some modifications, with regard to seismic standards. Design criteria in any of these circumstances are established upon the basis of a variety of considerations and may change, leaving previously designed improvements unaffected by more stringent subsequently established criteria. In general, design criteria reflect a balance between the present perception of the probability that the condition will occur and the seriousness of the condition should it occur. Consequently, neither the absence of nor the establishment of design criteria with respect to any particular condition means that the City has evaluated the condition and has established design criteria in the situations in which such criteria are needed to preserve value, or has established such criteria at levels that will preserve value. To the contrary, the City expects that one or more of such conditions may occur and may result in damage to improvements of varying seriousness, that the damage may entail significant repair or replacement costs and that repair or replacement may never occur either because of the cost or because repair or replacement will not facilitate habitability or other use, or because other consideration preclude such repair or replacement. Under any of these circumstances, the actual value of the parcels in the Reassessment District and the possessory interests therein may well depreciate or disappear notwithstanding the establishment of design criteria for any such condition.

Earthquake insurance is available, but at very high premiums and many property owners elect not to purchase it. Damage or destruction to property within the Reassessment District caused by earthquake or other natural disasters could result in the failure of the owner of property within the Reassessment District to pay the Reassessments and could result in a significant reduction in the value of property within the Reassessment District, with no source of funds for reconstruction.

Hazardous Substances

While governmental taxes, assessments and charges are common claim against the value of a taxed parcel, other less common claims may become an obligation of one or more of the assessed parcels and may be secured by a lien on parity with the Reassessments securing the Bonds. One of the most serious in terms of the potential reduction in the value that may be realized to pay the Reassessment is a claim with regard to a hazardous substance. In general, the owners and operators of a parcel within the District may be required by law to remedy conditions of the parcel relating to releases or threatened releases of hazardous substances. The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as "CERCLA" or "Superfund Act," is the most well-known and widely applicable of these laws, but California laws with regard to hazardous substances are also stringent and similar. Under many of these laws, the owner (or operator) is obligated to remedy a hazardous substance condition of property whether or not the owner (or operator) has anything to do with creating or handling the hazardous substance. The effect therefore, should any of the parcels within the District be affected by a hazardous substance, is to reduce the marketability and value of the parcel by the costs of remedying the condition, because the owner is obligated to remedy the condition. Further, such liabilities may arise not simply from the existence of a hazardous substance but from the method of handling it. All of these possibilities could significantly affect the value of a property that is realizable upon a delinquency and foreclosure.

The assessed and appraised values expressed herein do not take into account the possible reduction in marketability and value of any of the assessed parcels by reason of the possible liability of the owner (or operator) for the remedy of a hazardous substance condition of the parcel. The City is not aware that the owner (or operator) of any of the assessed parcels has such a current liability with respect to any of the assessed parcels. However, it is possible that such liabilities do currently exist.

Further, it is possible that liabilities may arise in the future with respect to one or more of the assessed parcels resulting from the existence, currently, on the parcel of a substance presently classified as hazardous or may arise in the future resulting from the existence, currently, on the parcel of a substance presently not classified as hazardous but which may in the future be so classified. Further, such liabilities may arise not simply from the existence of a hazardous substance but from the method of handling it. All of these possibilities could significantly affect the value of a assessed parcel.

Future Private Indebtedness

At the present time, some of the property in the Reassessment District is undeveloped or partially developed. In order to develop any improvements on that land, the property owners will need to construct private improvements over and above those which were financed with the proceeds of the Prior Bonds. The cost of these additional private improvements may increase the private debt for which the land in the Reassessment District or other land or collateral owned by the property owners is security over that contemplated by the Bonds, and such increased debt could reduce the ability or desire of the property owners to pay the Reassessments secured by the land in the District. Should a significant default occur with respect to the Reassessments, the City will not receive adequate funds to pay principal and interest on the Bonds. It should be noted, however, that the lien of any commercial financing secured by the land within the Reassessment District would be subordinate to the lien of the Reassessments. See *"SOURCES OF PAYMENT FOR THE BONDS – Levy and Collection of Reassessments"* herein.

Special Risks Associated with Industrial Properties

All of the parcels within the Reassessment District are zoned for industrial uses. Only 47.7% of the land area of the Reassessment District, and 59.8% of the Reassessment lien, is Developed Property or property Under Construction. For property owners that operate their own industrial property, the ability to pay the Reassessments securing the Bonds may depend on the profitability of their industrial operations. For property owners that lease industrial property, defaults by tenants under leases covering parcels within the Reassessment District may result in delays or a reduction in the cash flow generated by the property. Similarly, the inability of a property owner to renew leases or to relet parcels on favorable terms may result in a reduction of cash flow generated by the property. Any such reduction or delay in cash flow could result in delays or defaults in payment of Reassessment installments. Moreover, industrial properties are more likely to contain, use and have been subjected to releases of hazardous materials. See *"RISK FACTORS – Hazardous Substances"* herein.

Possible Early Redemption of the Bonds

Property owners within the Reassessment District have the right to prepay all or any portion of the Reassessment lien on their property. See "*RISK FACTORS – Prepayment History*." The Bonds are subject to special mandatory redemption in the event of such prepayments. See *"THE BONDS – Redemption – Mandatory Redemption"* herein.

Loss of Parcels Securing Bonds Over Time

There is no uniform relationship between the value of parcels in the Reassessment District and the proportionate share of the Reassessment borne by the parcel. Prepayment of Reassessment liens on particular parcels will change the value to lien ratios between all parcels remaining subject to Reassessment liens and all remaining Outstanding Bonds. Should the Reassessment liens on parcels having a relatively high ratio of value to Reassessment lien be prepaid, the security for the Bonds will be reduced.

Elimination of parcels from the Reassessment District, through prepayment of the Reassessment liens, will result in changes to the value of property securing the Reassessment liens and may also result in increasing concentration of ownership within the Reassessment District. See *"RISK FACTORS – Concentration of Undeveloped Property Ownership"* herein.

Proposition 218

On November 5, 1996, the voters of the State approved Proposition 218, the "Right to Vote on Taxes Act." Proposition 218 added Articles XIIIC and XIIID to the State Constitution, which contain a number of provisions affecting the ability of the Reassessment District to levy and collect both existing and future taxes, assessments, fees and charges.

Article XIIIC also removes many of the limitations on the initiative power in matters of reducing or repealing local taxes, special taxes, assessments, fees and charges. In the case of the unpaid assessments which are pledged as security for payment of the Bonds, the laws of the State provide a mandatory, statutory duty of the Reassessment District and the County Auditor to post installments on account of the unpaid Reassessments to the property tax roll of the County each year while any of the Bonds are outstanding, commencing with property tax year 2003/04, in amounts equal to the principal of and interest on the Bonds coming due in the succeeding calendar year. The terms "assessments," "fees" and "charges" are not defined in Article XIIIC. While the matter is not free from doubt, it is likely that a court would hold that the initiative power cannot be used to reduce or repeal the levy of the Reassessment which is pledged as security for payment of the Bonds or to otherwise interfere with performance of the mandatory, statutory duty of the Reassessment District and the County Auditor with respect to the unpaid Reassessments which are pledged as security for payment of the Bonds.

Article XIIID requires that, beginning July 1, 1997, the proceedings for the levy of any assessment (including, if applicable, any increase in such assessment or any supplemental assessment) must be conducted in conformity with the provisions of Section 4 of Article XIIID. Any challenge (including any constitutional challenge) to the proceedings or the assessment must be brought within 30 days after the date the assessment was levied. The assessments of the Original Assessment Districts were levied prior to the approval of Proposition 218 and the Reassessments relate back to and derive their lien priority from the date of the assessments of each respective Original Assessment District.

Implementing legislation respecting Proposition 218 has been introduced in the State legislature that would supplement and add provisions to California statutory law. One piece of the legislation, SB 919, was signed by the Governor and became effective on July 1, 1997. No assurance may be given as to the final terms of any other legislation, or the impact on the Reassessment District of SB 919 or such other legislation. The interpretation and application of Proposition 218 will ultimately be determined by the courts with respect to a number of the matters discussed above, and it is not possible at this time to predict with certainly the outcome of such determination or its affect on repayment of the Bonds.

Property Tax Collection Procedures

In California, property which is subject to ad valorem taxes is classified as "secured" or "unsecured." The "secured roll" is that part of the assessment roll containing state-assessed public utilities' property and property the taxes on which are a lien on real property sufficient, in the opinion of the Assessor, to secure payment of the taxes. A tax levied on unsecured property does not become a lien against such unsecured property, but may become a lien on certain other property owned by the taxpayer. Every tax which becomes a lien on secured property has priority over all other liens arising pursuant to State law on such secured property, regardless of the time of the creation of the other liens. Secured and unsecured property are entered separately on the assessment roll maintained by the Assessor. The method of collecting delinquent taxes is substantially different for the two classifications of property.

Property taxes on the secured roll are due in two installments, on November 1 and February 1 of each fiscal year. If unpaid, such taxes become delinquent after December 10 and April 10, respectively, and a 10% penalty attaches to any delinquent payment. In addition property on the secured roll with respect to which taxes are due is delinquent on or about June 10 of the fiscal year. Such property may thereafter be redeemed by payment of the delinquent taxes and a delinquency penalty, plus a redemption penalty of 1½% per month to the time of redemption. If taxes are unpaid for a period of five years or more, the property is deeded to the State and then is subject to sale by the county tax collector.

Historically, property taxes are levied for each fiscal year on taxable real and personal property situated in the taxing jurisdiction as of the preceding January 1. A bill enacted in 1983, SB 813 (Statutes of 1983, Chapter 498), however, provided for the supplemental assessment and taxation of property as of the occurrence of a change of ownership or completion of new construction. Thus, this legislation eliminated delays in the realization of increased property taxes from new assessments. As amended, SB 813 provided increased revenue to taxing jurisdictions to the extent that supplemental assessments of new construction or changes of ownership occur subsequent to the January 1 lien date.

Property taxes on the unsecured roll are due on the January 1 lien date and become delinquent, if unpaid on the following August 31. A penalty of 10% is also attached to delinquent taxes in respect of property on the unsecured roll, and further, an additional penalty of 1½% per month accrues with respect to such taxes beginning the first day of the third month following the delinquency date. The taxing authority has four ways of collecting unsecured personal property taxes: (1) a civil action against the taxpayer, (2) filing a certificate in the office of the county clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer, (3) filing a certificate of delinquency in the county recorder's office, in order to obtain a lien on certain property of the taxpayer, and (4) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the assessee. The exclusive means of enforcing the payment of delinquent taxes in respect of property on the secured roll is the sale of the property securing the taxes to the State for the amount of taxes which are delinquent.

LITIGATION

No Pending Litigation

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

The Reassessments collected represent a special fund of the City that are not available to pay the judgment in De La Fuente Business Park, Inc. v. City of San Diego. However, it is not known whether the pendency, or the final disposition, of that case will affect the willingness of landowners to pay their Reassessments. See *"THE REASSESSMENT DISTRICT – Development Agreement Litigation"* above and *"LITIGATION – De La Fuente Business Park, Inc. v. The City of San Diego"* below.

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

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

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

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

Following the special verdict but before entry of the judgment, the trial judge disqualified himself from further proceedings in the case for allegedly failing to disclose personal relationships with one of the plaintiff's attorneys. The case was transferred to another judge outside of San Diego County who will sit for all purposes, including a new trial. This judge was appointed to the Court of Appeals during the pendency of the appeal in this matter, so this case will need to be reassigned to another judge after appeal.

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

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

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

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

The City believes that a significant portion of its defense costs ¾ both retroactive to the exhaustion of the self-insured retention of $1.0 million and prospectively through appeal ¾ will be paid in large part by one or more of the City's insurers. The City may have some coverage for damages under its policies of insurance but the amount and scope of the coverage is not presently known. A number of insurers whose policies may cover defense costs and any judgment have challenged the applicability of their policies (see "Insurance Coverage Issues" below).

Despite the denial of certain of the post-trial motions, the City believes it has sound legal theories for its appeal; however, no assurance can be given that the City's pursuit of this challenge will be successful. In addition, the plaintiff has filed a cross-appeal seeking to have the order granting a new trial set aside by the Court of Appeal. In the event that the City is not successful on appeal, and on retrial, if any, the judgment, including any interest, will have to be paid from the City's treasury, most likely over a period of ten years with additional interest during that period, to the extent that there is not insurance coverage or a shortfall in coverage. The current judgment as entered by the Superior Court now being reviewed by the Court of Appeal does not provide for any interim or partial payment prior to the completion of the retrial of the breach of contract claims. It is anticipated that the plaintiff will continue to seek, over the City's objection, to have this judgment modified by the Court of Appeal or the Superior Court to provide for payment or deposit of funds prior to the completion of the retrial. (On November 7, 2001, the plaintiff filed a motion with the trial court asking that the City deposit in trust into the court, the full judgment amount of $92.4 million which includes some post-judgment interest, pending the City's appeal. The court denied the plaintiff's motion.) However, if the current judgment is upheld and not modified by the Court of Appeal as a result of either the City's appeal or the cross-appeal, then no amount will be due from the City until after the retrial of the breach of contract claims. It is not expected that the retrial would be completed in Fiscal Year 2003-2004.

Because there is no final judgment at this time, and given the court's partial grant of the City's new trial motion, the City had not included any moneys for the payment of any judgment in this case in its budget for the 2002-2003 Fiscal Year and does not propose to include any moneys in its budget for the 2003-2004 Fiscal Year. Settlement discussions may occur from time to time. The City does not believe that it will be obligated to make payments in connection with this matter in Fiscal Year 2004. However, the City cannot predict the timing or cost of the ultimate resolution of this case.

Insurance Coverage Issues

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

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

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

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

CONCLUDING INFORMATION

Certain Legal Matters

The validity of the Bonds and certain other legal matters are subject to the approving opinion of Best Best & Krieger, LLP, San Diego, California, Bond Counsel. Bond Counsel has not undertaken any responsibility for the accuracy, completeness or fairness of this Official Statement and expresses no opinion as to the matters set forth therein. A complete copy of the proposed form of Bond Counsel opinion is contained in *APPENDIX E – FORM OF BOND COUNSEL OPINION* hereto and will accompany the Bonds. Certain legal matters will be passed upon for the City by Luce, Forward, Hamilton & Scripps LLP, San Diego, California, Disclosure Counsel. Payment of the fees and expenses of Bond Counsel and Disclosure Counsel are contingent upon the sale and delivery of the Bonds. Certain legal matters will be passed upon for the City by Casey Gwinn, Esq., City Attorney.

Tax Matters

In the opinion of Best Best & Krieger, LLP, San Diego, California, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, interest and original issue discount on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest and original issue discount on the Bonds is exempt from State of California personal income tax. Bond Counsel notes that, with respect to corporations, interest and original issue discount on the Bonds will be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative maximum taxable liability of such corporations.

The difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of a maturity are to be sold to the public) and the stated redemption price at maturity with respect to such Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bond Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Bond Owner will increase the Bond Owner's basis in the applicable Bond.

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

Should the interest and original issue discount on the Bonds become includable in gross income for federal income tax purposes, the Bonds are not subject to early redemption as a result of such occurrence and will remain outstanding until maturity or until otherwise redeemed in accordance with the Indenture.

Bond Counsel's opinion may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds. Bond Counsel has not undertaken to determine, or to inform any person, whether any such action or events are taken or do occur, or whether such actions or events may adversely affect the value or tax treatment of a Bond, and Bond Counsel expresses no opinion with respect thereto.

Although Bond Counsel has rendered an opinion that interest and original issue discount on the Bonds is excluded from gross income for federal income tax purposes provided that the City continues to comply with certain requirements of the Code, the accrual or receipt of interest on the Bonds may otherwise affect the tax liability of the recipient. The extent of these other tax consequences will depend upon the recipient's particular tax status and other items of income or deductions. Bond Counsel expresses no opinion regarding any such consequences. Accordingly, all potential purchasers should consult their tax advisors before purchasing any of the Bonds.

Continuing Disclosure

The City has covenanted for the benefit of the Owners and Beneficial Owners of the Bonds to provide certain financial information and operating data relating to the City and the Reassessment District by not later than April 1st following the end of the City's fiscal year ended June 30, commencing with the report for the 2002/03 Fiscal Year (the "Annual Report"), and to provide notice of the occurrence of certain enumerated events, if material.

The Affiliated Companies (as defined below), which together constitute "obligated person" under the Rule, have covenanted, for the benefit of the Owners and Beneficial Owners of the Bonds to provide certain information relating to property in the Reassessment District on a semi-annual basis (the "Semi-Annual Report"), and to provide notice of the occurrence of certain material events. The Annual Report will be filed by the City (acting as Dissemination Agent), and the Semi-Annual Report will be filed by the Fiscal Agent, as Dissemination Agent on behalf of the Affiliated Companies, respectively, with each Nationally Recognized Municipal Securities Information Repository ("NRMSIR"). The notices of material events will be filed by the City and the Dissemination Agent on behalf of the City with each NRMSIR and the Municipal Securities Rulemaking Board. These covenants have been made in order to assist the Underwriters in complying with Rule 15c2-12(b)(5) (the "Rule") promulgated by the U.S. Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). See "*CONCLUDING INFORMATION -- Continuing Disclosure*" and "*APPENDIX D – Forms of -- Continuing Disclosure Agreements.*" However, a default under a Continuing Disclosure Agreement will not, in itself, constitute an Event of Default under the Indenture or the Bonds, and the sole remedy under the Continuing Disclosure Agreement in the event of any failure of the City, the Affiliated Companies or the Dissemination Agent to comply with the Continuing Disclosure Agreement will be an action to compel specific performance. The City has never failed to comply with an undertaking under the Rule. The Affiliated Companies have represented that they have not previously been subject to continuing disclosure requirements.

Verification of Mathematical Accuracy

Upon delivery of the Bonds, Causey Demgen & Moore, Inc. ("Verification Agent"), will deliver its independent certified public accountant verification report on the mathematical accuracy of certain computations, contained in schedules provided to it which were prepared on behalf of the City by the Underwriter, relating to the sufficiency of the amounts deposited in the redemption fund for each of the Prior Bonds to pay, on September 2, 2003, the principal, interest and redemption premium requirements of the Prior Bonds. See *"CONCLUDING INFORMATION – Tax Matters"* above.

The report of the Verification Agent will include the statement that the scope of its engagement is limited to verifying the mathematical accuracy of the computations contained in such schedules provided to it, and that it has no obligation to update its report because of events occurring, or data or information coming to its attention, subsequent to the date of its report.

No Rating

The Bonds are not rated. The City has not made, and does not contemplate making, application to any rating agency for the assignment of a rating to the Bonds.

Financial Advisor

The City has appointed Fieldman Rolapp & Associates, Inc., Irvine, California, as Financial Advisor for the sale of the Bonds. The Financial Advisor is not obligated to undertake and has not undertaken to make, an independent verification, or to assume responsibility for the accuracy, completeness, or fairness of the information contained in the Official Statement.

Underwriting

The Bonds are being purchased for reoffering by Stone & Youngberg LLC (the "Underwriter"). The Underwriter has agreed to purchase the Bonds and in connection therewith receive an Underwriter's discount of $146,025. The purchase contract pursuant to which the Underwriter are purchasing the Bonds provides that the Underwriter will purchase all of the Bonds if any are purchased. The obligation of the Underwriter to make such purchase is subject to certain terms and conditions set forth in such purchase contract.

The Underwriters reserve the right to join with dealers and other underwriters in offering the Bonds to the public. The Underwriters may offer and sell Bonds to certain dealers (including dealers depositing Bonds into investment trusts) at prices lower than the public offering prices, and such dealers may reallow any such discounts on sales to other dealers.

In reoffering Bonds to the public, the Underwriters may over allocate or effect transactions which stabilize or maintain the market prices for Bonds at levels above those which might otherwise prevail. Such stabilization, if commenced, may be discontinued at any time.

Miscellaneous

All quotations from, and summaries and explanations of the Indenture, the Bonds, the Refunding Act, the Act or other statutes and documents contained herein do not purport to be complete, and reference is made to said documents and statutes for full and complete statements of their provisions.

This Official Statement is submitted only in connection with the sale of the Bonds by the City. All estimates, assumptions, statistical information and other statements contained herein, while taken from sources considered reliable, are not guaranteed by the City or the Underwriters. The information contained herein should not be construed as representing all conditions affecting the City or the Bonds.

All information contained in this Official Statement pertaining to the City has been furnished by the City and the execution and delivery of this Official Statement has been duly authorized by the City.

THE CITY OF SAN DIEGO

/s/ Patricia T. Frazier

Patricia T. Frazier, Deputy City Manager

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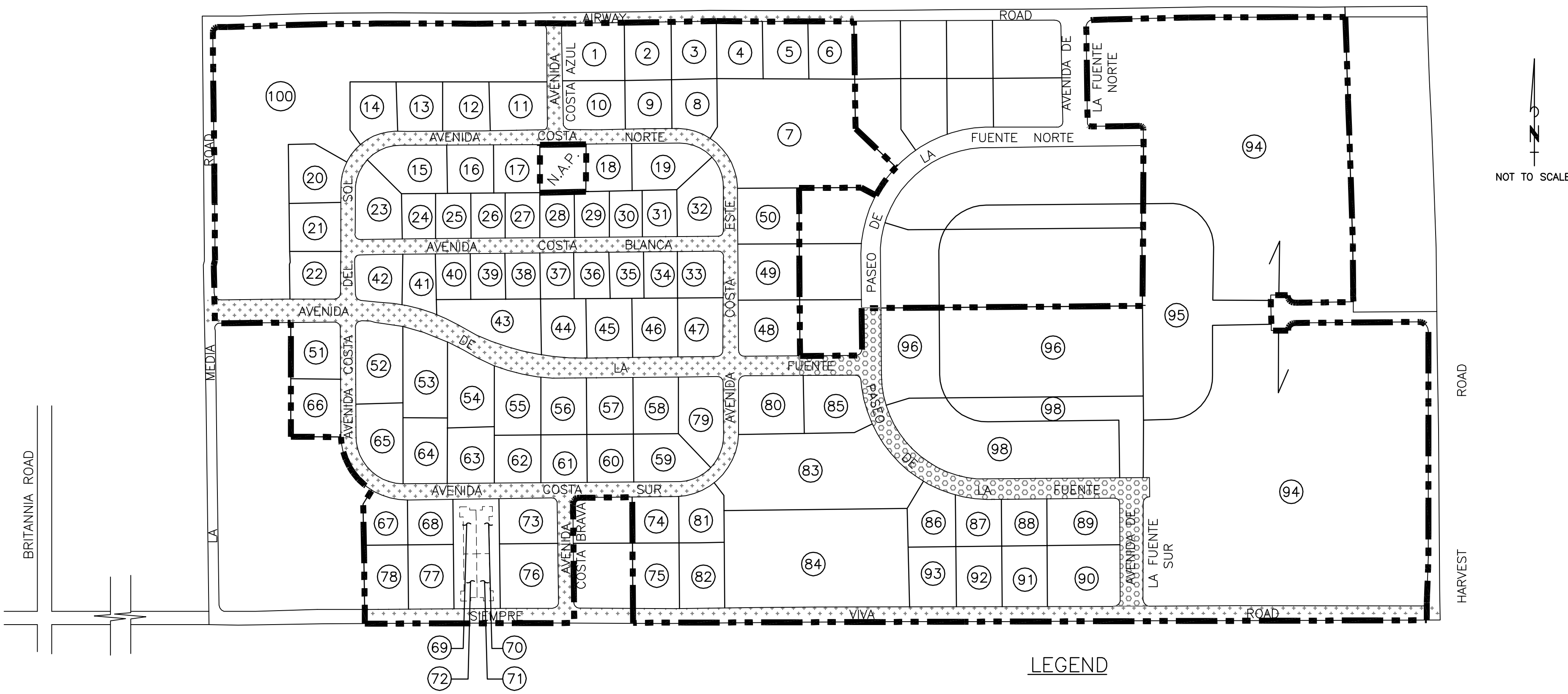
APPENDIX A

REASSESSMENT DIAGRAM AND APPRAISAL REPORTS

REASSESSMENT DIAGRAM

REASSESSMENT DISTRICT NO. 2003-1

CITY OF SAN DIEGO
COUNTY OF SAN DIEGO
STATE OF CALIFORNIA



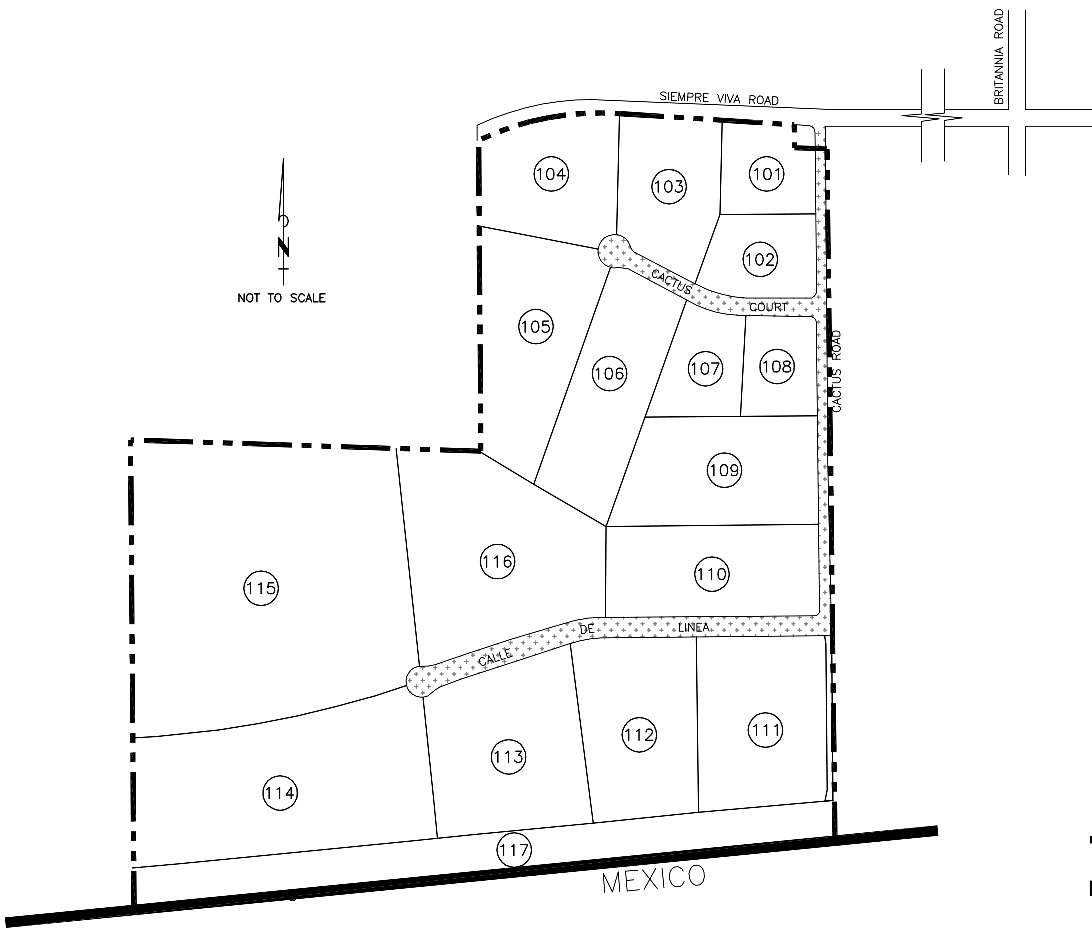
LEGEND

- REASSESSMENT DISTRICT BOUNDARY
- ASSESSOR'S PARCEL BOUNDARY
- N.A.P. – NOT A PART
- (22) – REASSESSMENT NUMBER
- IMPROVED STREETS
- DEDICATED STREET RIGHT-OF-WAY/NO IMPROVED STREETS

REASSESSMENT DIAGRAM

REASSESSMENT DISTRICT NO. 2003-1

CITY OF SAN DIEGO
COUNTY OF SAN DIEGO
STATE OF CALIFORNIA



LEGEND

- REASSESSMENT DISTRICT BOUNDARY
- INTERNATIONAL BOUNDARY
- ASSESSOR'S PARCEL BOUNDARY
- (102) – REASSESSMENT NUMBER
- IMPROVED STREETS

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Rasmuson Appraisal Services

A
COMPLETE SUMMARY
APPRAISAL REPORT

OF

Otay Mesa Special District
Reassessment No. 2003-1
San Diego, California

Prepared For:
City of San Diego

Dated:
July 18, 2003

Rasmuson Appraisal Services

14665 Yukon Street
San Diego, California 92129
Ph. (858) 672-1796 Fax: (858) 672-3816

Gary L. Rasmuson, MAI SRA
Wendy A. Rasmuson, MBA

July 18, 2003

File No. 23168

Ms. Carrie L. Gleeson
Deputy City Attorney
c/o Ms. Carol Chiodo
Deputy Director
Real Estate Assets Department
City of San Diego
1200 Third Avenue, Suite 1700
San Diego, California 92101

RE: AP 63006 – Otay Mesa Special District Reassessment No. 2003-1, San Diego, California

Dear Ms. Gleeson:

At your request, I have completed an appraisal setting forth the market value of the referenced property. The appraisal report has been prepared to comply with the Uniform Standards of Professional Appraisal Practice (USPAP), the Code of Ethics and Supplemental Standards of the Appraisal Institute and the California Debt Advisory Appraisal Standards for Land-Secured Financings created May 19, 1994. This appraisal has been prepared as a complete analysis and is presented as a summary appraisal report prepared under Standards Rule 2-2(b) of USPAP.

Special District Reassessment No. 2003-1 encompasses 16 parcels with a total gross acreage of 88.51 acres in an industrial subdivision known as De la Fuente Business Park. The infrastructure, streets and installation of utilities has been completed on about half of the subdivision. The balance of the subdivision is in a raw state, although paper streets exist through recordation of the subdivision maps.

By virtue of my experience and based upon my investigation, it is my opinion that the Bulk Sale Value of the subject's fee simple interest, land value only, subject to special tax and special assessment liens as of July 15, 2003 was:

BULK SALE VALUE – PARCELS 11, 12, 15 AND 41: $1,000,000

BULK SALE VALUE – PARCELS 85, 94, 95, 96, 97, 98 AND 99: $10,400,000

Please refer to the Limiting Conditions section of this report for the specific assumptions made in this analysis. Submitted herewith is my report containing the facts and reasoning upon which the above value is based. It has been a pleasure to be of service to City of San Diego in this assignment.

Sincerely,

RASMUSON APPRAISAL SERVICES

Gary L Rasmuson, MAI SRA
Certified General Real Estate Appraiser
State of California
OREA Appraiser I.D. No. AG 002571
Expiration Date: 2/4/2004

TABLE OF CONTENTS

SUMMARY OF CONCLUSIONS

Project Description — The project consists of sixteen assessment parcels within the proposed Reassessment District No. 2003-1. The lots are all within the De la Fuente industrial subdivision and are subject to several different ownerships.

Purpose — To estimate the subject's market value for assessment district purposes

Estate Valued — The fee simple estate, subject to special tax and special assessment liens

Zoning — OMDD-I; (Otay Mesa Development District, Industrial Sub-District)

Date of the Opinion of Value — July 15, 2003

Indicated Values — Individual Retail Lot Values: See Following Value Summary Table

Concluded Finished Lot Retail Values Subject to Lien Assessment

Assessment Number	*APN*	*SF*	*Unit Value*	*Total Value*	*Value of Lien Assessment*	*Value Net of Assessment*	*Rounded Value*
6	646-150-06	50,000	$4.73	$236,500	$53,378	$183,122	$183,100
10	646-150-10	56,628	$7.25	$410,553	$60,446	$350,107	$350,100
11	646-150-11	52,272	$7.25	$378,972	$55,935	$323,037	$323,000
12	646-150-12	42,000	$7.25	$304,500	$44,823	$259,677	$259,700
15	646-150-15	55,757	$7.25	$404,238	$59,469	$344,769	$344,800
30	646-150-31	30,000	$7.75	$232,500	$32,036	$200,464	$200,500
41	646-150-42	36,155	$7.75	$280,201	$38,546	$241,656	$241,700
85	646-261-07	69,696	$6.00	$418,176	$24,546	$393,630	$393,600
89	646-261-11	67,518	$7.25	$489,506	$23,779	$465,727	$465,700
90	646-261-12	83,635	$7.25	$606,354	$29,455	$576,899	$576,900
94	646-120-39	2,208,492	$3.70	$8,171,420	$455,937	$7,715,484	$7,715,500
95	646-260-16	295,772	$3.50	$1,035,202	$49,388	$985,814	$985,800
96 & 97	646-261-18,19	449,539	$4.50	$2,022,926	$150,128	$1,872,799	$1,872,800
98 & 99	646-261-20,21	358,063	$4.50	$1,611,284	$119,579	$1,491,706	$1,491,700

Bulk Sale Value Estimate – Parcels 11, 12, 15 and 41:

Sale Comparison Approach:	$1,067,000
Discounted Cash Flow Analysis:	$950,000
Bulk Sale Value Subject to Assessment Liens:	$1,000,000

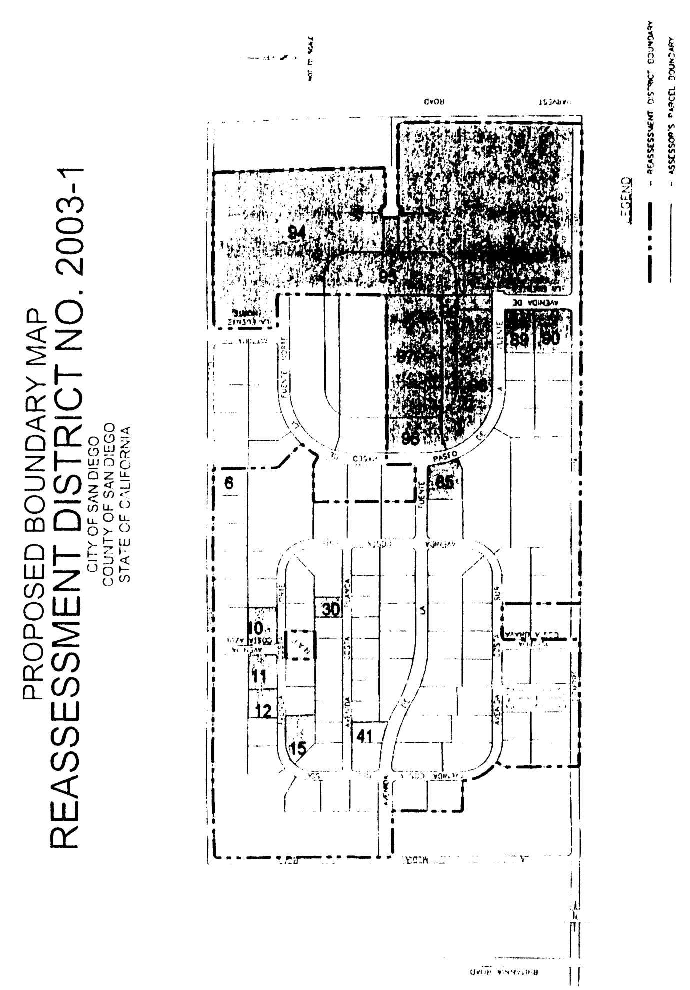
Bulks Sale Value – Parcels 85, 94, 95, 96, 97, 98 and 99: $10,400,000

Specific Assumptions — This valuation is of the fee simple interest in the subject parcels. The valuation is of land value only for the subject lots and does not include any structural improvements that may exist on the lots. Site improvements are not valued for Parcels 15, 41, 89 and 90.

I have not been provided with a title report for the subject lots. This valuation assumes that there are no significant easements or encumbrances that would impact the value or development potential of these lots other than as discussed in this report.

Introduction

SUBJECT PARCEL LOCATION MAP



INTRODUCTION

Project Overview

The De La Fuente Business Park consists of an industrial subdivision that was created through recordation of six subdivision maps identified as De La Fuente Business Park Unit Nos. 1 through 6 in the Otay Mesa community of the City of San Diego. The subdivision has general boundaries of Airway Road to the north, Siempre Viva Road to the south, La Media Road to the west and Harvest Road to the east. The westerly portions of the subdivision have been demarcated into 85 lots on subdivision maps Unit Nos. 1 through 4. While the remaining recorded tract maps, Unit Nos. 5 and 6 also include 20 individual lots together with several larger industrial sites, this portion of the subdivision is relatively undeveloped and lacking infrastructure improvements.

The subject of this appraisal consists of sixteen parcels interspersed throughout the De la Fuente subdivision. These parcels currently have outstanding bond assessments that were originally financed in accordance with the Improvement Bond Act of 1915 for public improvements such as the streets, water, sewer and drainage improvements in the subdivision. The original Assessment District Numbers for the De la Fuente subdivision included District Numbers 4011 and 4021. The City of San Diego has begun formal legislative proceedings, at the request of property owners, to consolidate the outstanding bond issues into a single, less expensive issuance. The sixteen parcels covered in this report include three private entities and one public ownership. The estimated principal amount of the total proposed bond issue for these sixteen parcels is $1,197,443.

As of the date of this report, two of the sixteen parcels that encompass the subject of this report have been developed with industrial buildings. The two lots, Assessment Nos. 89 and 90, underlie one larger industrial building that sets on two contiguous lots owned by the federal government. The valuation analysis in this report is based upon land value only and does not consider the contributory value of the improvements. In addition, Assessment Parcels 15 and 41 have significant site improvements constructed on each lot. These site improvements have not been considered or valued in this analysis. The minor site improvements contained on Assessment Parcels 94 through 99 have been considered in the valuation conclusion.

Of the 16 parcels that are the subject of this report, twelve (2/3) of the parcels are held under two private related entities. A breakdown of this ownership is shown below:

Otay Mesa Property LP:	Assessment Nos. 6, 85, 94, 95, 96, 97, 98 & 99
Otay Acquisitions LP:	Assessment Nos. 11, 12, 15 & 41

With the exception of Assessment Number 6 which consists of an existing finished lot in the western portion of the subject subdivision, separate bulk value estimates will be estimated in this report for these ownerships and identified as Bulk Value #1 (Otay Mesa Property LP ownership) and Bulk Value #2 (Otay Acquisitions LP ownership).

For purposes of this report, the existing lot lines and lot sizes as reflected on the current San Diego Assessor Plat Maps are utilized with exception of Reassessment Parcels 96, 97, 98 and 99. Based on information available to me, it appears that in 2002 the San Diego Tax Collector subdivided two parcels that were legally described as Parcels C and D of Parcel Map 18586 and created four separate assessor parcel numbers effectively dividing the parcels for taxation purposes. To my knowledge, there is no legal lot split of record or boundary adjustment; therefore, these parcels are valued together coinciding with their underlying legal description as follows:

Parcel "C" of PM 18586:	Assessment Nos. 96 & 97, comprising a total of 10.32 acres
Parcel "D" of PM 18586:	Assessment Nos. 98 & 99, comprising a total of 8.22 acres

Subject Property Identification/Ownership

Subject Property Identification				
Appraisal Lot No.	Assessment Number	APN	Acres[1]	Property Owner
1	94	646-120-39	50.70	Otay Mesa Property LP
2	6	646-150-06	1.15	Otay Mesa Property LP
3	10	646-150-10	1.30	Garcia Produce LLC
4	11	646-150-11	1.20	Otay Acquisitions LP
5	12	646-150-12	0.98	Otay Acquisitions LP
6	15	646-150-15	1.28	Otay Acquisitions LP
7	30	646-150-31	0.69	Vasquez, Jose L & Blanca B
8	41	646-150-42	0.83	Otay Acquisitions LP
9	95	646-260-16	6.79	Otay Mesa Property LP
10	85	646-261-07	1.60	Otay Mesa Property LP
11	89	646-261-11	1.55	United States of America
12	90	646-261-12	1.92	United States of America
13	96	646-261-18	2.30	Otay Mesa Property LP
14	97	646-261-19	8.02	Otay Mesa Property LP
15	98	646-261-20	5.67	Otay Mesa Property LP
16	99	646-261-21	2.55	Otay Mesa Property LP

[1] Area per Assessor Plat Map

Subject Ownership History

Several of the parcels have had a change in the vested interest in 2001 and 2002. These documents indicate that the ownership name is either a change in vested interest only or is the result of an intra-family gift or change between a wholly owned subsidiary.

Current Listing

Appraisal I.D. No. 7, also known as Assessment No. 30, is currently listed for sale in the San Diego Realtor Multiple Listing Service. This lot has been listed for sale since February 26, 2003 at $240,000, or $8.00 per square foot.

Valuation Methodology and Order of Presentation

The valuation of real estate typically requires an analysis of community demographics, economic influences, market forces, the physical site and improvement characteristics. After identifying and analyzing the opportunities and constraints of the subject real estate, the valuation approaches are applied resulting in a final value estimate. The report presentation is as follows:

- Introduction, Project Overview and Definitions
- Area Description, Demographics and Market Analysis
- Subject Parcel Descriptions
- Highest and Best Use Analysis
- Valuation Approaches – Finished Lots
- Valuation Approaches – Industrial Acreage
- Conclusion of Value Estimate – Individual Retail Value Industrial Acreage
- Bulk Value Scenarios

Purpose of the Appraisal

The purpose of the appraisal is to develop an opinion of market value for the subject property on a retail lot basis and as a bulk purchase to a single investor.

Identification of the Intended Use and Users of Appraisal

The intended use of this appraisal is for bond reassessment funding purposes. It was prepared for the exclusive use of City of San Diego and may not be used or relied upon by any other party. Any party who uses or relies upon any information in this report, without the preparer's written consent, does so at his own risk.

Scope of the Appraisal

This appraisal has been prepared as a complete appraisal and is presented in a summary appraisal report format under Standards Rule 2-2(b) of the Uniform Standards of Professional Appraisal Practice (USPAP).

The scope of this appraisal is to provide an estimate of the market value for each of the individual lots as well as a bulk value for two groups of related ownerships. In preparing this appraisal, I personally inspected the subject property, the comparable market data and interviewed brokers and investors active in this market. The following summarizes the extent of analysis performed for this report:

- Property inspection by appraiser
- Market data gathered using published sources including Comps.com, First American Real Estate Data, TURI Commercial Services, Daily Transcript
- Market data verified with buyer, seller or participating broker and visually inspected by appraiser
- Report written based on a summary report format with a complete analysis

Date of the Opinion of Value

July 15, 2003

Interest Appraised

Fee simple, subject to special tax and special assessment liens.

Fee simple estate defined as absolute ownership unencumbered by any other interest or estate

Marketing/Exposure Time

The estimated marketing and exposure period for this property as a bulk sale to an individual investor is approximately nine to twelve months according to my analysis of the market data upon which this valuation is based.

Definition of Market Value

The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

- Buyer and seller are typically motivated;
- Both parties are well informed or well advised, and acting in what they consider their own best interests;
- A reasonable time is allowed for exposure in the open market
- Payment is made in terms of cash in U.S. dollars or in terms of financial arrangements

comparable thereto; and

- The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

Source: Uniform Standards of Professional Appraisal Practice (USPAP), Appraisal Foundation 2003

Definition of Finished Lot

A finished lot is defined as a parcel which has legal entitlements created by a recorded subdivision map. The physical condition being a graded level pad with infrastructure contiguous to each individual lot and consisting of asphalt paved roads in addition to the necessary utilities.

Definition of Retail Value

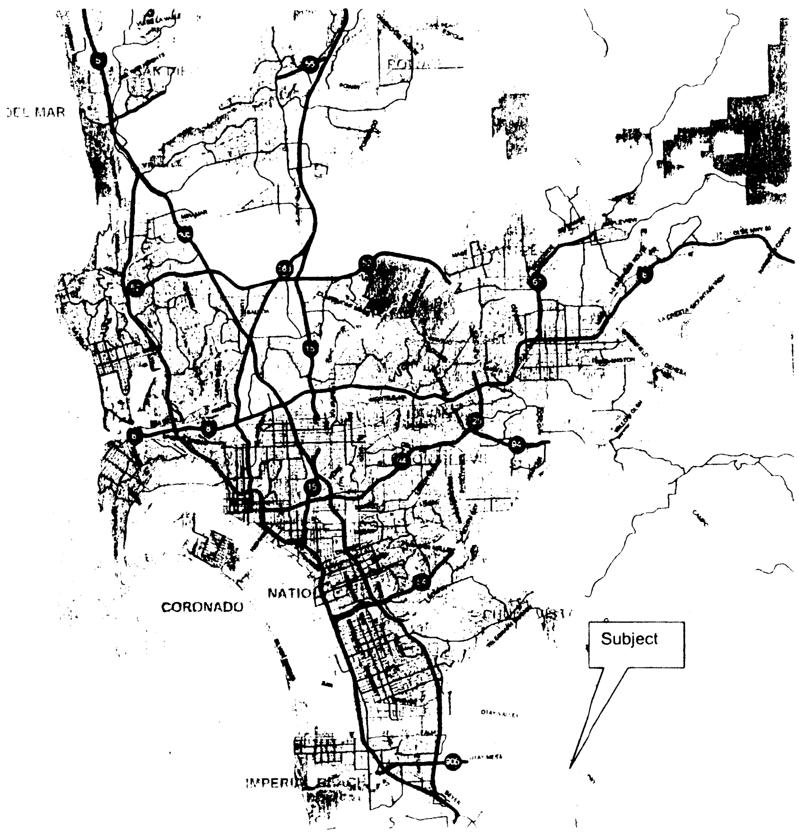
Retail value is an estimate of what an end user would pay for a finished property under the conditions requisite to a fair sale.

Definition of Bulk Sale Value

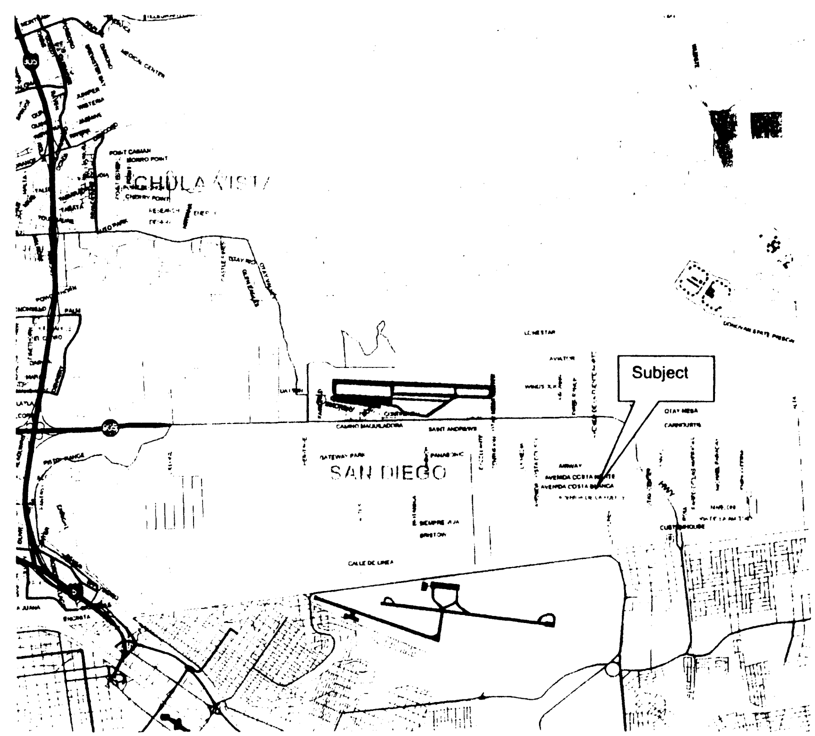
The most probable price, in a sale of all parcels within a tract or development project, to a single purchaser or sales to multiple buyers, over a reasonable absorption period discounted to present value, as of a specified date, in cash, or in terms equivalent to cash, for which the property rights should sell after reasonable exposure, in a competitive market under all conditions requisite to a fair sale, with buyer and seller each acting prudently, knowledgeably, and for self-interest, and assuming that neither is under undue stress.

In this report, I have been requested to provide a bulk sale value estimate for Assessment Parcels 11, 12, 15 and 41 as one group or block of lots under common ownership and a second bulk sale value estimate for Assessment Parcels 85, 94, 95, 96, 97, 98 and 99 which are also under a common ownership.

General Location Map



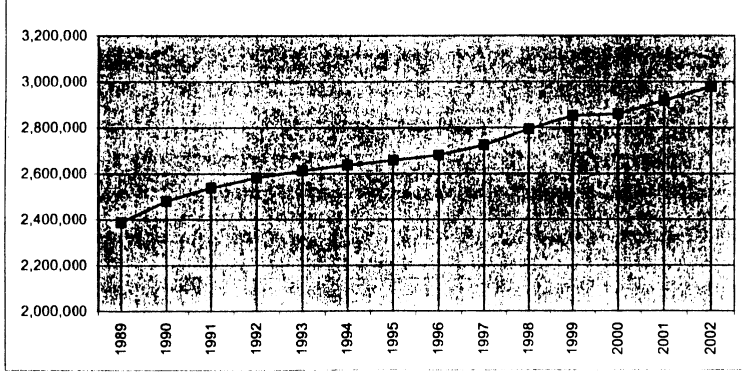
Neighborhood Area Map



DEMOGRAPHICS AND MARKET ANALYSIS

Community Description

- Current County of San Diego Population: 2,978,300
- Growth Trend: Upward growth averaging around 2 percent per year; see table below



- New Construction: New housing units have not been keeping up with the demand growth, causing increasing housing prices. The following table shows new housing permit issuance in the County of San Diego over the past 11 years, based upon number of units proposed.

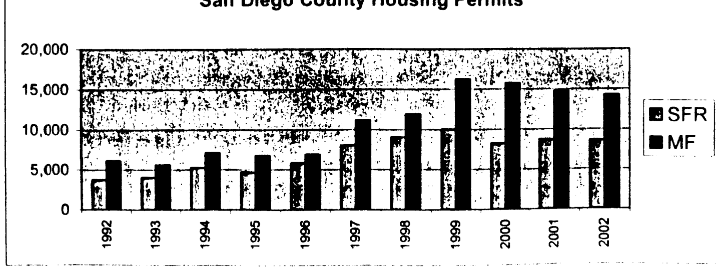
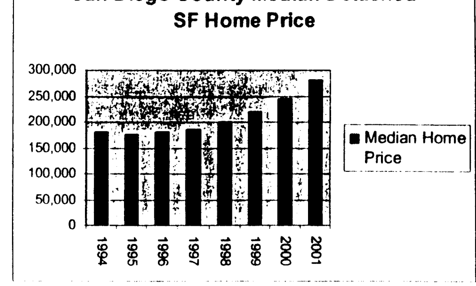
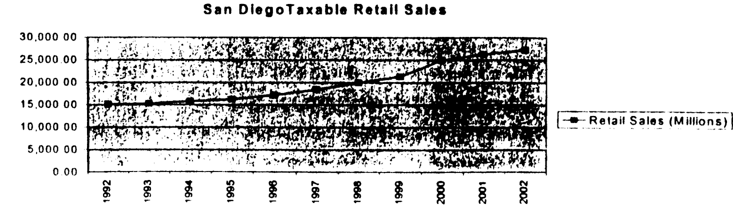


Figure 1 - Source: Construction Industry Research Board

- Housing Prices: San Diego is one of the least affordable housing markets in the nation, ranking fourth highest. The following table presents the average resale home price in San Diego County since 1994. The median home price as of July 2002 was $370,000 for resold homes and $422,750 for the average new home sold.



- Economic Base: San Diego's gross regional product (GRP) reached $126.1 billion in 2002, an increase of 5 percent over 2001's record setting $120.5 billion, according to the Greater San Diego Chamber of Commerce. Adjusted for inflation, the "real" increase will be 2.4 percent. The forecast growth rate in GRP for 2003 is 3.3 percent, inflation adjusted. San Diego's inflation rate has declined to 3.5 percent from 4.6 percent in 2001. The forecast inflation rate for 2003 is 3.9 percent.
- Tourism: Visitor spending is expected to increase in 2003 modestly at 6 percent to $5.4 billion, theme park attendance should grow about 2.2 percent to 12.4 million people through the turnstiles, and overnight as well as day trips will be up 2.3 percent to 27.1 million visitors.
- Retail Sales: Taxable retail sales have been rising steadily, with a current record of $24.9 billion transactions in 2000, an increase of nearly 10 percent over 1999. 2003 sales are forecast at 28.3 billion. A graph depicting levels of retail sales in San Diego over the past 10 years is shown in the following table.



Market Analysis

The fall-out from the dot-com bubble burst and the recession in 2001 had an adverse impact on San Diego's office and R&D space demand in 2001 and 2002 with more vacant space coming on line from existing tenants vacating or giving up excess space for sublease. San Diego continues to fare better than other areas in California which were hit harder by this slump.

A summary of San Diego County's real estate statistics for construction, occupancy and absorption in the various residential, commercial, retail and industrial sectors follows.

San Diego Real Estate Construction Starts (permits pulled)		
	2002 (1st 6 months)	2001 (1st 6 months)
Single Family	4,444	5,163
Multi-Family	3,208	3,515
Commercial	$257.8 million	$241.8 Million
Industrial	$36 million	$47.3 Million

Source – CIRB Construction Industry Research Board

San Diego County Net Space Absorption		
	2002 Year End	2001 Year End
Office	1.6 million SF	1,043,000 SF
Industrial	2.1 million SF	1.6 million
Retail	1.1 million SF	N/A

Source – Burnham Real Estate Services ONCOR

A table summarizing the year-end vacancy rates for office, industrial and apartment property in San Diego County follows. The primary source of this data are the annual Burnham Real Estate Services reports.

San Diego County Vacancy Rates – Year End

Year End	Office	Industrial	Retail	Apartments
1993	15.9%	8.7%	8.7%	4.5%
1994	15.0%	8.4%	9.0%	5.4%
1995	14.6%	7.5%	8.8%	3.8%
1996	11.9%	6.0%	7.2%	2.1%
1997	8.8%	5.3%	6.7%	1.1%
1998	7.5%	4.6%	6.0%	1.3%
1999	7.9%	13.5%	4.7%	1.1%
2000	6.5%	7.3%	3.8%	0.6%
2001	12.4%	8.7%	4.3%	2.0%
2002	11.6%	8.1%	2.7%	4.1%

Despite the continued weakness in our national economy, San Diego County's commercial real estate market remained strong throughout the first quarter 2003. It is believed that San Diego County has not been as deeply affected as other parts of the country due to a highly diversified work force. Some key industries in San Diego County include Agriculture, Defense, High Technology, International Trade, Manufacturing and Biotechnology. At the end of the first quarter 2003, the unemployment rate for San Diego decreased to 4.2 percent. This rate is significantly lower than California's rate of 6.9 percent and the United States rate of 5.8 percent.

Otay Mesa Area Description

The subject property is located within the Otay Mesa Community Plan. It is defined as the southern portion of the City of San Diego and a portion of the County of San Diego and as such, is governed by both the City and County of San Diego. It is bounded by the U.S./Mexico international border to the south, Interstate 805 to the west, the Otay River Valley to the north and the foothills of the San Ysidro Mountains to the east. The area encompasses approximately 28 square miles in both the city and county of San Diego.

Until the mid-1980's, the area was primarily undeveloped agricultural land lacking the necessary public infrastructure for urbanization. With the opening of the Otay Mesa border crossing in late 1985, the establishment of the adjacent Otay International Center and the opening of the State Prison in 1987, the area experienced a significant amount of developmental change in the last 15 years. Otay Mesa has the largest industrially zoned area in San Diego, encompassing 20,600 acres. About 40 percent of this area is located within the city limits and the balance is in the county jurisdiction. At full build-out, the community plan calls for development of a relatively self-contained residential community of approximately 2,500 acres. The community's projected population of 46,400 calls for eight new elementary schools, seven neighborhood parks, a middle school, two community parks and one senior high school.

One of the most important factors leading to increased interest in the Otay Mesa area has been the opening of the Otay Mesa border crossing and the ultimate transfer of all commercial and industrial traffic to its crossing facility. In 1994, the Otay Mesa point of entry was expanded to accommodate additional cargo shipments and in January 1995 it began handling all commercial traffic between San Diego and Tijuana. The San Ysidro international border crossing, located 5.5 miles to the west of Otay Mesa, now allows only pedestrian and private vehicle traffic only.

Otay Mesa's predominantly industrial zoning has provided a base for the city's expanding role in international manufacturing. It began developing in the mid-1980s with the passing of NAFTA and its close proximity to Mexico. Manufacturing operations that are foreign-owned, referred to as maquiladoras, assemble plants in Mexico that import raw material duty-free and export final products around the world. The area expanded into a burgeoning manufacturing industry with the majority of the world's televisions manufactured in the area. Many companies that have located to Otay Mesa have maquiladoras in Tijuana and are operating twin plants. Tijuana became the television manufacturing capital of the world in 1996. A sample of these companies includes Sanyo North America, Maxell Magnetic Media, Matsushita Television Company and JVC. Current estimates indicate there are about 450 companies in the Otay Mesa community employing 12,000 people.

Business development incentives such as its designation as a state Enterprise Zone and Foreign Trade Zone status also benefit the area. About 1,416 acres of Otay Mesa is situated within the Foreign Trade Zone. This designation allows foreign or domestic goods to enter the area without formal customs entry or payment of custom duties and government excise taxes. The maquiladora industry suffered one of its worst years in 2001 due primarily to reduced consumer spending in the United States which led to a drop in production of electronic devices. The region was also affected by regulatory changes and competition from nations with a cheaper work force. As a result, Mexico's export manufacturing industry declined nine percent in 2001. Factories were closed and an estimated 40,000 jobs were lost in Tijuana alone. Exporters that supply the Mexican factories are optimistic that a rebound will come.

Otay Mesa is also home to Brown Field, a City-owned general aviation airport occupying 900 acres north of Otay Mesa Road. The airport currently handles about 20,000 flight operations per month and has an existing main runway that is 8,000 feet in length. It is located on the north side of Otay Mesa Road, west of the subject property. A development group had proposed converting the airport into an air cargo airport a couple years ago. This proposal has since been declined by the City and removed from consideration.

Highway 905/Otay Mesa Road

Primary access to the area is from Interstate 805 east along Otay Mesa Road/Route 905. Otay Mesa Road/Route 905 is a two and four-lane road which terminates immediately east of Alta Road. At the Brown Field Business Park, Otay Mesa Road/Route 905 is three lanes eastbound with concrete curbs, gutters and sidewalks and a concrete center median. The north side of Otay Mesa Road/Route 905 is unimproved and serves as the south property line for Brown Field Airport. During the three-year period from 1997 to 1999, the City of San Diego widened the existing Otay Mesa Road as a stop-gap measure until the full freeway 905 is built parallel to the south of Otay Mesa Road. In the spring of 2000, work was completed on the interim, temporary California 905 expressway along Otay Mesa Road between Old Otay Mesa Road just east of Interstate 805 to the future Highway 125 freeway interchange. This new expressway is built to Caltrans standards with six lanes and standard signage. Signalized intersections with protected left turns are installed at Heritage/Otay Valley Road, Cactus Road, Britannia Boulevard, Alisa Court, La Media Road, and Otay Mesa Road near the future California 125 interchange/connector.

Prior to spring 2000, California 905 existed in two segments. One was the freeway segment between a half mile east of Interstate 805 and the other was the multi-lane conventional highway between the future California 125 interchange and the Otay Mesa Port of Entry. In a 1998 agreement between the City of San Diego and Caltrans, the City paid to upgrade Otay Mesa Road to six lanes with turning lanes by the end of 1999 and Caltrans would maintain the road as a state facility until California 905 is built. Construction was completed in early 2000 and signs were erected renaming the span to Highway 905. Planning continues for a permanent Interstate 905 freeway south but parallel to the existing California 905 expressway. Once the new California 905 is constructed, it will be re-designated Interstate 905. In the meantime, traffic continues to escalate along Highway 905 as all trucks must use the Otay Mesa Border Crossing. By 2015, it is expected that the widened and improved California 905 expressway will be inadequate for the demands placed on that road so Caltrans is planning for a freeway-grade road to be constructed by 2004.

Highway 125

More than ten years ago, Caltrans approved construction of a toll road that will extend Highway 125 and will enhance access to Otay Mesa. The first segment is the San Miguel Parkway which connects California 905 north to California 54. TransNet will fund California 125 from California 54 south to San Miguel Road in Bonita while the remainder of the route consisting of about nine miles will be operated as a tollway. A freeway off-ramp is proposed at Otay Mesa Road and eventually a full interchange with future Interstate 905. The project design and construction began on Phase I in August 2002 and a recent article in the *San Diego Daily Transcript* reported that funds are secure for the state-funded portion of State Route 125. Construction of the 9.3 mile highway span from just south of Highway 54 near the Sweetwater Reservoir to California 905 is scheduled for a groundbreaking in mid-2003 and it is anticipated that the new freeway will take at least three years to complete.

Market Analysis

San Diego County Industrial

The San Diego County industrial market experienced approximately 1.1 million square feet of positive net absorption during 2002, driven by 13.1 million square feet of total gross sales and leasing activity. Although ten of the 22 sub-markets posted positive net absorption in the fourth quarter of 2002, it was not enough to offset the County as a whole, ending the quarter with just under 140,000 square feet of negative net absorption. During 2002, the San Diego County industrial market delivered 2.3 million square feet of new product and 1.4 million square feet remained under construction at year-end. At the end of the first quarter 2003, the San Diego County industrial market posted about 700,000 square feet of negative net absorption. For the quarter, the countywide average asking triple net lease rates for industrial space decreased one cent to $0.93.

Burnham Real Estate reports that the San Diego industrial market is a full cycle-phase ahead of the office

market, although it never progressed into recession. Industrial is usually the first sector to rebound after a down market and in San Diego, industrial build-to-suit activity is already increasing. On an overall basis, the San Diego industrial market is not overbuilt. An overview of industrial vacancy rates by product type for the past seven years is shown below.

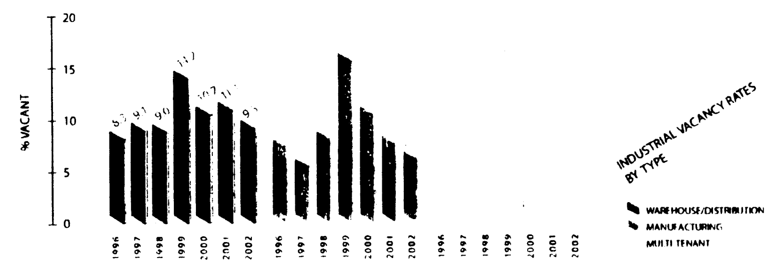


Figure 2 – Chart Source: Burnham Real Estate

Looking at specific industrial product types shows multi-tenant industrial at a 4.7 percent vacancy for year end 2002. Manufacturing posted the greatest improvement in 2002, dropping from a high of 15.8 percent in 1999 to a 2002 rate of 6.2 percent. Warehouse and distribution facilities also have relatively little excess space with only 9.3 percent vacant.

Otay Mesa and Vista led all San Diego industrial submarkets in 2002 net absorption with 730,176 square feet and 565,064 square feet, respectively. With the cost of land in the mid-county area of San Diego too high to justify the development of industrial product, most new building activity is moving to the northern and southern regions of the county. This is also where most of the absorption is occurring. At year end 2002, there were about 685,000 square feet of new industrial space under construction in Otay Mesa, about 273,200 square feet under construction in Vista and 419,000 square feet of new space under way in Oceanside.

While some analysts believed that the San Diego County industrial market would lead the nation in the recovery phase, net absorption remained negative across the county in first quarter 2003. Total absorption remained negative for the first quarter 2003, at just over -906,000 square feet as compared to the -1,326,500 square feet in fourth quarter 2002. In South County, many of the markets posted positive absorption including Miramar, National City, Morena, Sorrento Mesa and Sports Arena, but this was offset by several sub-markets that posted negative absorption which occurs when more space becomes available than was leased. Those sub-markets that posted negative absorption in 2003 were Otay Mesa (-244,094), Downtown (-100,087) and Scripps Ranch (-71,156 square feet).

Otay Mesa Industrial Sub-Market

The Otay Mesa sub-market is part of the larger South County market area of San Diego. The total South County market has about 18.1 million square feet representing about 12 percent of the total industrial inventory in the county. Other sub-markets in South San Diego County include Chula Vista, National City, San Ysidro and southern portions of the City of San Diego. The Otay Mesa sub-market is the largest of the four sub-markets, representing nearly 6 percent of the total industrial inventory in San Diego. A composite of the South County Industrial Market for Year end 2002 is shown in the following table.

South San Diego County Industrial Market				
	Chula Vista	National City	Otay Mesa	San Ysidro
Inventory	4,391,282 SF	2,224,006 SF	8,920,984 SF	1,374,355 SF
% of Market	2.9%	1.5%	5.9%	0.9%
# of Projects	45	21	54	15
% Vacant	5.1%	3.0%	19.6%	9.6%
2002 Net Absorption	183,309 SF	(37,000 SF)	730,176 SF	3,168 SF

Table Source: Burnham Real Estate

A CB Richard Ellis report for the first quarter 2003 reported a vacancy rate of 14.9 percent for the Otay Mesa industrial sub-market. Gains were made in the first quarter with positive net absorption of 29,514 square feet. Approximately 983,190 square feet was reported to be under construction. The average triple net lease rate was $0.49 per square foot, which represents the lowest rate in San Diego County.

The majority of the existing vacant space in Otay Mesa is in first generation buildings. Several new projects in the area have come on-line in the past two years. One new project is Siempre Viva Business Park, a five-building, 341,500 square foot warehouse and distribution park. The project was developed by Master Development Corporation (MDC) and started construction in the second quarter 2000 and in January 2002 leased the final vacant space in the park. Another newer development by MDC is Britannia Corporate Center. This project consists of six buildings with a total of 274,510 square feet. This project was completed in the first quarter of 2002 and to date; all six buildings are either leased or sold. The last building to be sold recently closed escrow at $3.6 million. It contained 61,599 square feet in a shell structure and was purchased by Hometex Packaging based in Los Angeles. The company plans on relocating its textile distribution center into the building. In another recent transaction, a 10-year lease for 89,752 square feet of warehouse/distribution space and offices in the Pacific Rim Pointe project was announced. Pacific Rim Pointe is a two-building project comprised of approximately 120,000 square feet of multi-tenant space and a 32,000 square foot, two-story office building.

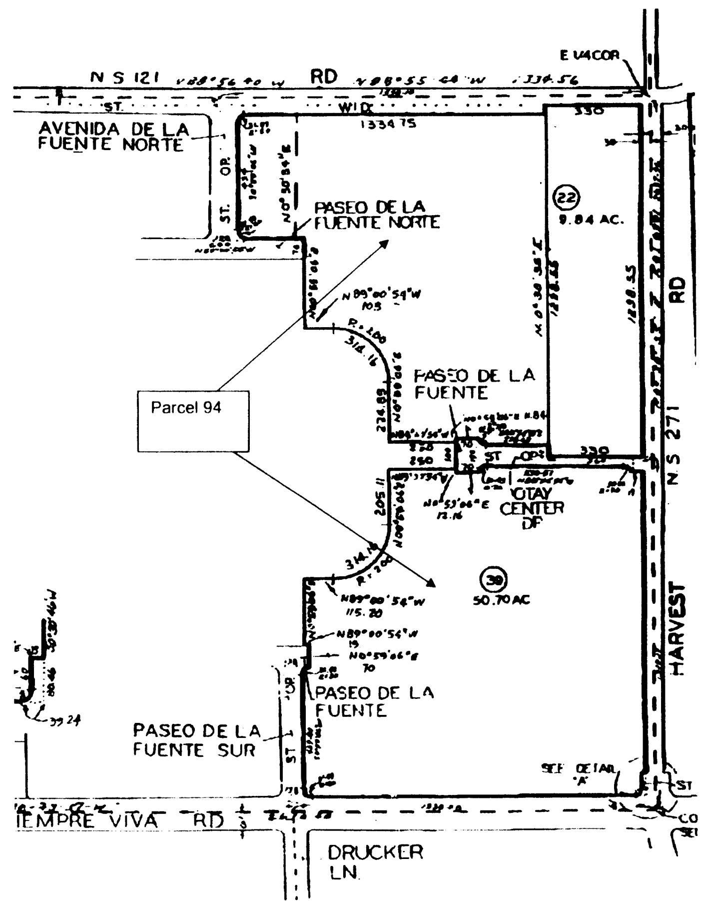
Absorption of finished lots has been relatively steady during the past eight years; however, historically, there has been an abundance of finished inventory. It is also clear that a substantial amount of land is available for future finished lot development. The following table presents the status of all major mapped industrial park subdivisions within Otay Mesa. Most are developed and sold out, while there are a few mapped but undeveloped projects. This data was taken from public record and interviews with brokers in this market.

Subdivision	No. Lots	Sales	Year Mapped	Status
Ocean View Hills Corp. Center	36	14	2002	Finished - currently selling lots
Pacific Gateway Park	18	13	1989	Finished - not active
Mesa Business Park	17	17	1991-1994	Sold out
Otay Heights	10	4	1993	Not active
Brown Field Technology Park	21	0	1998	Unfinished - not being actively marketed
International Business Center	16	16	1989	Sold out
Brown Field Business Park	29	29	1989	Resale activity - 2 lot sales in 2003
Britannia Commerce Center	9	9	1987	Sold out
Otay Mesa Center	10	0	2000	Unfinished - for sale as-is for $5.00/SF
Otay La Media Business Center	5	5	1991	Sold out
Otay Mesa Industrial Park	22	22	1990	Resale activity - 1 lot in 2002; 2 in escrow
Piper Ranch Business Park	24	0	1990	8 lots in escrow
Sunroad Otay I	32	16	2001	Bulk sale of south 1/2; remainder unfinished
De La Fuente Business Park	85	N/A	1987-1990	Mostly sold out - resale activity
Siempre Viva Business Park	31	11	2001	Second phase under development - build to suit
San Diego Business Park	12	12	1987	Sold out
Otay International Center	168	168	1989	Sold out - resale activity
Total	545			

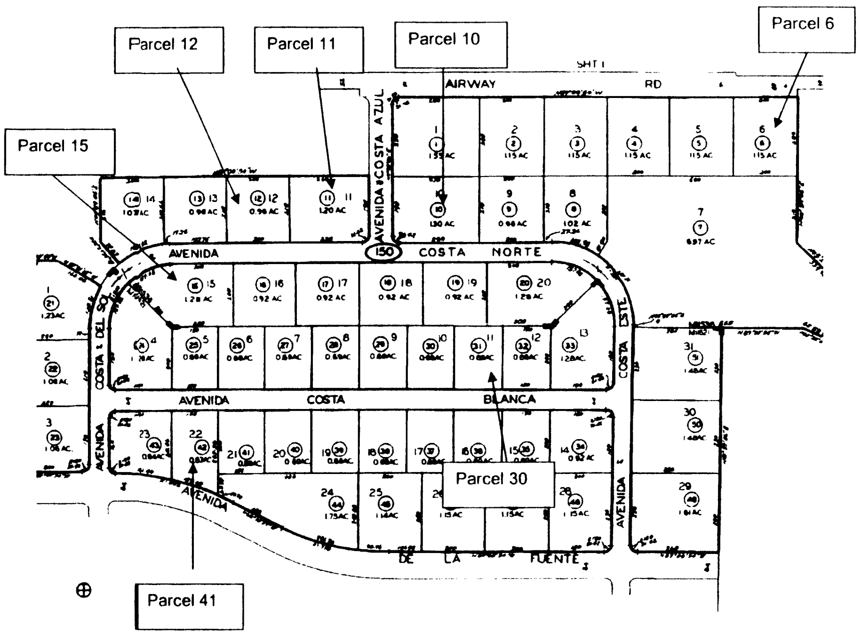
Many brokers and owners active in this market believe that future demand will likely increase due to the lack of developable land in other submarkets of San Diego County. Others point to improved access in Otay Mesa with the future completion of Highways 905 and 125. Therefore, absorption should continue at historic levels.

Property Description

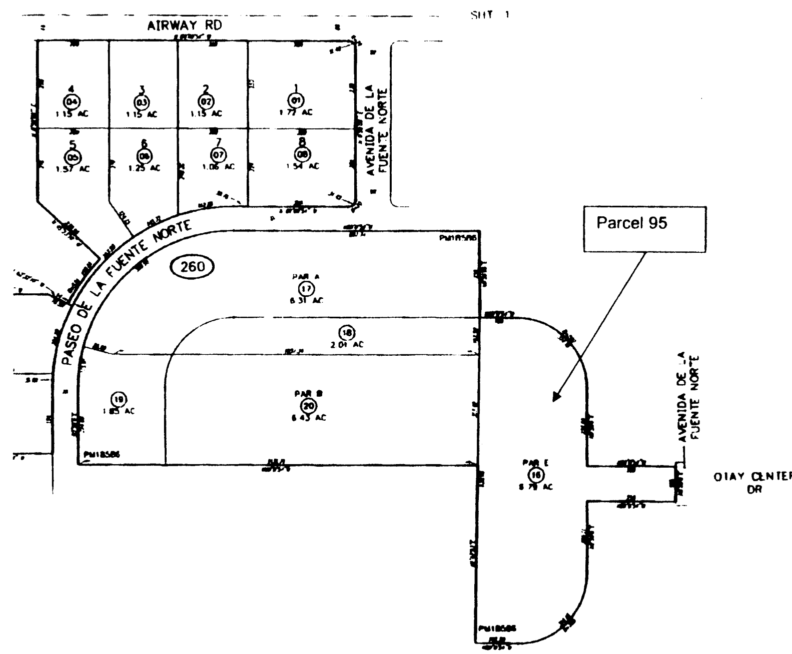
ASSESSOR PLAT MAP – BOOK 646 PAGE 120 SHEET 2



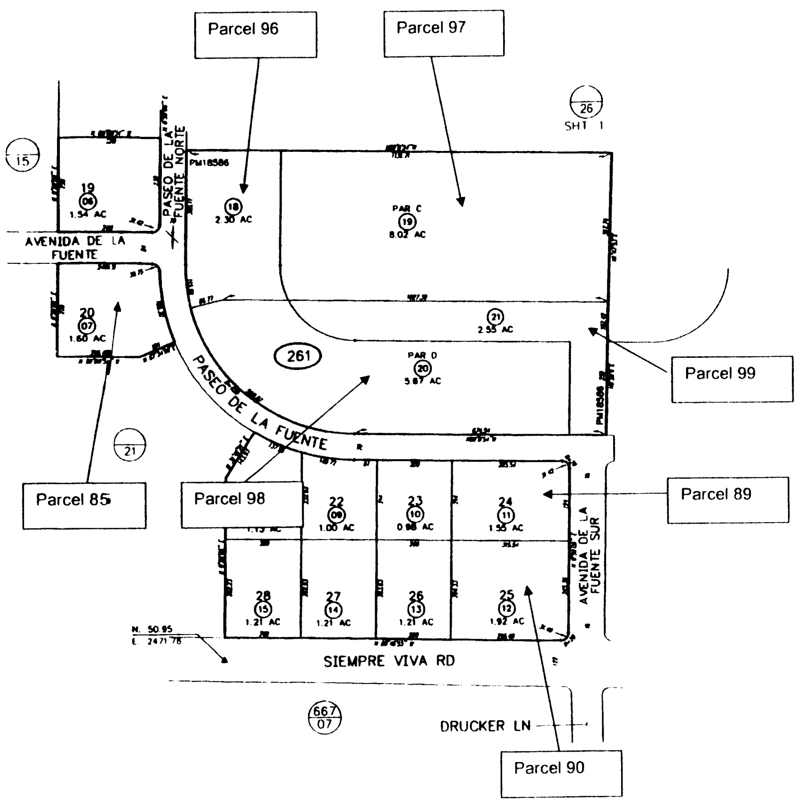
ASSESSOR PLAT MAP – BOOK 646 PAGE 150



ASSESSOR PLAT MAP – BOOK 646 PAGE 260



ASSESSOR PLAT MAP – BOOK 646 PAGE 261



SUBJECT PARCEL DESCRIPTIONS

Identification of Subject Parcels

Appraisal Lot No.	*Assessment Number*	*APN*	*Approximate Location*
1	94	646-120-39	Siempre Viva Road / Airway Road, E. of Avenida de la Fuente
2	6	646-150-06	South side of Airway Road
3	10	646-150-10	NEC of Costa Azul & Avenida Costa Norte
4	11	646-150-11	NWC of Costa Azul & Avenida Costa Norte
5	12	646-150-12	North side of Avenida Costa Norte
6	15	646-150-15	South side of Avenida Costa Norte
7	30	646-150-31	North side of Avenida Costa Blanca
8	41	646-150-42	South side of Avenida Costa Blanca
9	95	646-260-16	West of Avenida de la Fuente Norte
10	85	646-261-07	SWC of Avenida de la Fuente and Paseo de la Fuente
11	89	646-261-11	Contiguous to north of Parcel #90
12	90	646-261-12	North side of Siempre Viva Road
13	96	646-261-18	Western portion of land lying east of Paseo de la Fuente
14	97	646-261-19	Eastern portion of land lying east of Paseo de la Fuente
15	98	646-261-20	Southern portion of land lying north of Paseo de la Fuente
16	99	646-261-21	Northern portion of land lying north of Paseo de la Fuente

Property Location

All of the lots are located within the De la Fuente subdivision in the Otay Mesa community of the City of San Diego.

Legal Description

Most of the lots are legally identified as a legal lot on one of six recorded tract maps for the De la Fuente Subdivision. The subdivision maps for De la Fuente Business Park Unit Nos. 1 and 2 recorded in 1986, Unit #4 recorded in March 1989 and Unit #6, recorded in September 1990. A table showing the legal description for the lots in this valuation follows.

Appraisal Lot No.	*Assessment Number*	*Legal/Subdivision Map*
1	94	Portion of De la Fuente Business Park Unit # 5, Map 12461
2	6	Lot 6 of De la Fuente Business Park Unit #1, Map 11536
3	10	Lot 10 of De la Fuente Business Park Unit #1, Map 11536
4	11	Lot 11 of De la Fuente Business Park Unit #1, Map 11536
5	12	Lot 12 of De la Fuente Business Park Unit #1, Map 11536
6	15	Lot 15 of De la Fuente Business Park Unit #1, Map 11536
7	30	Lot 11 of De la Fuente Business Park Unit #2, Map 11621
8	41	Lot 22 of De la Fuente Business Park Unit #2, Map 11621
9	95	Parcel E of De la Fuente Business Park Unit 6, Map 12707
10	85	Lot 20 of De la Fuente Business Park Unit 6, Map 12707
11	89	Lot 24 of De la Fuente Business Park Unit #6, Map 12707

Appraisal Lot No.	Assessment Number	Legal/Subdivision Map
12	90	Lot 25 of De la Fuente Business Park Unit #6, Map 12707
13	96	Portion of Parcel C of De la Fuente Business Park Unit 6, Map 12707
14	97	Portion of Parcel C of De la Fuente Business Park Unit 6, Map 12707.
15	98	Portion of Parcel D of De la Fuente Business Park Unit 6, Map 12707
16	99	Portion of Parcel D of De la Fuente Business Park Unit 6, Map 12707

Apparent Ownership

Appraisal Lot No.	Assessment Number	Property Owner
1	94	Otay Mesa Property LP
2	6	Otay Mesa Property LP
3	10	Garcia Produce LLC
4	11	Otay Acquisitions LP
5	12	Otay Acquisitions LP
6	15	Otay Acquisitions LP
7	30	Vasquez, Jose L & Blanca B
8	41	Otay Acquisitions LP
9	95	Otay Mesa Property LP
10	85	Otay Mesa Property LP
11	89	United States of America
12	90	United States of America
13	96	Otay Mesa Property LP
14	97	Otay Mesa Property LP
15	98	Otay Mesa Property LP
16	99	Otay Mesa Property LP

Assessor's Information/Bonded Indebtedness

Currently, eight of the ten finished lots are separately assessed by the San Diego County Tax Collector. Excluded from this list are the two lots owned by the federal government. While these lots do not have a current assessment by the Tax Collector, it is my understanding that there is existing bond debt for both of these lots as a result of the original assessment district created for the subdivision's infrastructure. The San Diego County Tax Collector records indicate that the De la Fuente subdivision is located within Tax Rate Area 08215 with a base tax rate for 2002/2003 of 1.17527%. Fixed charges include repayment of existing bond debt as well as smaller charges for the county's mosquito/rat control, the Metropolitan Water District Water Standby Charge and the Water Availability special assessment. A breakdown for each parcel is shown in the table that follows. Included in this table is the outstanding principal amount of the bond debt for each parcel.

Assmt. No.	APN	Assessed Value - Land	2002/2003 Base Taxes	Fixed Charges	Total Taxes	Outstanding Bond Principal
94	646-120-39	$ 1,117,923	$ 13,138.60	$ 57,168.90	$ 70,307.50	$455,936.52
6	646-150-06	$ 143,949	$1,691.66	$7,527.22	$9,218.88	$53,378.13
10	646-150-10	$ 174,302	$2,048.50	$8,520.96	$10,569.46	$60,445.61
11	646-150-11	$ 162,591	$1,910.88	$7,886.80	$9,797.68	$55,935.44
12	646-150-12	$ 130,640	$1,535.36	$6,305.50	$7,840.86	$44,822.75
15	646-150-15	$ 169,412	$1,991.04	$8,383.92	$10,374.96	$59,469.19
30	646-150-31	$ 112,749	$1,325.10	$4,521.50	$5,846.60	$32,036.17
41	646-150-42	$ 112,560	$1,322.88	$5,429.50	$6,752.38	$38,545.70
95	646-260-16	$ 175,567	$ 2,063.38	$ 6,593.74	$ 8,657.12	$49,387.96
85	646-261-07	$ 53,028	$ 623.22	$ 3,037.40	$ 3,660.62	$24,545.71
89	646-261-11	Not Assessed - Federal Gov't. Ownership				$23,778.66
90	646-261-12	Not Assessed - Federal Gov't. Ownership				$29,454.85
96	646-261-18	$ 101,383	$ 1,191.52	$ 4,248.46	$ 5,439.98	$33,458.69
97	646-261-19	$ 165,478	$ 1,944.80	$ 7,785.10	$ 9,729.90	$116,669.06
98	646-261-20	$ 155,704	$ 1,829.94	$10,716.06	$ 12,546.00	$82,482.98
99	646-261-21	$ 52,611	$ 618.32	$ 2,488.34	$ 3,106.66	$37,095.52

The range of current assessments for the finished lots is from about $2.87 to $3.76 per square foot with the majority of the data in the $3 dollar range. The larger acreage lots are assessed in the range of $0.50 to $0.76 per square foot. This amount is below the retail market value opinion presented in this report and there appears to be a likelihood of an increase in the property assessment upon resale of the property. A change in assessment to market value is assumed in this valuation.

Site Area

The ten finished lots in the subject subdivision vary in size from 0.69 acre to 1.92 acres. Most of the lots are rectangular in configuration. The lot areas used for valuation purposes are based upon the Assessor plat maps for this project. The appraiser's calculation of combined gross site area is 88.51 acres which compares with the reported total by the plat map of 88.53 acres. The difference is in rounding on several lots. I have used the total area of 88.51 acres for valuation purposes. A table showing the site area for each of the lots follows.

Assmt. No.	APN	Land Area Square Feet	Land Area Acres[2]
94	646-120-39	2,208,492	50.70
6	646-150-06	50,000[3]	1.15
10	646-150-10	56,628	1.30
11	646-150-11	52,272	1.20
12	646-150-12	42,000[3]	0.96
15	646-150-15	55,757	1.28
30	646-150-31	30,000[3]	0.69
41	646-150-42	36,155	0.83
95	646-260-16	295,772	6.79
85	646-261-07	69,696	1.60
89	646-261-11	67,518	1.55
90	646-261-12	83,635	1.92
96 & 97[1]	646-261-18 & 19	449,539	10.32
98 & 99[1]	646-261-20 & 21	358,063	8.22

[1] Combined areas for legal lot
[2] Area of lot per Assessor Plat Map
[3] Area calculation by appraiser from lot dimensions; may not agree with Plat Map area

Topography

The overall topography of the subject is relatively flat. Nearly all of the finished lots are at a finished grade similar with the streets and adjacent lots. Assessment No. 85 sets up above the grade of Paseo de la Fuente.

Utilities

All are currently available and operating to these lots. Water is provided by the Otay Water District. The District gets its water from Northern California and the Colorado River through the Metropolitan Water District and the San Diego County Water Authority. Sewage in this portion of the Otay Water District is treated by San Diego County. Electricity is provided by SDG&E (Sempra Energy Company) with underground electric and gas lines serving the subdivision.

Although street improvements are not completed within Units 5 and 6, utilities are reported to be installed within the street right-of-way.

Access

Primary access to the area is from Interstate 805 east along Otay Mesa Road/Route 905. Otay Mesa Road/Route 905 is a two and four-lane road which terminates immediately east of Alta Road. At the Brown Field Business Park, Otay Mesa Road/Route 905 is three lanes eastbound with concrete curbs, gutters and sidewalks and a concrete center median. Signalized intersections with protected left turns are installed at Heritage/Otay Valley Road, Cactus Road, Britannia Boulevard, Alisa Court, La Media Road, and Otay Mesa Road near the future California 125 interchange/connector. The De la Fuente Business Park is situated southerly of Otay Mesa Road. Access to the westerly portions of the subdivision is by La Media Road. Presently, monument signage is in place at the intersection of La Media Road and Avenida de la Fuente. Much of the finished lots located in the western portion of the project are located on or near the central 'loop' in the subdivision comprised of four connecting streets that form a circular roadway. Siempre Viva Road is situated at the southern boundary of the subject

subdivision.

Currently, access to the subject's unfinished acreage is by gravel drives that extend off of Airway road to the north or Siempre Viva Road to the south. None of the streets are in a finished condition in this portion of the De la Fuente subdivision, however, it appears that streets have been rough graded and lot lines are discernable along Paseo de la Fuente. Much of the central portion of this part of the subject subdivision is used for truck parking. From a southerly direction, access to the truck parking area is via a gravel road that appears to cross over existing legal lots 28 and 21 in Unit No. 6 (westerly of Subject Assessment Nos. 89 and 90). Northerly access is also available from a gravel drive that appears to be at or near the future Avenida de la Fuente Norte. There is no monument signage at either gravel drive, but palm trees have been planted at the northerly entrance into this portion of the subdivision. The intersection of Siempre Viva Road and Drucker Lane is signalized, but through access to Avenida de la Fuente Sur is closed as this street is not improved.

The largest industrial acreage parcel in the subdivision, Assessment No. 94, has numerous curb cuts along Siempre Viva Road. There are also several mature trees planted near the southern boundary of the property. Siempre Viva Road is the southernmost east/west directed roadway in the area that continues in an easterly direction and connects to the Gateway project at Otay International Center and the Otay Mesa border crossing.

Zoning/Community Planning

The subject property is zoned OMDD-I by the City of San Diego. This designation refers to the Otay Mesa Development District – Industrial Sub-district. The purpose of this district is to create and promote the development of the Otay Mesa area. The OMDD sets out standards that control the use, development intensity, and development design of the area. A full range of industrial uses are allowed including manufacturing, wholesaling and distribution, assembly operations, and necessary support services. Development regulations within the Industrial Sub-District are as follows:

Minimum Lot Area:	30,000 SF
Street Frontage:	100 feet
Minimum Lot Width:	100 feet
Maximum FAR:	2.0

All uses, except for storage, loading and outdoor work, are to be conducted within an enclosed building. Outdoor work, storage of merchandise and material is permitted in interior side or rear yards provided the area is completely enclosed by walls or fences. Storage is not permitted within required front or street side yard setback areas.

It is my understanding from a discussion with Mr. David Wick, a representative of the De la Fuente Business Park, that the business park was developed in 1986 under a development agreement with the City of San Diego. He states that the development agreement allows truck parking as a permitted use. This information is assumed to be accurate and correct.

Flood Zone/Earthquake Hazard

The property is designated Zone X, outside a designated flood hazard area according to flood insurance maps prepared by the National Flood Insurance Program, Community Panel Number 060295 2179F dated June 19, 1997.

The property is not located within an identified Alquist-Priolo Earthquake Special Studies Zone. The nearest active fault in the Rose Canyon Fault Zone is located approximately 15 miles west of the site.

Hazardous Materials

I have not been provided with an environmental report for this project. Please refer to Limiting Condition and Assumption Nos. 2 and 3 in this report.

Soils/Grading

I was not provided with a soils report or grading plan for this project. This valuation assumes that the soils are suitable for development of the property to its highest and best use.

Surrounding Land Uses

Otay Mesa is characterized by expanses of vacant land with clustered "leap frog" style pockets of development. The subject is immediately surrounded by predominantly undeveloped industrial land to the west. To the north lies undeveloped land and a 31-acre parcels that is developed with a 600,000 square foot industrial building. An existing industrial subdivision is situated to the south of the subject, south of La Media Road. This project, known as Siempre Viva Business Park, has a number of developed properties. Occupants in this park include Bose, Hitachi and Pioneer. East of the subject is Highway 905 and Otay International Center.

Easements/Encroachments/Restrictions

I have not been provided with a title report for the subject parcels as of the writing of this report. I have been told by the property owner that an access easement exists across the easterly portion of Assessment Parcel 6 and that the net usable area is approximately 0.70 acre. This area has been used as the net area for valuation purposes in this report and is assumed to be accurate and correct. This valuation also assumes that there are no significant easements or restrictions which would adversely impact the development potential of the subject lots, other than those noted within this report.

Description of Improvements and Use

Assessment Parcel	*Description of Improvements*
6	Lot is has perimeter fencing and a gravel surface, formerly used for truck parking and now leased to Caltrans as a lay down yard for construction of Highway 905 nearby; Site improvements are not valued as part of this assignment – land only
10	Finished lot in graded condition with all street improvements completed, no current user
11	Finished lot in graded condition with all street improvements completed, no current user
12	Finished lot in graded condition with all street improvements completed, no current user
15	Fenced and concrete paved lot used for truck parking (leased); Site improvements are not valued as part of this assignment – land only
30	Finished lot – no improvements
41	Fenced and concrete paved lot used for truck parking (leased); Site improvements are not valued as part of this assignment – land only
85	Fenced with gravel surface, leased for truck parking
89 and 90	Improved with a concrete tilt-up industrial building with paved surface parking lot; occupied by US government for auto storage; Improvements not valued as part of this assignment – land only

94, 95, 96, 97, 98, 99	Partially improved with fencing and gravel surface used for truck parking; leased to a number of tenants; partial site improvements included in this valuation; area improved and leased estimated at 39.85 acres out of 76.03 gross acres according to rent roll provided by owner.

Description of Proposed Reassessment District

Based upon the Refunding Act of 1984 for 1915 Improvement Act Bonds, the underlying bonds that were issued for the subject's subdivision improvements could be reissued with one new issue levied in lieu of the original assessments. I have been advised that this type of structure typically results in reduced fixed financing costs as a percentage of the total issue. The original Assessment District Numbers for the De la Fuente subdivision included District Numbers 4011 and 4021. The City of San Diego has begun formal legislative proceedings, at the request of property owners, to consolidate the outstanding bond issues into a single, less expensive issuance. The estimated principal amount of the total proposed bond issue for all sixteen subject parcels is $1,197,443. Under the refunding plan, the property owners would benefit from the assessment savings on a proportional basis.

A summary table showing the approximate assessment allocation per lot provided by my client follows.

Assmt. No.	***APN***	***Gross Acres***		***Bond Assessment***	***Allocated Lien Per SF***
94	646-120-39	50.70	$	455,936.52	$0.21
6	646-150-06	1.15	$	53,378.13	$1.07
10	646-150-10	1.30	$	60,445.61	$1.07
11	646-150-11	1.20	$	55,935.44	$1.07
12	646-150-12	0.96	$	44,822.75	$1.07
15	646-150-15	1.28	$	59,469.19	$1.07
30	646-150-31	0.69	$	32,036.17	$1.07
41	646-150-42	0.83	$	38,545.70	$1.07
95	646-260-16	6.79	$	49,387.96	$0.17
85	646-261-07	1.60	$	24,545.71	$0.35
89	646-261-11	1.55	$	23,778.66	$0.95
90	646-261-12	1.92	$	29,454.85	$0.35
96	646-261-18	2.30	$	33,458.69	$0.33
97	646-261-19	8.02	$	116,669.06	$0.33
98	646-261-20	5.67	$	82,482.98	$0.33
99	646-261-21	2.55	$	37,095.52	$0.33
Totals		88.51	$	1,197,442.94	$0.31

SUBJECT PHOTOS

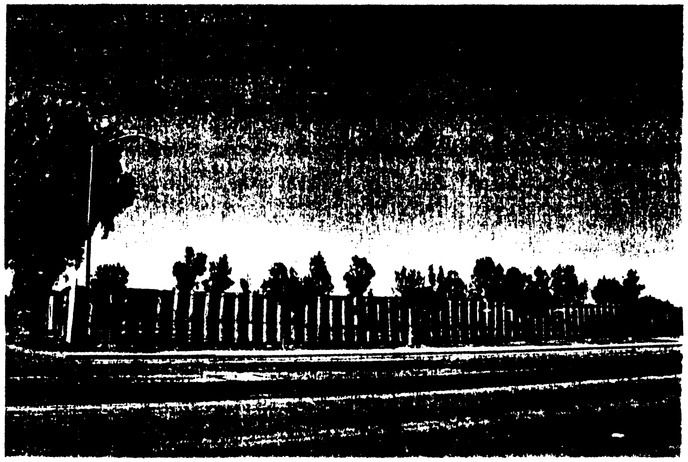


Photo 1 – View looking southwesterly towards Assessment Parcel #6

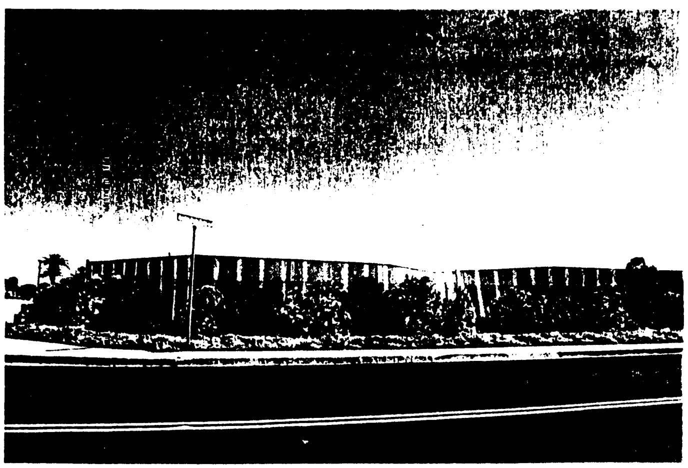


Photo 2 – View looking northeasterly to Assessment Parcel #10

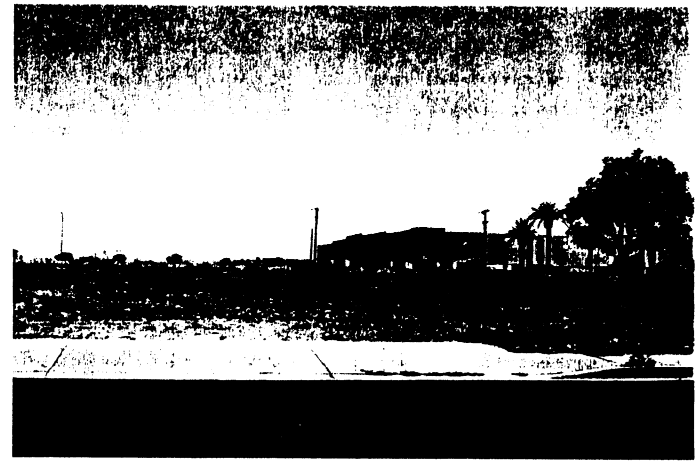


Photo 3 – Looking northerly to Assessment Parcel #11

Photo 4 – Looking northerly to Assessment Parcel #12

Photo 5 – Looking southeasterly to Assessment Parcel #15

Photo 6 –Looking northerly to Assessment Parcel #30

Photo 7 – Assessment Parcel #41 looking southerly

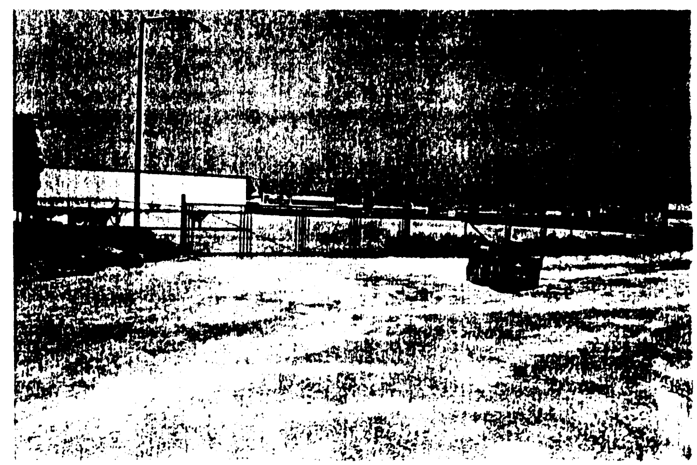


Photo 8 – Assessment Parcel 85

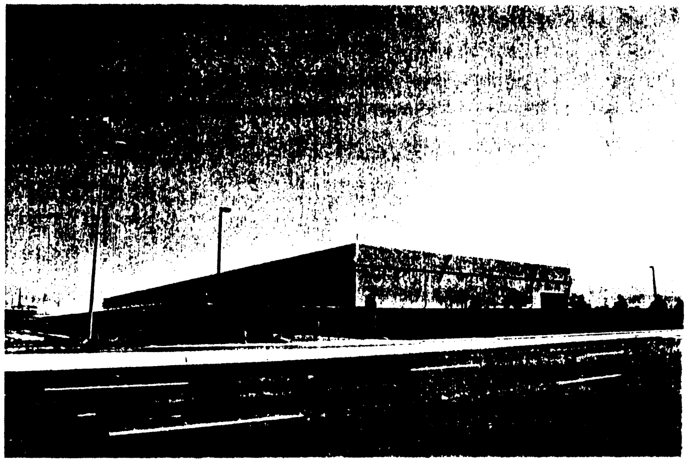


Photo 9 – Assessment Parcels #89 & 90 looking Northeasterly across Siempre Viva Road

Photo 10 – Assessment Parcel 94 looking north from Siempre Viva Road

Photo 11 – Parcel 94 looking north from middle of parcel

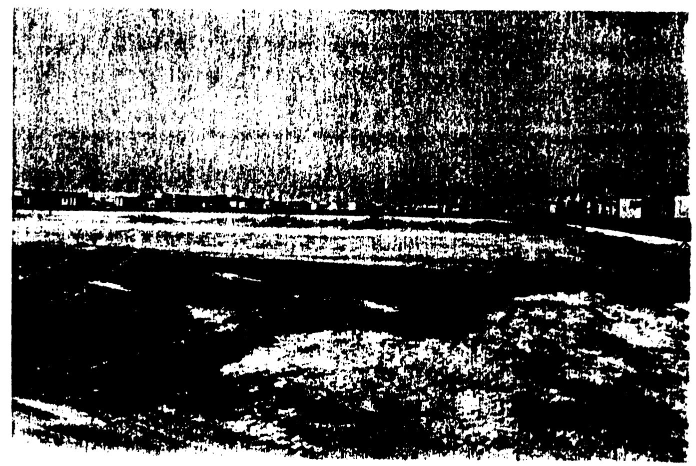


Photo 12 – Assessment Parcel 95 looking west

Photo 13 – Assessment Parcels 96 and 97 looking west

Photo 14 – Assessment Parcels 98 and 99 looking west from southeast corner

Photo 15 – Looking west toward unfinished portion of Paseo De la Fuente

Photo 16 – View looking east on Airway Road, Parcel 94 on right

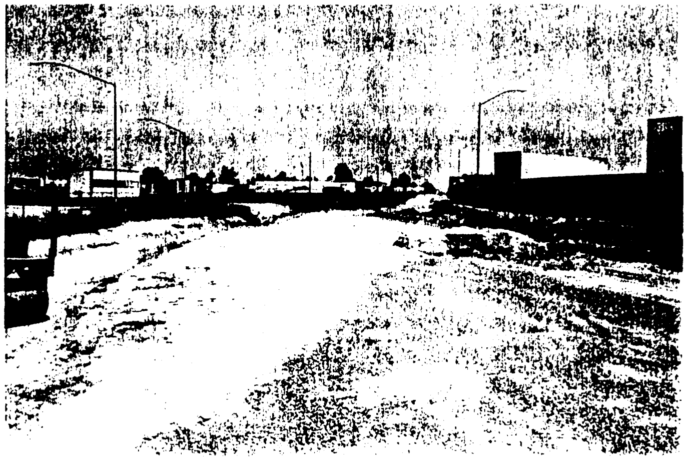


Photo 17 – View looking north along unfinished portion of Paseo De la Fuente

HIGHEST AND BEST USE ANALYSIS

Definition

The first step in the valuation of real estate is to judge the highest and best use of the property. The purpose of ascertaining the parcel's highest and best use is to provide a basis for accurately estimating market value. Highest and best use for appraisal purposes is defined as that use or succession of available, legal, and physically permitted uses for which there is sufficient demand that produces the most probable present site value[1]. Alternatively, the Appraisal Institute states that the highest and best use is the reasonably probable and legal use of vacant land which is physically possible, appropriately supported, financially feasible, and that results in the highest value.

The analysis of highest and best use follows the steps as described in the previous definitions. Essentially, the appraiser creates a land use matrix that identifies and analyzes the legally permissible uses, physically possible uses and financially feasible uses. The use or uses that meet these criteria and provide the most probable site value is judged the highest and best use.

Highest and best use is analyzed for the site as if vacant. Although at least one subject parcel is improved, the improvements are not valued as part of this assignment and therefore the highest and best use of the lots as improved are not estimated. A summary follows.

As If Vacant

The subject lots are zoned industrial by the City of San Diego. The lots have been mapped and ten are in a finished lot condition with sizes ranging from 0.69 to 1.92 acres. Each of the lots has public street frontage and access to all public utilities. The subdivision is located in the central portion of Otay Mesa, a community of the City of San Diego. This area is primarily developed with light industrial property. Access to the area is by Highway 905 (Otay Mesa Road) which connects to Highway 805 and Highway 5 to the west. A major commercial truck border crossing is located nearby at the Mexico/USA international border. There is a sustained demand for industrial land uses in this market created by its location to Mexico and the plentiful amounts of level, developable land parcels. The current demand for truck parking within the Otay Mesa area has caused many property owners to lease land for this use rather than construct improvements on a speculative lease or sale basis. The lease income generated from truck parking is sufficient to warrant this use as an interim use until demand warrants development of the property with industrial buildings.

The semi-finished lots located on the eastern portion of the subdivision have rough graded sites with rough cut streets, but no completed street improvements. Utilities have been installed within the graded streets. The owner of these lots is subdividing the larger parcels into smaller one to ten acre parcels which are then leased for truck parking. The owner has made improvements to the lots with perimeter fencing and a gravel surface. The revenue created by leasing this land justifies the expenditure of these partial site improvement costs and is considered an interim use of this land until development with industrial buildings is considered feasible.

Based on the physical, legal and economic factors that influence the subject lots, the highest and best use, and most likely use, is for truck storage or hold for development with an industrial building.

1 Appraisal Institute *Land Valuation*, James H. Boykin, PhD, MAI, SREA, CRE, 2001 p. 39

Valuation

VALUATION ANALYSIS

Introduction

The purpose of this report is to estimate the individual retail values for each of the subject lots and secondly to estimate the bulk sale value for the assumed sale of several of the commonly owned lots to a single purchaser. The individual value for each lot is commonly referred to as the retail value. This value is based on the assumption that it is marketed and sold as a separate parcel to an end-user. The individual market value for each lot is first estimated and is later used as the basis for the bulk sale value estimate using a discounted cash flow analysis.

The subject property consists of sixteen individual assessor parcels, but for valuation purposes there are only fourteen legal lots. Assessment Parcels 96 and 97 are a single legal lot as are Parcels 98 and 99. A market value estimate is provided only for the fourteen legal lots and no attempt has been made to allocate the value between the sub-parcels.

Since the subject lots are all assumed to be free of any structural improvements, only the Sales Comparison Approach to value is considered applicable. The Cost Approach and Income Approach do not apply in the valuation of unimproved land or finished lots. A variation of the Income Approach is used in the estimate of bulk sale value for the project.

The indications of value are then reconciled to a final opinion of the market value for the subject property. The interest appraised in this analysis is the fee simple, subject to special tax and special assessment liens.

Sales Comparison Approach

Introduction

The Sales Comparison Approach has been used to estimate the retail value for each subject lot. This approach is also used to estimate the bulk sale value of the defined groups of lots to a single buyer. The retail lot value analysis is presented first, followed by the bulk sale value analysis.

Land value is estimated by comparing the subject site to sales of similar land parcels in the neighborhood and surrounding market. The comparable market area for the subject lots is the Otay Mesa submarket of the City of San Diego. There are a number of existing and developing industrial subdivisions in this market which compete with the subject or are somewhat comparable.

The lot valuation section has been divided into two sections. The first section presents the valuation of the finished lots within the subject subdivision. Finished lots are defined as having completed street improvements adjacent to the lot as well as a graded pad with all utilities available. Subject Parcels 6, 10, 11, 12, 15, 30, 41, 85, 89 and 90 are considered finished lots. The second section presents the valuation of the semi-finished lots. These lots include Parcels 94, 95, 96, 97, 98 and 99. A second data set of sale comparables is used for these lots.

Valuation of Finished Lots

I have researched sales of individual lots over the past several years. The sales search resulted in consideration of the following land sales presented in summary form.

Otay Mesa Lot Sale Data Table

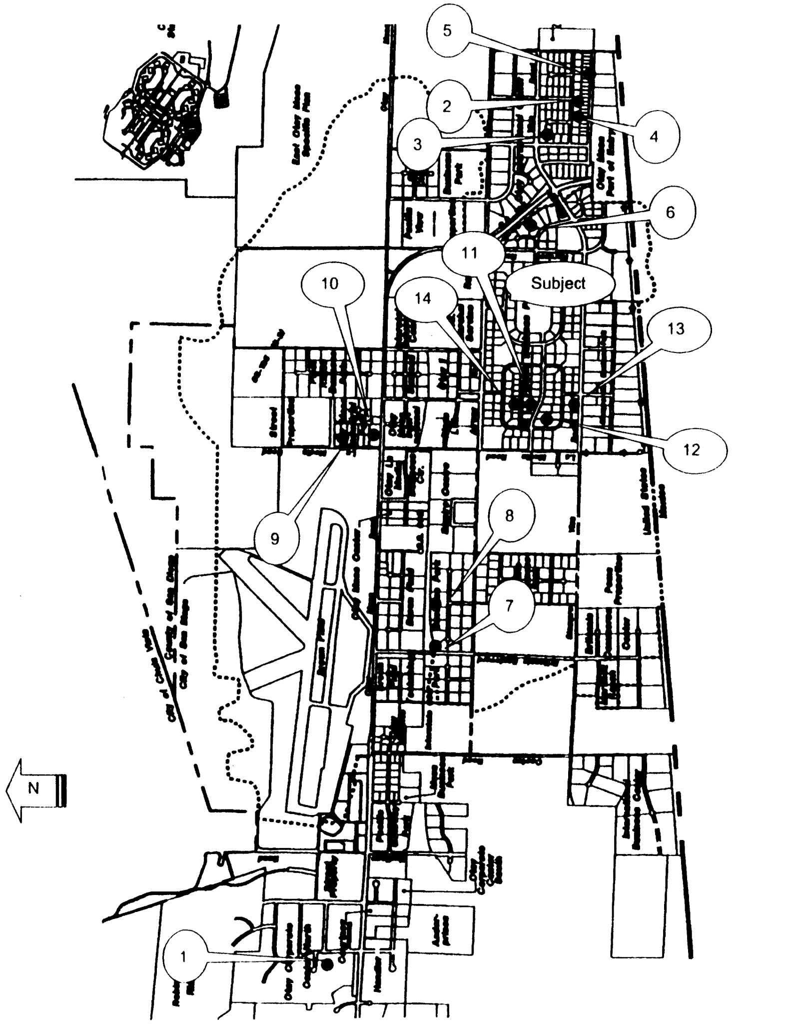
	Sale 1	Sale 2	Sale 3	Sale 4	Sale 5
Street Frontage	Corporate Center Drive	Marconi Drive	Paseo De Las Americas	Marconi Drive	Via De La Amistad
Subdivision	Ocean View Hills Corporate Center	Otay International Center	Otay International Center	Otay International Center	Otay International Center
APN	645-280-01	646-160-27	646-160-03	646-160-28	646-160-46,47
Lot Area (Acres)	0.99	1.079	1.01	1.08	1.08
Lot Area (SF)	43,124	47,000	43,996	47,045	47,045
Sale Date	12/4/2002	6/2/2003	11/7/2002	6/12/2002	3/28/2003
Sale Price	$327,745	$350,000	$320,000	$306,000	$320,000
Price/SF	$7.60	$7.45	$7.27	$6.50	$6.80
Bond Debt/SF	$0.00	$0.70	$0.90	$0.00	$0.90
Total Price	$7.60	$8.15	$8.17	$6.50	$7.70

	Sale 6	Sale 7	Sale 8	Sale 9	Sale 10
Street Frontage	Otay Center Ct.	Panasonic Way	Waterville Road	La Media Road	La Media Rd
Subdivision	Otay International Center	Brown Field Business Park	Brown Field Business Park	Otay Mesa Industrial Park	Otay Mesa Industrial Park
APN	646-141-19	646-220-01	646-220-05	646-250-04	646-250-02,23
Lot Area (Acres)	2.23 net	2.87	3.78	1.04	3.14
Lot Area (SF)	97,139	125,017	164,657	45,302	136,778
Sale Date	4/18/2002	1/21/2003	3/10/2003	11/2/2002	2003 Escrow
Sale Price	$565,929	$1,001,000	$1,050,000	$350,000	$1,095,000
Price/SF	$5.83	$8.01	$6.38	$7.73	$8.00
Bond Debt/SF	$1.00	$0.00	$0.00	$0.00	$0.00
Total Price	$6.83	$8.01	$6.38	$7.73	$8.00

Otay Mesa Lot Sale Data Table – Page 2

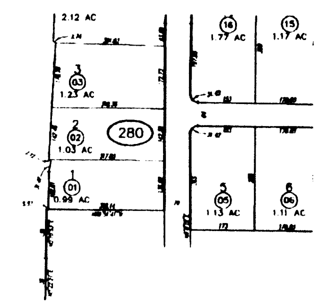
	Sale 11	Sale 12	Sale 13	Sale 14
Street Frontage	Avenida de la Fuente	Avenida de la Fuente	Avenida Costa Brava	Avenida Costa Blanca
Subdivision	De la Fuente Bus Park	De la Fuente Bus. Park	De la Fuente Business Park	De la Fuente Business Park
APN	646-150-44	646-210-04, 05 & 14	646-210-20 & 25	646-150-41
Lot Area (Acres)	1.75	4.2	2.52	0.69
Lot Area (SF)	76,230	182,952	109,945	30,000
Sale Date	4/30/2002	7/2001 & 9/2001	6/15/2001	6/05/2001
Sale Price	$335,500	$913,726	$479,500	$180,000
Price/SF	$4.40	$5.00	$4.36	$6.00
Bond Debt/SF	$1.30	$1.70	$1.79	$1.36
Total Price	$5.70	$6.70	$6.15	$7.36

Land Sale Location Map



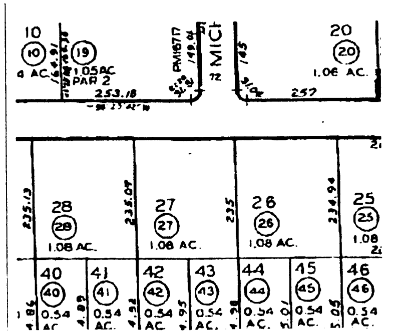
Sale 1

Location/Address	West side of Corporate Center Drive, south of Progressive Ave, Otay Mesa		
Assessor Parcel No.	645-280-01		
Legal Description	Lot 1 of Ocean View Hills Corporate Center Unit No. 2		
Site Data			
Land Area:	0.99 Acre(s);	43,124 SF Gross	
Zoning:	OMDD-I, City of San Diego		
Offsites:	All to site		
Site Condition:	Rough graded, finished lot with all infrastructure in place		
Proposed Use	Construct a 15,000 SF industrial building		
Sale Data			
Recording Date:	12/4/2002	*Document:*	2002-1092683
Seller:	Pardee Homes		
Buyer:	Mehdi Govari		
Sale Price:	$327,745	*Price Per SF:*	$7.60
		Bond Debt Bal/SF:	$0.00
		Total Cash Price:	$7.60
Terms:	Cash to seller	*First Trust Deed:*	$690,000 First Pacific Bank
Comments	No Mello-Roos financing applicable in this subdivision		



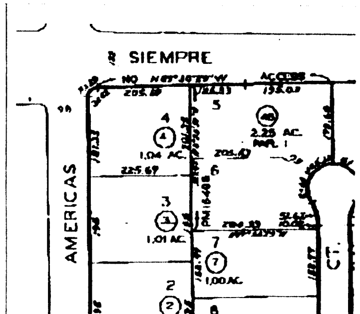
Sale 2

Location/Address	Marconi Drive @ Michael Faraday Drive, San Diego
Assessor Parcel Nos.	646-160-27
Legal Description	Lot 27 of Otay International Center, Map 11741
Site Data	
Land Area:	1.079 Acre; | 47,000 SF Gross
Zoning:	OM – Industrial; City of San Diego
Offsites:	All to site
Site Condition:	Rough graded, finished lot with all infrastructure in place
Proposed Use	Hold for development
Sale Data	
Recording Date:	6/02/2003 | *Document:* 2003-646752
Seller:	Calmex Fireplace Equipment Manufacturing
Buyer:	Williamson and Andrew GP
Sale Price:	$350,000 | *Price Per SF:* $7.45; *Bond Debt/SF:* $0.70; *Total Price:* $8.15
Terms:	All cash sale | *First Trust Deed:* N/A
Comments	Mello-Roos financing for infrastructure, assumed existing bond debt balance



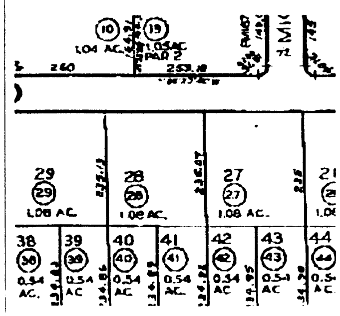
Sale 3

Location/Address	2495 Paseo De Las Americas, Otay Mesa
Assessor Parcel No.	646-160-03
Legal Description	Lot 3 Otay International Center Lots 8 and 9 Unit No. 2
Site Data	
Land Area:	1.01 Acre(s); | 43,996 SF Gross
Zoning:	OMIC-Industrial, City of San Diego
Offsites:	All to site
Site Condition:	Rough graded, finished lot with all infrastructure in place
Proposed Use	Construct a multi-tenant industrial building
Sale Data	
Recording Date:	11/7/2002 | *Document:* 2002-994898
Seller:	Jesus G. Mungia, et al
Buyer:	Jose and Sara Nakach
Sale Price:	$320,000 | *Price Per SF:* $7.27; *Bond Debt/SF:* $0.90; *Total Price:* $8.17
Terms:	All cash to Seller | *First Trust Deed:* N/A
Comments	Mello-Roos financing for infrastructure, assumed existing bond debt balance



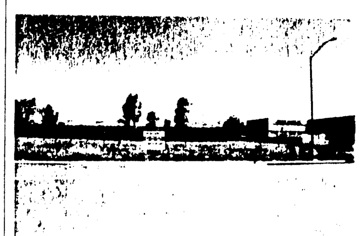
Sale 4

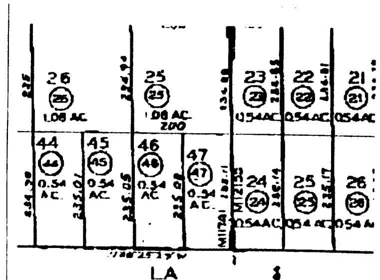
Location/Address	South side of Marconi Drive, east of Marconi Court, Otay Mesa
Assessor Parcel No.	646-160-28
Legal Description	Lot 28, Otay International Center Unit No. 1
Site Data	
Land Area:	1.08 Acre(s); 47,045 SF Gross
Zoning:	OMIC-Industrial, City of San Diego
Offsites:	All to site
Site Condition:	Rough graded, finished lot with all infrastructure in place
Proposed Use	Construct a 16,000 SF industrial building
Sale Data	
Recording Date:	6/12/2002 — *Document:* 2002-500413
Seller:	Charles J and Eva C. Therrien, Co-Trustees
Buyer:	L&S American West Two, LLC
Sale Price:	$306,000 — *Price Per SF:* $6.50; *Bond Debt/SF:* $0.00 (paid off); *Total Price:* $6.50
Terms:	$306,000 cash down — *First Trust Deed:* N/A
Comments	Mello-Roos financing paid off by seller



Sale 5

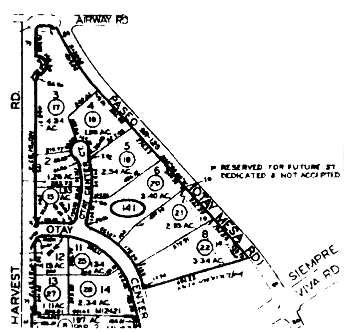
Location/Address	9700 Via De La Amistad, Otay Mesa
Assessor Parcel No.	646-160-46 & 47
Legal Description	Lots 46 and 47, Otay International Center Lots 8 and 9 Unit No. 1
Site Data	
Land Area:	1.08 Acre(s); 47,045 SF Gross
Zoning:	OMIC-Industrial, City of San Diego
Offsites:	All to site
Site Condition:	Rough graded, finished lot with all infrastructure in place
Proposed Use	Construct two freestanding industrial buildings
Sale Data	
Recording Date:	3/28/2003 — *Document:* 2003-0351648
Seller:	Anthony & Diana Karen Villaneuva, Trs.
Buyer:	IRE Enterprises, Inc.
Sale Price:	$320,000 — *Price Per SF:* $6.80; *Bond Debt/SF:* $0.90; *Total Price:* $7.70
Terms:	$50,000 cash down — *First Trust Deed:* $270,000 seller
Comments	Mello-Roos financing for infrastructure, assumed existing bond debt balance





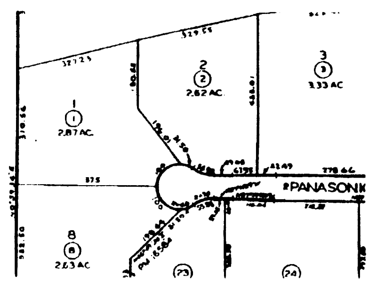
Sale 6

Location/Address	2235 Otay Center Court, Otay Mesa CA
Assessor Parcel No.	646-141-19
Legal Description	Lot 5 of Otay International Center Lot No. 1
Site Data	
Land Area:	2.54 Acres; | 110,642 SF Gross 2.23 Acres; | 97,139 SF Net of Landscaping Esmt
Zoning:	OMIC – Business; City of San Diego
Offsites:	All to site
Site Condition:	Rough graded, finished lot with all infrastructure in place
Proposed Use	Truck parking lot
Sale Data	
Recording Date:	4/18/2002 | *Document:* 2002-0328815
Seller:	Otay International Center
Buyer:	Martha Yolanda Jimenez & Charles Alexander Carrillo
Sale Price:	$565,929 | *Price Per SF:* $5.83 (net area) *Bond Debt Balance:* $1.00 *Total Price:* $6.83 (net area)
Terms:	$44,900 cash down | *First Trust Deed:* $289,500 1st TD $231,600 2nd TD
Comments	Bond financing balance assumed by buyer estimated at $1.00 psf by broker



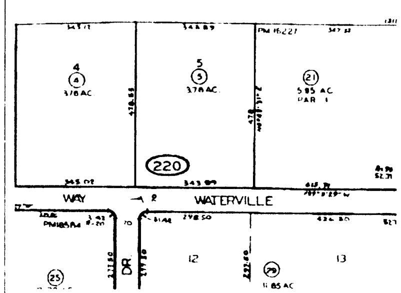
Sale 7

Location/Address	West end of Panasonic Way, Otay Mesa
Assessor Parcel No.	646-220-01
Legal Description	Lot 1, Brown Field Business Park Unit 1
Site Data	
Land Area:	2.87 Acre(s); | 125,017 SF Gross
Zoning:	OM-Industrial, City of San Diego
Offsites:	All to site
Site Condition:	Rough graded, finished lot with all infrastructure in place
Proposed Use	Construct an industrial building
Sale Data	
Recording Date:	1/21/2003 | *Document:* 2003-0070829
Seller:	Mukul Development LLC
Buyer:	Waterville Properties LLC
Sale Price:	$1,001,000 | *Price Per SF:* $8.01 *Bond Debt/SF:* $0.00 *Total Price:* $8.01
Terms:	All cash sale | *First Trust Deed:* N/A
Comments	No Mello-Roos financing in this business park



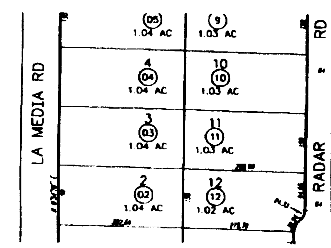
Sale 8

Location/Address	North side of Waterville Road, east of Dublin Drive, Otay Mesa
Assessor Parcel No.	646-220-05
Legal Description	Lot 5, Brown Field Business Park Unit 1
Site Data	
Land Area:	3.78 Acre(s); | 164,657 SF Gross and Net Area
Zoning:	OM-Industrial, City of San Diego
Offsites:	All to site
Site Condition:	Rough graded, finished lot with all infrastructure in place
Proposed Use	Buyer is contractor/developer who will do a build-to-suit industrial
Sale Data	
Recording Date:	3/10/2003 | *Document:* 2003-0267273
Seller:	Howard S. Leight
Buyer:	Managing G.P. Inc.
Sale Price:	$1,050,000 | *Price Per SF:* $6.38; *Bond Debt/SF:* $0.00; *Total Price:* $6.38
Terms:	All cash sale | *First Trust Deed:* N/A
Comments	No Mello-Roos financing for infrastructure



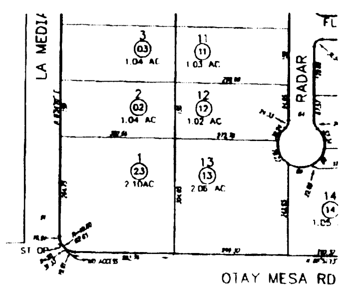
Sale 9

Location/Address	East side of La Media Road, No. of Otay Mesa Road, San Diego
Assessor Parcel No.	646-250-04
Legal Description	Lot 4 of Otay Mesa Industrial Park, Map #12425
Site Data	
Land Area:	1.04 Acre(s); | 45,302 SF Gross
Zoning:	Industrial – City of San Diego
Offsites:	All to site
Site Condition:	Rough graded, finished lot with all infrastructure in place
Proposed Use	Use for truck parking
Sale Data	
Recording Date:	11/02/2002 | *Document:* 2002-999804
Seller:	Leonor Ferrer
Buyer:	Raul & Josefina Gonzales
Sale Price:	$350,000 | *Price Per SF:* $7.73; *Bond Debt/SF:* $0.00; *Total Price:* $7.73
Terms:	$120,000 cash down | *First Trust Deed:* $230,000 (Seller)
Comments	No Mello-Roos financing for infrastructure, bond debt paid off in 1998 for entire subdivision



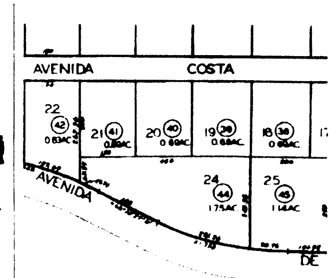
Sale 10

Location/Address	Northeast corner of La Media Road and Otay Mesa Road, San Diego
Assessor Parcel Nos.	646-250-02 & 23
Legal Description	Lots 1 and 2 of Otay Mesa Industrial Park, Map #12425
Site Data	
Land Area:	3.14 Acre(s); 136,778 SF Gross
Zoning:	OM – Industrial; City of San Diego
Offsites:	All to site
Site Condition:	Rough graded, finished lot with all infrastructure in place
Proposed Use	Owner/User – industrial
Sale Data	
Recording Date:	In Escrow April 2003 — *Anticipated Closing:* Mid-2003
Owner:	D A M G VI LLC
Buyer:	Owner/user
Sale Price:	$1,095,000 — *Price Per SF:* $8.00; *Bond Debt/SF:* $0.00; *Total Price:* $8.00
Terms:	All cash to seller — *First Trust Deed:* N/A
Comments	No Mello-Roos financing for infrastructure, bond debt paid off in 1998 for entire subdivision



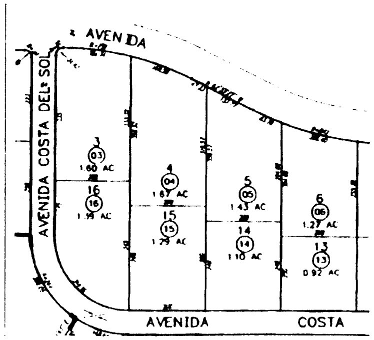
Sale 11

Location/Address	8580 Avenida de la Fuente, Otay Mesa
Assessor Parcel No.	646-150-44
Legal Description	Lot 24 De la Fuente Business Park Unit No. 2
Site Data	
Land Area:	1.75 Acre(s); 76,230 SF Gross
Zoning:	Industrial – City of San Diego
Offsites:	All to site
Site Condition:	Rough graded, finished lot with all infrastructure in place
Proposed Use	The buyer will lease the property as a truck parking lot
Sale Data	
Recording Date:	4/30/2002 — *Document:* 2002-367568
Seller:	Darwin & Kuei-Mei Ting, et al
Buyer:	South Otay Mesa Business Park LLC
Sale Price:	$335,500 — *Price Per SF:* $4.40; *Bond Debt/SF:* $1.30; *Total Price:* $5.70
Terms:	$117,500 cash down — *First Trust Deed:* $218,000 Rancho Santa Fe National Bank
Comments	Mello-Roos financing for infrastructure, assumed existing bond debt balance



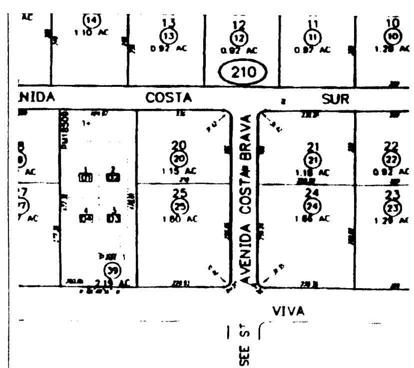
Sale 12

Location/Address	8551 & 8583 Avenida de la Fuente, San Diego
Assessor Parcel Nos.	646-210-04, 05 & 14
Legal Description	Lots 4, 5 & 14 of De la Fuente Business Park Unit No. 4, Map 12333
Site Data	
Land Area:	4.2 Acre(s); 182,952 SF Gross
Zoning:	OM – Industrial; City of San Diego
Offsites:	All to site
Site Condition:	Rough graded, finished lots with all infrastructure in place
Proposed Use	Construct a 52,000 SF industrial building
Sale Data	
Recording Date:	7/06/2001 & 9/20/2001 — *Document:* 2001-461651 & 678872
Seller::	First United, Inc. & D&D Landholdings
Buyer:	Eduardo Ulloa, et al
Sale Price:	$913,726 — *Price Per SF:* $5.00; *Bond Debt/SF:* $1.70; *Total Price:* $6.70
Terms:	All cash sale — *First Trust Deed:* N/A
Comments	Mello-Roos financing for infrastructure, assumed existing bond debt balance



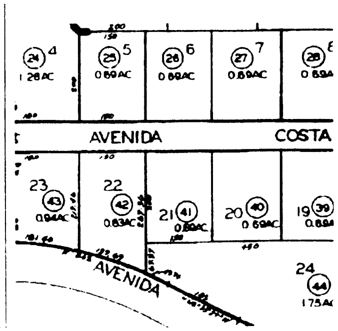
Sale 13

Location/Address	West side of Avenida Costa Brava @ Siempre Viva Road, San Diego
Assessor Parcel Nos.	646-210-20 & 25
Legal Description	Lots 20 & 25 of De la Fuente Business Park Unit No. 4, Map 12333
Site Data	
Land Area:	2.524 Acre(s); 109,940 SF Gross
Zoning:	OM – Industrial; City of San Diego
Offsites:	All to site
Site Condition:	Rough graded, finished lot with all infrastructure in place
Proposed Use	Develop a 50,000 SF industrial building
Sale Data	
Recording Date:	6/15/2001 — *Document:* 2001-402572
Seller:	Romero & McNally Co., Inc.
Buyer:	Costa Brava Trade Center LLC
Sale Price:	$479,500 — *Price Per SF:* $4.36; *Bond Debt/SF:* $1.79; *Total Price:* $6.15
Terms:	All cash sale — *First Trust Deed:* N/A
Comments	Mello-Roos financing for infrastructure, assumed existing bond debt balance



Sale 14

Location/Address	South side of Avenida Costa Blanca, east of Avenida Costa del Sol, San Diego
Assessor Parcel Nos.	646-150-41
Legal Description	Lot 21 of De la Fuente Business Park Unit No. 2, Map 11621
Site Data	
Land Area:	0.69 Acre; 30,000 SF Gross
Zoning:	OM – Industrial; City of San Diego
Offsites:	All to site
Site Condition:	Rough graded, finished lot with all infrastructure in place
Proposed Use	Not known
Sale Data	
Recording Date:	6/05/2001; *Document:* 2001-365351
Seller:	Golden City Land Company, Inc
Buyer:	Rodolfo Grave
Sale Price:	$180,000; *Price Per SF:* $6.00; *Bond Debt/SF:* $1.36; *Total Price:* $7.36
Terms:	$50,000 Cash Down; *First Trust Deed:* $130,000 Private
Comments	Mello-Roos financing for infrastructure, assumed existing bond debt balance



Sale No. 1 is situated within the Ocean View Hills Corporate Center, west of Brown Field. This sale is of a 0.99 acre lot located on Corporate Center Drive that was purchased by an owner/user to construct a 15,000 square foot industrial building. The lot was in a finished lot condition at the time of sale. There are no Mello-Roos bonds in this subdivision. The price per square foot indication is $7.60.

Sale Nos. 2, 3, 4, 5 and 6 are situated within Otay International Center at the southeast end of Otay Mesa. Otay International Center is a 449-acre, industrial/commercial subdivision situated adjacent to the Mexican border. Although a variety of land uses exist in this subdivision including commercial border services, warehousing, truck and freight facilities, retail commercial, general industrial, business park, and motel/restaurant facilities, these sales represent purchases for industrial uses. There is existing Mello-Roos bond financing in this project that equates to about $0.70 to $1.00 per square foot. Of the five sales, one sale, Sale No. 4, was purchased with the bond debt already paid off. The price per square foot, after consideration of bond financing, ranged between $6.50 to $8.17 per square foot. Sales 3, 4 and 5 were purchased by investors with the intent to build either multi-tenant industrial or single-tenant buildings. Sale No. 6 was purchased for truck parking.

Sale Nos. 7 and 8 represent two 2003 lot sales within Brown Field Business Park situated south of Brown Field. This subdivision will be close to future Interstate 905 when completed. Brown Field does not have any bond debt for subdivision infrastructure. The two sales indicated a price per square foot range of $6.38 to $8.01. Sale No. 8 at $6.38 per square foot was an investor purchase of a 3.78-acre site. The buyer in this transaction reported a favorable price with firm negotiations between the buyer and seller and was purchased with the intent to develop a build-to-suit industrial building.

Sale Nos. 9 and 10 are located in the Otay Mesa Industrial Park, northwest of the subject subdivision. Otay Mesa Industrial Park had originally financed infrastructure improvements at the time of development, but the bond financing was paid off in 1998. The sales presented in this analysis include a late 2002 lot sale of a one-acre site and a current escrow that is anticipated to close in mid-2003. Both sales are in a relatively close range of $7.73 to $8.00 per square foot. Due to its proximity to the subject and similar frontage to Otay Mesa Road/Highway 905, these sales are given a significant amount of weight in my analysis.

Sale Nos. 11 through 14 are all located in the subject De la Fuente subdivision. All of the sales were purchased with existing bond debt for the infrastructure improvements. The price per square foot, including bonded indebtedness ranges between $5.70 to $7.36. The high end of the range is the June 2001 sale of a 30,000 square foot parcel. All of the sale data occurred in 2001 and 2002. No 2003 lot sales were reported in the subject subdivision.

The sale data provided an unadjusted price range from $5.70 to $8.17 per square foot of land area. The sales have been adjusted to the subject for non-physical and physical elements of comparison. A summary of the comparisons considered for these elements follows.

- Property Rights: All of the sales are fee simple interest transactions and comparable to the subject.
- Financing: The sales were either cash or cash equivalent transactions with market financing. No adjustments for financing influence were applied.
- Conditions of Sale: All were considered typical conditions of sale.
- Market Conditions: Sales that occurred in early to mid-2002 were considered inferior in market conditions as it appears there has been a small upward movement in land value in this market over the past year. An adjustment ranging between two to five percent was applied to Sale Nos. 4, 6, 11, 12, 13 and 14.
- Location: All of the sales are located within industrial subdivisions in Otay Mesa. Of the five subdivisions used in the market data, most had similar locations as the subject in relative close proximity to Otay Mesa Road/Highway 905 and ease of access. No location adjustment is applied to the market data.

- Size/Shape: The finished lots within the subject subdivision range in size from 0.69 acre to 1.92 acres, with an average of about 1.28 acres. The sale data had a size range of under one acre to 4.2 acres. Typically, significantly larger sales are considered inferior in size based on my experience and observations that a larger parcel will sell for a lower price per square foot than smaller parcels depending on the size of the lot. I have chosen not to make a size adjustment to the market data, but rather consider size as a factor in my conclusion of retail lot value for each of the subject's different lot sizes.

- Lot Condition: The subject ten lots are in a finished lot condition. Since all of the sales were reported to be in a similar finished condition, no adjustment to the market data is warranted.

- Zoning: All of the sales have a similar industrial zoning designation within the Otay Mesa planning area. No adjustment is made to the market data.

- Other: Sale 6 has a net site area of 2.23 acres which is smaller than the gross lot area due to a rear landscaping easement that encompasses approximately 13,500 SF. The landscaping easement area is along the northwest boundary of the property fronting Otay Mesa Road. The price per square foot indication used in the adjustment grid is based on the net usable lot area. Sale 13 was reported to have a net area of 2.524 acres.

The lot sale adjustment table that considers both the physical and non-physical elements addressed above follows.

Finished Lot Sale Adjustment Table

	Sale 1		Sale 2		Sale 3		Sale 4		Sale 5	
APN	645-280-01		646-160-27		646-160-03		646-160-28		646-160-46,47	
Lot Area (Acres)	0.99		1.08		1.01		1.08		1.08	
Sale Date	12/4/2002		6/02/2003		11/7/2002		6/12/2002		3/28/2003	
Sale Price	$327,745		$350,000		$320,000		$306,000		$320,000	
Price/SF	$7.60		$7.45		$7.27		$6.50		$6.80	
Mello-Roos	$0.00		$0.70		$0.90		$0.00		$0.90	
Total Price	$7.60		$8.15		$8.17		$6.50		$7.70	
	Comparison	Adj.	Comparison	Adj.	Comparison	Adj.	Comparison	Adj.	Comparison	Adj.
Property Rights	Similar	0.0%	Similar	0.0%	Similar	0.0%	Similar	0.0%	Similar	0.0%
Financing	CE	0.0%	CE	0.0%	CE	0.0%	CE	0.0%	CE	0.0%
Conditions of Sale	Typical	0.0%	Typical	0.0%	Typical	0.0%	Typical	0.0%	Typical	0.0%
Market Conditions	Similar	0.0%	Similar	0.0%	Similar	0.0%	Inferior	2.0%	Similar	0.0%
Subtotal		0.0%		0.0%		0.0%		2.0%		0.0%
Adjusted Price	$7.60		$8.15		$8.17		$6.63		$7.70	
Location	Similar	0.0%	Similar	00.0%	Similar	0.0%	Similar	0.0%	Similar	0.0%
Size/Shape	Similar	0.0%	Similar	0.0%	Similar	0.0%	Similar	0.0%	Similar	0.0%
Lot Condition	Similar	0.0%	Similar	0.0%	Similar	0.0%	Similar	0.0%	Similar	0.0%
Zoning	Similar	0.0%	Similar	0.0%	Similar	0.0%	Similar	0.0%	Similar	0.0%
Subtotal		0.0%		0.0%		0.0%		0.0%		0.0%
Adjusted Price	$7.60		$8.15		$8.17		$6.63		$7.70	

	Sale 6		Sale 7		Sale 8		Sale 9		Sale 10	
APN	646-141-19		646-220-01		646-220-05		646-250-04		646-250-02,23	
Lot Area (Acres)	2.23 Net		2.87		3.78		1.04		3.14	
Sale Date	4/18/2002		1/21/2003		3/10/2003		11/2/2002		2003 Escrow	
Sale Price	$565,929		$1,001,000		$1,050,000		$350,000		$1,095,000	
Price/SF	$5.83		$8.01		$6.38		$7.73		$8.00	
Mello-Roos	$1.00		$0.00		$0.00		$0.00		$0.00	
Total Price	$6.83		$8.01		$6.38		$7.73		$8.00	
	Comparison	Adj.	Comparison	Adj.	Comparison	Adj.	Comparison	Adj.	Comparison	Adj.
Property Rights	Similar	0.0%	Similar	0.0%	Similar	0.0%	Similar	0.0%	Similar	0.0%
Financing	CE	0.0%	CE	0.0%	CE	0.0%	CE	0.0%	CE	0.0%
Conditions of Sale	Typical	0.0%	Typical	0.0%	Typical	0.0%	Typical	0.0%	Typical	0.0%
Market Conditions	Inferior	3.0%	Similar	0.0%	Similar	0.0%	Similar	0.0%	Similar	0.0%
Subtotal		3.0%		0.0%		0.0%		0.0%		0.0%
	$7.03		$8.01		$6.38		$7.73		$8.00	
Location	Similar	0.0%	Similar	0.0%	Similar	0.0%	Similar	0.0%	Similar	0.0%
Size/Shape	Similar	0.0%	Similar	0.0%	Similar	0.0%	Similar	0.0%	Similar	0.0%
Lot Condition	Similar	0.0%	Similar	0.0%	Similar	0.0%	Similar	0.0%	Similar	0.0%
Zoning	Similar	0.0%	Similar	0.0%	Similar	0.0%	Similar	0.0%	Similar	0.0%
Subtotal	Similar	0.0%	Similar	0.0%	Similar	0.0%	Similar	0.0%	Similar	0.0%
		0.0%		0.0%		0.0%		0.0%		0.0%
Adjusted Price	$7.03		$8.01		$6.38		$7.73		$8.00	
	Sale 11		Sale 12		Sale 13		Sale 14		- Not Used -	
APN	646-150-44		646-210-04, 05 & 14		646-210-20 & 25		646-150-41			
Lot Area (Acres)	1.75		4.2		2.52		0.69			
Sale Date	4/30/2002		7/2001 & 9/2001		6/15/2001		6/05/2001			
Sale Price	$335,500		$913,726		$479,500		$180,000			
Price/SF	$4.40		$5.00		$4.36		$6.00			
Mello-Roos	$1.30		$1.70		$1.79		$1.36			
Total Price	$5.70		$6.70		$6.15		$7.36			
	Comparison	Adj.	Comparison	Adj.	Comparison	Adj.	Comparison	Adj.		
Property Rights	Similar	0.0%	Similar	0.0%	Similar	0.0%	Similar	0.0%		
Financing	CE	0.0%	CE	0.0%	CE	0.0%	CE	0.0%		
Conditions of Sale	Typical	0.0%	Typical	0.0%	Typical	0.0%	Typical	0.0%		
Market Conditions	Inferior	3.0%	Inferior	5.0%	Inferior	5.0%	Inferior	4.0%		
Subtotal		3.0%		5.0%		5.0%		5.0%		
	$5.87		$7.04		$6.46		$7.73			
Location	Similar	0.0%	Similar	0.0%	Similar	0.0%	Similar	0.0%		
Size/Shape	Inferior	5.0%	Similar	0.0%	Similar	0.0%	Similar	0.0%		
Lot Condition	Similar	0.0%	Similar	0.0%	Similar	0.0%	Similar	0.0%		
Zoning	Similar	0.0%	Similar	0.0%	Similar	0.0%	Similar	0.0%		
Subtotal	Similar	0.0%	Similar	0.0%	Similar	0.0%	Similar	0.0%		
		5.0%		0.0%		0.0%		0.0%		
Adjusted Price	$6.16		$7.04		$6.46		$7.73			

The adjusted range for the sale comparables is from $6.16 to $8.17 per square foot with an overall average of $7.80 per square foot. The adjusted sale data are arrayed below

		Sale No.	Adjusted Price Per SF
		11	$6.16
Average	$7.80	8	$6.38
Minimum	$6.16	13	$6.46
Maximum	$8.17	2	$6.46
		4	$6.63
		6	$7.03
		12	$7.04
		1	$7.60
		5	$7.70
		9	$7.73
		14	$7.73
		10	$8.00
		7	$8.01
		2	$8.15
		3	$8.17

Of the fourteen adjusted data items, ten indicate a value range of $7.00 or higher indicating a probable bracket of $7.00 to $8.00 appropriate for the subject. It is also noted that the majority of the data taken from the subject's De la Fuente subdivision is the lower range of the data with exception of Sale No. 14 which is the smallest lot size allowed in this zoning designation. While there is also evidence that some of the lots in this sub-market area sold at a value at or near $8.00 per square foot, it appears that this price range sets the upper end of prices for finished industrial lots in the Otay Mesa market.

I have also considered a survey of current listings of finished lots in Otay Mesa. Lots in the competing Ocean View Hills Corporate Center are listed for sale starting at $8.50 per square foot. Lots in the Sunroad Otay Park 1 subdivision are listed at $7.00 to $8.00 per square foot on a finished lot basis, depending on frontage and visibility to Otay Mesa Road. These lots are around 1.5 acres in size and will require finishing by the developer. It appears that the upper end of the market is in the range of $8.00 to $8.50 per square foot. This is confirmed by recent sale activity near this range. There is one parcel actively listed for sale in the De la Fuente subdivision (Subject Assessment Parcel 30). This lot is listed at $8.00 per square foot and has been listed since early 2003.

The majority of the finished lots that are the subject of this appraisal generally share similar location characteristics with access from the inner loop streets within the subdivision. Most of the lots are about one to two-acres in size. Two of the parcels included in this valuation contain less than one acre. The market data appears to support a somewhat higher rate for the smaller lots. I estimate a value for the lots under one acre at $7.75 per square foot and $7.25 per square foot for the lots containing one acre or more. These unit values apply to the gross lot area except for those parcels noted as follows.

Assessment Parcel 6 has a net usable area less than the gross lot area due to an access easement crossing over the easterly portion of this lot. The estimated net usable area is around 0.70 acre. The unit value applicable for this net area is $7.75 per square foot and results in an average value for the gross lot area of $4.73 per square foot which is shown in the value conclusion table.

Assessment Parcel 85 has only partially improved access and is on the fringe of the undeveloped area in the eastern section of the subdivision. The parcel has been fenced and has a gravel surface and is leased for truck parking. This lot has a lower value than the finished lots nearby with all street improvements completed. I have concluded at a value of $6.00 per square foot for this lot.

My conclusion of the retail lot value for each finished lot is shown below. The unit values apply to the gross lot area.

Concluded Finished Lot Retail Values Subject to Lien Assessment

Assessment Number	APN	SF	Unit Value	Total Value	Value of Lien Assessment	Value Net of Assessment	Rounded Value
6	646-150-06	50,000	$4.73	$236,500	$53,378	$183,122	$183,100
10	646-150-10	56,628	$7.25	$410,553	$60,446	$350,107	$350,100
11	646-150-11	52,272	$7.25	$378,972	$55,935	$323,037	$323,000
12	646-150-12	42,000	$7.25	$304,500	$44,823	$259,677	$259,700
15	646-150-15	55,757	$7.25	$404,238	$59,469	$344,769	$344,800
30	646-150-31	30,000	$7.75	$232,500	$32,036	$200,464	$200,500
41	646-150-42	36,155	$7.75	$280,201	$38,546	$241,656	$241,700
85	646-261-07	69,696	$6.00	$418,176	$24,546	$393,630	$393,600
89	646-261-11	67,518	$7.25	$489,506	$23,779	$465,727	$465,700
90	646-261-12	83,635	$7.25	$606,354	$29,455	$576,899	$576,900
Totals		543,661		$3,761,500	$422,412	$3,339,088	$3,339,100

Valuation of Semi-Finished Lots

The next valuation analysis is of the lots located at the eastern end of the subdivision within Units 5 and 6 that have rough graded sites but no improved streets. These lots include Assessment Parcels 94, 95, 96, 97, 98 and 99. They are all owned by Otay Mesa Property LP. The owner has undertaken a leasing operation of these lots for truck parking. The lots have been subdivided into smaller usable areas defined by a perimeter fence and a gravel surface. Approximately 39.85 acres of this property has been improved and leased to ten tenants. This leaves approximately 36.18 acres or 48 percent of the total 76.03 acres in an undeveloped condition. The owner intends to eventually similarly improve and lease this remaining area, mostly located on the eastern section of Parcel 94. My valuation analysis of these assessment parcels will be based on their existing condition with partial surface improvements of gravel, perimeter fencing and some lighting. No paved streets exist within the interior of this project and access is by dirt roads created from a couple access points along Airway Road and Siempre Viva Road. The lot sizes range from 6 acres to 50.70 acres as shown in the subject lot summary table that follows.

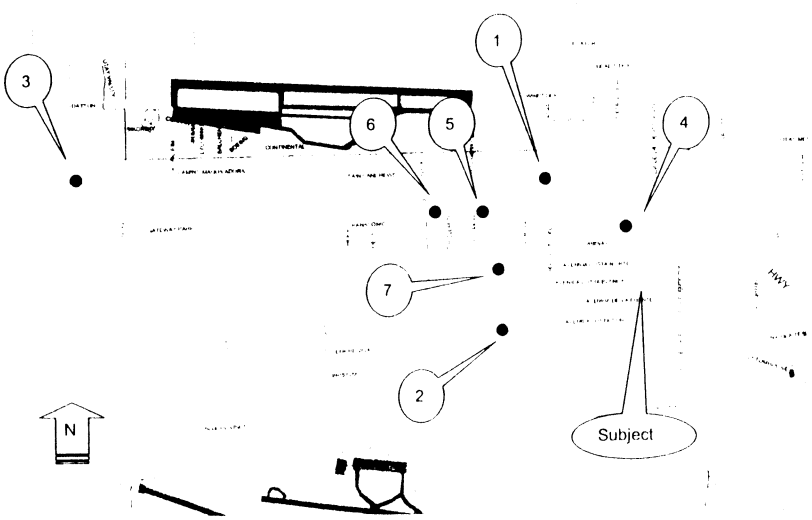
Assmt. No.	Land Area Square Feet	Land Area Acres	Site Condition/Use
94	2,208,492	50.70	Multi-tenant truck parking approximately half improved with gravel surface & fencing
95	295,772	6.79	Unimproved land; portions used for access to adjacent parcels
96 & 97[1]	449,539	10.32	Multi-tenant truck parking approximately half improved with gravel surface & fencing
98 & 99[1]	358,063	8.22	Multi-tenant truck parking approximately half improved with gravel surface & fencing

[1] Combined areas for legal lot

The subject parcels vary in size from 6 acres to 50 acres. They all have a physical similarity in common with partial improvements for truck parking, but no improved street access. I have researched sales of raw and semi-finished land within the Otay Mesa market area. Several sales were found which have some comparability to the subject and are presented in the following sales analysis

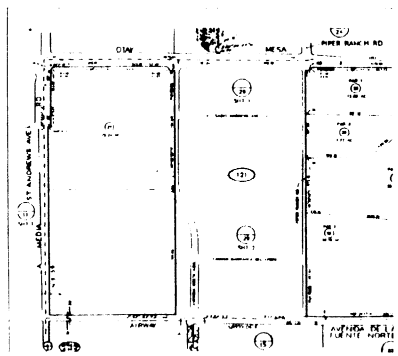
Sale No.	Location/Address	Sale Date	Price	Net Land Area (SF)	$/SF
1	6101-6299 Otay Mesa Rd, San Diego	7/12/2002	$6,398,375	3,277,454	**$1.95**
2	NW Britannia & Siempre Viva, San Diego	11/30/2001	$1,420,500	729,630	**$1.95**
3	Otay Mesa Rd W of Heritage, San Diego	3/15/2002	$1,000,000	379,408	**$2.64**
4	NW Airway Rd & Piper Ranch Rd, San Diego	5/13/2002	$3,875,000	1,350,621	**$2.87**
5	8340 Airway Rd, San Diego	8/14/2001	$6,530,000	1,705,810	**$3.83**
6	N Airway Rd & W Media Rd., San Diego	8/14/2001	$1,997,000	453,600	**$4.40**
7	8145 Airway Rd, San Diego	4/16/2003	$3,200,000	558,875	**$5.73**

Land Sale Location Map



Sale 1

Location/Address:	6101-6299 Otay Mesa Road, San Diego
Assessor Parcel No.:	646-121-27
Legal Description:	Portion of the NW ¼ NW ¼ and SW ¼ NW ¼ Sec 35 T18S R1W
Site Data	
Land Area:	75.24 Acre(s); | 3,277,454 SF Gross; net area not available
Zoning:	OMDD-C, San Diego
Land Use:	Commercial/Industrial Land
Offsites:	Streets are improved adjacent to property, but will need widening and utility infrastructure installed
Site Condition:	Raw land with no entitlements
Proposed Use	Hold for Development, possible commercial or industrial land use
Sale Data	*Recorded:* 7/12/2002 | *Document:* 2002-586045
Seller:	Otay Mesa International Plaza (LLC) c/o Patricia Linn c/o Euston Homes
Buyer:	Judd and Dillard Otay (LP) c/o John Dillard
Sale Price:	$6,398,375 | *Price Per SF (Gross):* $1.95
Terms:	$2,398,375 cash down | *First Trust Deed:* $3,000,000
Lender:	Ramona National Bank | *Second Trust Deed:* $1,000,000
Source:	Comps com; Joe Smith at Burnham Real Estate



Sale 2

Location/Address:	NW Britannia & Siempre Viva, San Diego
Assessor Parcel No.:	646-100-11
Legal Description:	Por Se4 Sec 33 T18S R1W

Site Data

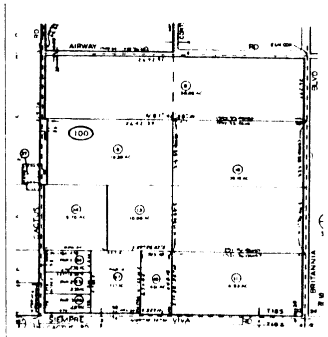
Land Area:	18.93 Acre(s);	824,591 SF Gross		
	16.75 Acre(s);	729,630 SF Net		
Zoning:	OMDD-I, San Diego			
Land Use:	Industrial Land			
Offsites:	The buyer is obligated to make approximately $1 million in street and sewer improvements. Street improvements include widening and improving Siempre Viva Road.			
Site Condition:	Raw land with no entitlements			

Proposed Use: Buyer plans to use this parcel as a block and brick manufacturing site, inventory storage yard and distribution yard.

Sale Data

	Recorded: 11/30/2001		*Document:*	2001-875993
Seller:	Neil E Wolfe Tr.			
Buyer:	RCP Block & Brick, Inc. c/o Michael R. Finch			
Sale Price:	$1,420,500		*Price Per SF (Gross):*	$1.72
			Price Per SF (Net):	$1.95
Terms:	$100,000 cash down		*First Trust Deed:*	$1,320,500
Lender:	Seller		*Second Trust Deed:*	N/A

Source: Comps.com; Regan Tully at International Real Estate



Sale 3

Location/Address:	Otay Mesa Road, west of Heritage, San Diego
Assessor Parcel No.:	645-090-31, 32
Legal Description:	Por N330' W2 E2 Nw4 Ne4 Sec 32 T18S R1W SBBM & Por E4 Nw4 Ne4 Sec 32 T18S R1W SBBM.

Site Data

Land Area:	10.72 Acre(s);	466,963 SF Gross
	8.71 Acres;	379,408 SF Net
Zoning:	OMDD-I, San Diego	
Land Use:	Industrial Land	
Offsites:	All to site	
Site Condition:	Raw land	

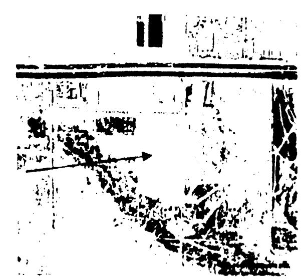
Proposed Use: Contractor Storage Yard

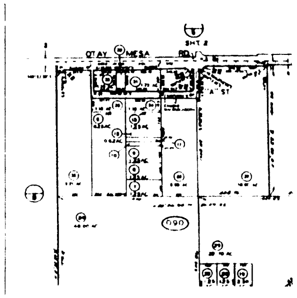
Sale Data

	Recorded: 3/15/2002	*Document:*	2002-219848
Seller:	James L & Sandra K Courtney		
Buyer:	James Wright		
Sale Price:	$1,000,000	*Price Per SF (Gross):*	$2.14
		Price Per SF (Net):	$2.64
Terms:	$150,000 cash down	*First Trust Deed:*	$850,000
Lender:	Seller	*Second Trust Deed:*	N/A

Comments: There are approximately 2 acres of land which is sloping into a canyon.

Source: Comps com





Sale 4

Location/Address: Northwest corner of Airway Road & Piper Ranch Road, San Diego

Assessor Parcel No.: 646-291-01 thru 16
Legal Description: Par 9 Pm 18959

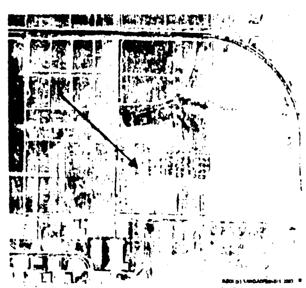
Site Data
- *Land Area:* 31.006 Acre(s); | 1,350,621 SF Gross and Net
- *Zoning:* OMDD-I, Otay
- *Land Use:* Industrial Land
- *Offsites:* All to site
- *Site Condition:* Raw land

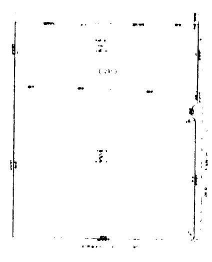
Proposed Use: Purchased for build-to-suit development of a Factory 2U store

Sale Data
- *Recorded:* 5/13/2002 | *Document:* 2002-402292
- *Seller:* Sunroad Otay Partners (LP) c/o Richard D. Vann (VP)
- *Buyer:* ORIX Otay (LLC) c/o Jeffrey C. Plack
- *Sale Price:* $3,875,000 | *Price Per SF (Gross):* $2.87 | *Price Per SF (Net):* $2.87
- *Terms:* $3,875,000 cash down | *First Trust Deed:* N/A
- *Lender:* N/A | *Second Trust Deed:* N/A

Comments: The cumulative acreage shown on the plat maps totaled 26.6 acres. However, the broker confirmed that the net acreage of 31.006 is due to the elimination of the streets for this property as approved by the City of San Diego.

Source: Comps.com





Sale 5

Location/Address: 8340 Airway Rd, San Diego

Assessor Parcel No.: 646-111-28,29
Legal Description: Par 1 & 2 Pm 18224

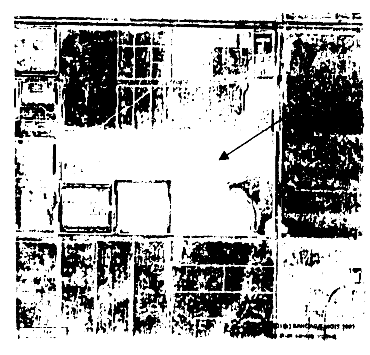
Site Data
- *Land Area:* 39.16 Acre(s); | 1,705,810 SF Gross and Net
- *Zoning:* OMDD-C, San Diego
- *Land Use:* Commercial Land
- *Offsites:* All to site
- *Site Condition:* Rough graded

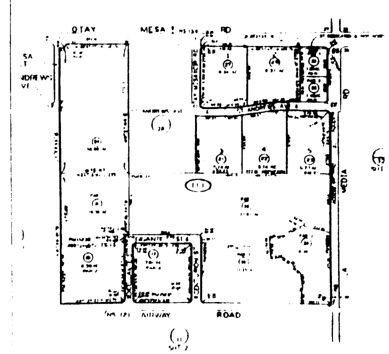
Proposed Use: Private School/College

Sale Data
- *Recorded:* 8/14/2001 | *Document:* 2001-574983
- *Seller:* Robinhood III (G.P.) c/o Barry J Ross
- *Buyer:* Southwestern Community College c/o John Wilson
- *Sale Price:* $6,530,000 | *Price Per SF (Gross):* $3.83 | *Price Per SF (Net):* $3.83
- *Terms:* Cash to seller | *First Trust Deed:* N/A
- *Lender:* N/A | *Second Trust Deed:* N/A

Comments: Purchased in conjunction with Sale 6 for a total purchase of 49.57 acres

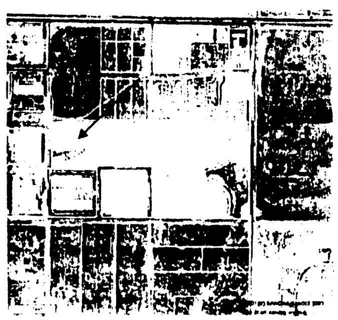
Source: Comps.com; Regan Tully at International Real Estate

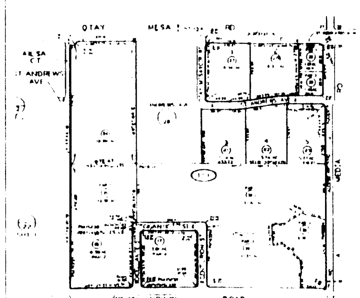




Sale 6

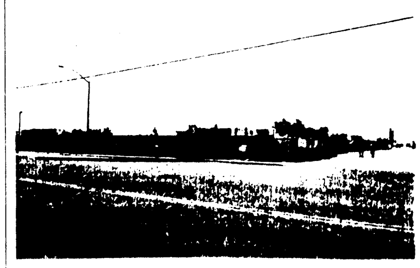
Location/Address:	North of Airway Road & West of La Media Road , San Diego
Assessor Parcel No.:	646-111-14
Legal Description:	Par 1 Pm 15238
Site Data	
Land Area:	10.4132 Acre(s); | 453,600 SF Gross and Net
Zoning:	OMDD-C, San Diego
Land Use:	Commercial Land
Offsites:	All to site
Site Condition:	Raw land
Proposed Use	Private School/College
Sale Data	*Recorded:* 8/14/2001 | *Document:* 2001-574984
Seller:	Empire Center I (LLC) c/o Robert E. Casey Jr.
Buyer:	Southwestern Community College Dist c/o John Wilson
Sale Price:	$1,997,000 | *Price Per SF (Gross):* $4.40 | *Price Per SF (Net):* $4.40
Terms:	Cash to seller | *First Trust Deed:* N/A
Comments:	Purchased in conjunction with Sale 5
Source:	Comps.com; Regan Tully at International Real Estate

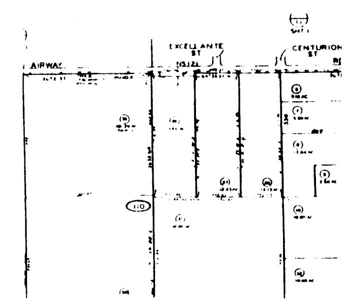




Sale 7

Location/Address:	8145 Airway Road, San Diego
Assessor Parcel No.:	646-110-26
Legal Description:	Portion of Section 34 T18S R1W
Site Data	
Land Area:	13.1273 Acre(s); | 571,825 SF Gross 12.83 Acre(s); | 558,875 SF Net
Zoning:	OMDD-I, San Diego
Land Use:	Industrial Land
Offsites:	All to site
Site Condition:	Fully Improved Lot with septic system for sewer service; developed under a CUP
Proposed Use	Truck parking – multi-tenant and owner/occupied portion
Sale Data	*Recorded:* 4/16/2003 | *Document:* 2003-439818
Seller:	A & Z Properties Inc. c/o Latif Zoura & Eduardo Aceves
Buyer:	RRM Properties (Ltd) c/o Rich Robertson
Sale Price:	$3,200,000 | *Price Per SF (Gross):* $5.60 | *Price Per SF (Net):* $5.73
Terms:	$3,200,000 cash down | *First Trust Deed:* N/A
Comments:	Buyer will use seven acres for its concrete business dba Robertson's Ready Mix. The remainder is leased to Samex ($4,350/mo.), Hussong Freight Lins, Inc. ($4,550/mo.), NG Trucking ($3,650/mo.), Acevedo Trucking ($4,000/mo.)
Source:	Comps.com; Darren Mullins at CB Richard Ellis





Sale 1 is the purchase of a large undeveloped parcel of land located on Otay Mesa Road (Highway 905) north of the subject subdivision. This parcel is designated for future commercial development, but the buyer indicates industrial development may also be considered. The parcel is unmapped and has no development entitlements. Sewer is not currently available and development will not occur until sewer capacity is expanded in Otay Mesa. Overall, this parcel is inferior to the subject lots due to a larger size and inferior development entitlements.

Sale 2 is the purchase of a raw, undeveloped site located at Siempre Viva Road and Britannia Road, just west of the subject subdivision. This parcel is to be developed by the buyer with a block and brick manufacturing facility. The estimated cost for offsite improvements including streets and sewer is around $1,000,000 or $1.37 per square foot. The parcel is zoned for industrial land use, similar to the subject. This sale is consistent with other raw, unentitled parcels in Otay Mesa at around $2.00 per square foot. Overall, this sale is again inferior to the subject property due to lack of infrastructure improvements.

Sale 3 is a rough graded land purchase located south of Otay Mesa Road (Highway 905) near the west end of Otay Mesa. This parcel was purchased for development as a contractor storage yard. The south two acres of this parcel slope into the canyon and are not usable. Overall, this sale is also inferior to the subject.

Sale 4 is the purchase of a 31-acre parcel located on the north side of Airway Road, just north of the subject subdivision. This parcel was originally mapped for 16 industrial lots but was never finished. The land was in raw condition, but had entitlements at the time of sale. The buyer had the paper streets and map vacated and created a single large lot. The buyer constructed a build-to-suit 600,000 square foot Factory 2U building on the site. This sale is inferior in lot condition at the time of sale.

Sales 5 and 6 are the purchase of lots within the Empire subdivision north of Airway Road at Centurion Street and Gigantic Street. There were two separate sellers and the same buyer of these parcels. The buyer plans to construct a community college on the site. The lots were in a rough graded condition with streets and utilities in place. These sales are overall similar to the subject except for a general commercial land use designation which is considered slightly superior to the subject.

Sale 7 is the sale of a semi-finished 13-acre lot located on Airway Road, west of the subject subdivision. The property was improved with perimeter fencing, landscaping, gravel surface and septic tank system. The improvements were made by the seller with a conditional use permit for truck parking from the City of San Diego. Airway Road was also improved along the parcel frontage as part of the CUP requirements. This parcel is considered directly comparable to slightly superior to the subject lots due to the completed street improvements, septic system and landscaping. The subject lots have unimproved streets. Sewer connection is available but not considered practical due to the cost based on a truck parking interim use.

The sales have been adjusted to the subject for non-physical and physical elements of comparison. A summary of the comparisons considered for these elements follows.

- Property Rights — All of the sales except Sale 7 are fee simple interest transactions and comparable to the subject. Sale 7 is a partial leased-fee sale, but the lease rates appear close to market and therefore no adjustment is necessary.
- Financing: — The sales were either cash or cash equivalent transactions with market financing. No adjustments for financing influence were applied.
- Conditions of Sale: — All were considered typical conditions of sale.
- Market Conditions: — An upward market conditions adjustment has been applied based on an average appreciation rate of 3 percent per year.
- Location: — All of the sales are located in Otay Mesa. No location adjustment is applied to the market data.
- Size/Shape: — The parcel size of the sales is from 9 to 75 acres. The size range of the subject parcels also varies from 7 to 50 acres. No specific size adjustment has been applied to the data, but size differences have been considered in the final conclusion of value for each lot.

- Lot Condition: — The subject parcels consist of semi-finished lots with unfinished street improvements, fencing and gravel surface on portions of the lots. Sales in a raw, undeveloped condition required significant upward adjustment for the lack of offsite or onsite improvements. Sales 5, 6 and 7 were somewhat similar in offsite improvements.
- Zoning: — Sales 1, 5 and 6 were zoned commercial and considered slightly superior to the subject's general industrial land use zone.

The lot sale adjustment table that considers both the physical and non-physical elements addressed above follows.

Large Lot Semi-Finished Parcel Comparison Grid

	Sale 1		Sale 2		Sale 3		Sale 4		Sale 5	
APN	646-121-27		646-100-11		645-090-31,32		646-291-20		646-111-28,29	
Lot Area (Acres)	75.24		16.75		8.71		31.01		39.16	
Lot Area (SF)	3,277,454		729,630		379,408		1,350,796		1,705,810	
Sale Date	7/12/2002		11/30/2001		3/15/2002		5/13/2002		8/14/2001	
Sale Price	$6,398,375		$1,420,500		$1,000,000		$3,875,000		$6,530,000	
Price/SF	$1.95		$1.95		$2.64		$2.87		$3.83	
Mello Roos	$0.00		$0.00		$0.00		$0.00		$0.00	
Total Price	$1.95		$1.95		$2.64		$2.87		$3.83	
	Comparison	Adj.	Comparison	Adj.	Comparison	Adj.	Comparison	Adj.	Comparison	Adj.
Property Rights	Similar	0.0%	Similar	0.0%	Similar	0.0%	Similar	0.0%	Similar	0.0%
Financing	CE	0.0%	CE	0.0%	CE	0.0%	CE	0.0%	CE	0.0%
Conditions of Sale	Typical	0.0%	Typical	0.0%	Typical	0.0%	Typical	0.0%	Typical	0.0%
Market Conditions	Inferior	3.0%	Inferior	5.0%	Inferior	3.0%	Inferior	3.0%	Inferior	6.0%
Subtotal		3.0%		5.0%		3.0%		3.0%		6.0%
	$2.01		$2.05		$2.72		$2.96		$4.06	
Location	Similar	0.0%	Similar	0.0%	Similar	0.0%	Similar	0.0%	Similar	0.0%
Lot Condition	Inferior	75.0%	Inferior	75.0%	Inferior	25.0%	Inferior	25.0%	Similar	0.0%
Zoning	Superior	-3.0%	Similar	0.0%	Similar	0.0%	Similar	0.0%	Superior	-3.0%
Subtotal		72.0%		75.0%		25.0%		25.0%		-3.0%
Adjusted Price	$3.46		$3.59		$3.40		$3.70		$3.94	

	Sale 6		Sale 7		Not Used	Not Used	Not Used
APN	646-111-14		646-110-26				
Lot Area (Acres)	10.4132		12.83				
Lot Area (SF)	453,599		558,875				
Sale Date	8/14/2001		4/16/2003				
Sale Price	$1,997,000		$3,200,000				
Price/SF	$4.40		$5.73				
Mello Roos	$0.00		$0.00				
Total Price	$4.40		$5.73				
	Comparison	Adj.	Comparison	Adj.			
Property Rights	Similar	0.0%	Similar	0.0%			
Financing	CE	0.0%	CE	0.0%			
Conditions of Sale	Typical	0.0%	Typical	0.0%			
Market Conditions	Inferior	6.0%	Similar	0.0%			
Subtotal		6.0%		0.0%			
	$4.66		$5.73				
Location	Similar	0.0%	Similar	0.0%			
Lot Condition	Similar	0.0%	Superior	-10.0%			
Zoning	Superior	-3.0%	Similar	0.0%			
Subtotal		-3.0%		-10.0%			
Adjusted Price	$4.52		$5.16				

The adjusted data indicates a range of values from approximately $3.40 to $5.16 per square foot. Parcel size has not been factored in to this adjusted range. Sales 5, 6 and 7 were considered most similar overall and indicate a range from $3.94 to $5.16 per square foot.

In addition to these sales of raw and semi-finished lots, I have also considered the bulk sales of finished lots within several competing subdivisions in Otay Mesa as presented later in the bulk sale value analysis of this report. Bulk Sale 1 was the purchase of 14.37 acres of finished land within the Otay Mesa Industrial Park. The purchase price was $5.80 per square foot, but the seller valued the transaction at $6.75 per square foot due to a charitable deduction condition of sale. This sale is superior to the subject due to its finished lot condition. Bulk Sale 2 is the purchase of 16.36 acres within the newly developing Piper Ranch subdivision. This sale is pending completion of the offsite improvements. The sale price is $7.20 per square foot, inclusive of bond debt. This sale is also superior to the subject with a superior finished lot condition. Bulk Sales 3 and 4 are within the Pardee Ocean View Hills Corporate Center subdivision and are also finished lots superior to the subject.

The bulk sale data indicates an upper end of the possible value range for the subject parcels at $5.80 to $7.50 per square foot. This data is consistent with the raw and semi-finished land sales from $2.00 to $5.73 per square foot. The subject parcels should fall between this range as semi-finished lots.

Parcel 94 contains 50.7 acres and according to the owner's rent roll, is around 60 percent leased for truck parking with a gravel surface and perimeter fencing. This large parcel should fall near the lower end of the adjusted range of data due to its size and the fact that just under half is considered raw and undeveloped. I have concluded at a market value of $3.70 per square foot for Parcel 94.

Parcel 95 is an irregularly shaped 6.79 acre parcel. This parcel appears to be in a raw condition and not leased or improved. The irregular shape will inhibit future development and it appears that portions of this lot will be needed for interior access roads when this area of the subdivision develops. I have concluded at a market value of $3.50 per square foot for this parcel.

Parcels 96 and 97 are valued as a single legal lot as are Parcels 98 and 99. These lots are being leased for truck parking. It appears that around 44 percent of all four of these parcels combined is leased for truck parking and partially improved with a gravel surface and fencing. These parcels are 8 to 10 acres in size. The indicated value for these parcels should be closer to the upper end of the adjusted range due to the smaller size and the partial improvements. I have concluded at a market value of $4.50 per square foot.

Concluded Semi-Finished Lot Retail Values Subject to Lien Assessment

Assessment Number	*APN*	*SF*	*Unit Value*	*Total Value*	*Value of Lien Assessment*	*Value Net of Assessment*	*Rounded Value*
94	646-120-39	2,208,492	$3.70	$8,171,420	$455,937	$7,715,484	$7,715,500
95	646-260-16	295,772	$3.50	$1,035,202	$49,388	$985,814	$985,800
96 & 97	646-261-18,19	449,539	$4.50	$2,022,926	$150,128	$1,872,799	$1,872,800
98 & 99	646-261-20,21	358,063	$4.50	$1,611,284	$119,579	$1,491,706	$1,491,700
Totals		3,311,866		$12,840,833	$775,031	$12,065,802	$12,065,800

Bulk Sale Value

Introduction

The Bulk Sale Value is based on the assumption that a block of commonly owned lots are sold either to a single buyer or to multiple buyers by the same seller. There are two blocks of commonly owned parcels for which bulk sale value has been requested by my client.

The first block (Bulk Sale Block #1) consists of Parcels 11, 12, 15 and 41. These lots are under the common ownership of Otay Acquisitions LP and are all finished lots within the western portion of the subdivision and contain a total of 4.27 acres.

The second block (Bulk Sale Block #2) consists of Parcels 85, 94, 95, 96, 97, 98 and 99. These parcels are owned by Otay Mesa Property LP and are all in a semi-finished condition and are wholly or partially leased for truck parking. They are all located within the eastern portion of the subdivision and contain a total area of 17.63 acres.

There are two methods that can be used to estimate the bulk sale value. The first method is a value estimate using the Sales Comparison Approach. Bulk purchases of industrial lots are compared to the subject property and a value conclusion is reached from this analysis. The second is a discounted cash flow (DCF) analysis. The DCF analysis is performed to estimate the present value of the future cash flows which could be generated from a sales program of the subdivision.

Sales Comparison Approach

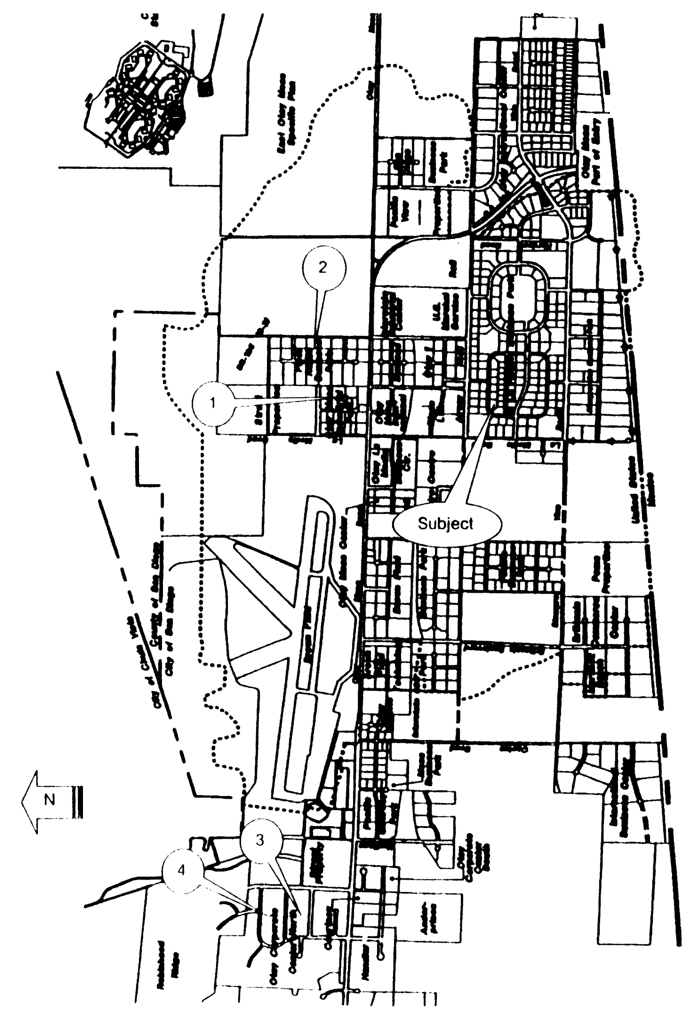
The sales comparison approach has been applied to the valuation of Bulk Sale Block #1 which are finished lots. Bulk Sale Block #2 consists of semi-finished lots with a large amount of acreage. No direct sale comparison was found applicable to this block of lots and therefore this approach was not used.

A sales search was made for sales of bulk purchases of finished and unfinished lots in the Otay Mesa market area. Several sales were found and are presented in the following analysis.

Otay Mesa Bulk Sale Data Table

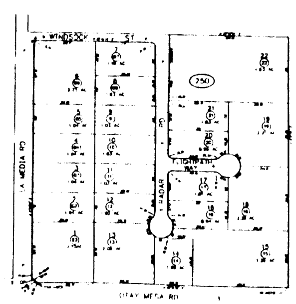
	Sale 1	Sale 2	Sale 3	Sale 4
Location	Radar Road, Otay Mesa	Piper Ranch Road, Otay Mesa	Business Center Court, Otay Mesa	Corporate Center Dr, Otay Mesa
Subdivision	Otay Mesa Industrial Park	Piper Ranch Business Park	Ocean View Hills Corporate Center	Ocean View Hills Corporate Center
No Lots	6	8	6	8-10
APN	646-250-14, 15, 18, 19, 21, 22	646-240-3, 4, 5, 6, 11, 12, 13, 14	645-180-09, 10, 11 and 645-280-05, 06 & 07	645-280
Site Area	14.37 acres	16.36 acres	6.71 acres	16 acres +/-
Average Lot Area	2.4 acres	2.0 acres	1.1 acres	1.6 2 acres
Sale Date	8/8/2002	2003 Escrow	11/2/2001	2003 Escrow
Sale Price	$3,632,000	$3,741,368.40	$2,192,157	$N/A
Price/SF	$5.80	$5.25	$7.50	$6.35
Bond Debt/SF	$0.00	$1.96	$0.00	$0.00
Total Price	$5.80	$7.21	$7.50	$6.35

Bulk Sale Comparable Location Map



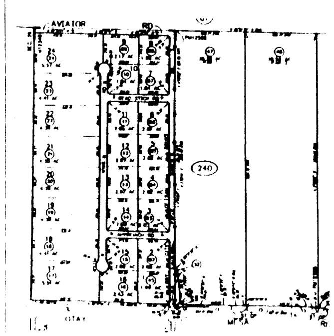
Bulk Sale 1

Location/Address	Six lots located on the east side of Radar Road, Otay Mesa
Assessor Parcel No.	646-250-14, 15, 18, 19, 21, 22
Legal Description	Lots 14, 15, 18, 19, 21 and 22 in Otay Mesa Industrial Park
Site Data	
Land Area:	14.37 Acre(s); | 625,957 SF Gross
Zoning:	OM-Industrial; City of San Diego
Offsites:	All to site
Site Condition:	Rough graded, finished lots with all infrastructure in place
Proposed Use	Construct a warehouse and provide an auction yard and storage yard for use by owner
Sale Data	
Recording Date:	8/8/2002 | *Document:* 2002-672635; 672636
Seller:	Otay Industrial Park VI and VII, LLC (Two related seller entities)
Buyer:	S.V.D.P. Management Inc. c/o Father Joe Carroll
Sale Price:	$3,632,000 | *Price Per SF:* $5.80; *Bond Debt Bal/SF:* $0.00; *Total Price:* $5.80
Terms:	All cash sale | *First Trust Deed:* N/A
Comments	Mello-Roos financing for infrastructure was paid off before the sale. The buyer is Saint Vincent de Paul who operates homeless shelters in San Diego and is a non-profit organization. The seller valued the property at $6.75 per square foot and took charitable deduction off income taxes for the difference in value and sale price.
Plat Map	



Bulk Sale 2

Location/Address	Eight lots located between Piper Ranch Road and Wing Road in the Piper Ranch Business Park, Otay Mesa, CA
Assessor Parcel No.	646-240-3, 4, 5, 6, 11, 12, 13, 14
Legal Description	Lots 3, 4, 5, 6, 11, 12, 13 and 14 in Piper Ranch Business Park
Site Data	
Land Area:	16.36 Acre(s); | 712,642 SF Gross
Zoning:	OMDD – Industrial; City of San Diego
Offsites:	All to site
Site Condition:	Lots to be delivered in rough graded, finished lot condition with all infrastructure in place; expected delivery of lots by August 2003
Proposed Use	Develop the lots with several build-to-suit and spec industrial buildings
Sale Data	
Sale Date:	3/17/03 Escrow | *Document:* N/A – Pending sale
Seller:	Piper Ranch LLC
Buyer:	Master Development Corporation
Sale Price:	$3,741,368.40 | *Price Per SF:* $5.25; *Bond Debt Bal/SF:* $1.96; *Total Price:* $7.21
Terms:	All cash sale | *First Trust Deed:* N/A
Comments	Mello-Roos financing for infrastructure; buyer is assuming bond debt balance estimated currently at $1.96 per square foot. Sale price established as of purchase agreement date of March 17, 2003.
Plat Map	



Bulk Sale 3

Location/Address: Six lots on Business Center Ct and Progressive Avenue in the Otay Corporate Center subdivision, Otay Mesa

Assessor Parcel No.: 645-180-09, 10, 11 and 645-280-05, 06 & 07

Legal Description: Lots 9, 10, 11 of Ocean View Hills Corporate Center Unit No. 1 and Lots 5, 6 and 7 of Ocean View Hills Corporate Center Unit No. 2

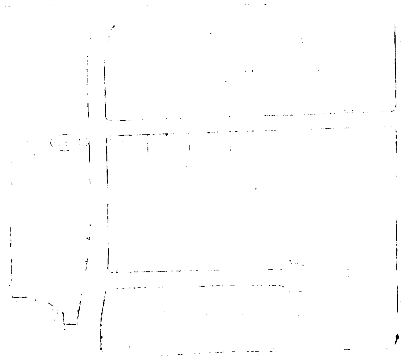
Site Data
- *Land Area:* 6.71 Acre(s); | 292,288 SF Gross
- *Zoning:* OMDD-I, City of San Diego
- *Offsites:* All to site
- *Site Condition:* Rough graded, finished lots with all infrastructure in place

Proposed Use: Owner/user industrial

Sale Data
- *Recording Date:* 11/2/2001 | *Document:* 2001-0801375
- *Seller:* Pardee Construction Company
- *Buyer:* M & E DEVCO, LLC
- *Sale Price:* $2,192,157 | *Price Per SF:* $7.50 | *Bond Debt Bal/SF:* $0.00 | *Total Price:* $7.50
- *Terms:* $542,157 cash down | *First Trust Deed:* $1,650,000 Rncho Santa Fe Nat'l Bank

Comments: Bulk purchase of six lots for an owner/user; no Mello-Roos financing

Plat Map



Bulk Sale 4

Location/Address: Corporate Center Drive in Otay Corporate Center subdivision, Otay Mesa

Assessor Parcel No.: 645-280 (eight to ten individual lots)

Legal Description: Not available

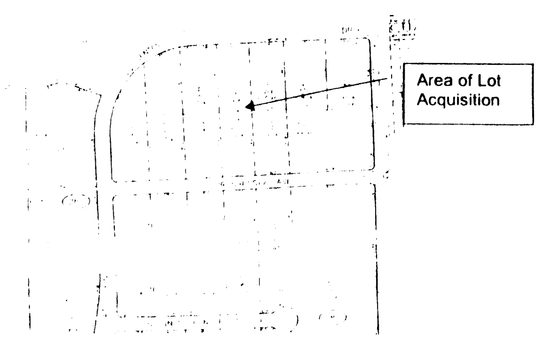
Site Data
- *Land Area:* 16 Acres (approximate area); lot sizes range from one to two acres
- *Zoning:* OMDD – Industrial; City of San Diego
- *Offsites:* All to site
- *Site Condition:* Finished lots

Proposed Use: Purchase by developer

Sale Data
- *Sale Date:* Pending 2003 Escrow | *Document:* N/A
- *Seller:* Pardee Construction Company
- *Buyer:* Pending Escrow – Confidential
- *Sale Price:* $N/A | *Price Per SF:* $6.35 | *Bond Debt Bal/SF:* $0.00 | *Total Price:* $6.35
- *Terms:* All cash sale | *First Trust Deed:* N/A

Comments: Pending escrow of eight to ten lots totaling around 16 acres in a bulk sale.

Plat Map



Sale Comparable Analysis

The sale data provided an unadjusted price range from $5.80 to $7.50 per square foot of total lot area. The sales have been adjusted for non-physical and physical elements of comparison. A summary of the adjustments considered for these elements follows.

- **Property Rights**: The subject property rights appraised are the fee simple as is the case with the sale data and no adjustment is warranted.
- **Financing**: The sale data were considered to be cash equivalent transactions, as is the basis for this market value estimate.
- **Conditions of Sale**: This element of comparison is for known unique conditions that may have affected the sale price of a transaction. Sale 1 was reported to be sold at a price below market since the buyer is a charity. The seller reported taking a charitable tax contribution tax deduction for the difference in price between the reported full price of $6.75 per square foot and the actual sale price of $5.80 per square foot. I have adjusted this sale upward to the reported full price.
- **Market Conditions**: This adjustment is for differences in market prices from the date of sale to the current date of value. Sale 1 closed in late 2002 and no market conditions adjustment is applicable. Sale 2 and 4 are both current escrows and no adjustment is applicable. Sale 3 sold over a year ago and lot values have increased since late 2001. I have adjusted this sale upward by 5 percent.
- **Bond Assmt**: The sale price for Sale 2 is adjusted upward for the bond assessment debt to be allocated to this property. This makes the price on a basis equivalent to the other three sales that did not have bond debt. The bond debt is then deducted from the reconciled market value estimate later in the analysis.
- **Location**: All of the subdivisions are located within the Otay Mesa submarket area and are considered generally similar in overall location.
- **Age/Appeal**: The newly developing Piper Ranch subdivision and the Ocean Views subdivision are considered superior in appeal to the older De la Fuente subdivision and a downward adjustment has been applied.
- **Size**: The subject property contains 4.27 gross acres. The size adjustment applied to the sale data considers both the total acreage as well as the number of lots purchased. Sales 2 and 4 are both considered inferior due to a larger number of lots and total gross acreage.
- **Lot Condition**: All of the sales were in a finished lot condition at the time of sale, similar to that assumed for the subject and no adjustment is warranted.
- **Zoning**: All of the sales are industrially zoned and no adjustment is applicable.

A summary of the adjustment grid applied to the sale data and the adjusted prices indicated by the data follows.

Bulk Lot Sale Adjustment Table – Bulk Sale Block #1

	Sale 1		Sale 2		Sale 3		Sale 4	
Location	Radar Road, Otay Mesa		Piper Ranch Rd, Otay Mesa		Business Center Ct. Otay Mesa		Corporate Center Dr. Otay Mesa	
Area (Acres)	14.37		16.36		6.71		16 +/-	
Sale Date	8/8/2002		2003 Escrow		11/2/2001		2003 Escrow	
Sale Price	$3,632,000		$3,741,368		$2,192,157		$N/A	
No. Lots	6		8		6		8-10	
Price/SF	$5.80		$5.25		$7.50		$6.35	
Mello-Roos	$0.00		$1.96		$0.00		$0.00	
Total Price	$5.80		$7.21		$7.50		$6.35	
	Comparison	Adj.	Comparison	Adj.	Comparison	Adj.	Comparison	Adj.
Property Rights	Similar	0.0%	Similar	0.0%	Similar	0.0%	Similar	0.0%
Financing	CE	0.0%	CE	0.0%	CE	0.0%	CE	0.0%
Conditions of Sale	Charity	+16.0%	Typical	0.0%	Typical	0.0%	Typical	0.0%
Market Conditions	Similar	0.0%	Similar	0.0%	Inferior	5.0%	Similar	0.0%
Subtotal		+16.0%		0.0%		5.0%		0.0%
Adjusted Price	$6.73		$7.21		$7.88		$6.35	
Location	Similar	0.0%	Similar	0.0%	Similar	0.0%	Similar	0.0%
Age/Appeal	Similar	0.0%	Superior	-10.0%	Superior	-10.0%	Superior	-10.0%
Size (Total Area)	Similar	0.0%	Inferior	+10.0%	Similar	0.0%	Inferior	+10.0%
Lot Condition	Similar	0.0%	Similar	0.0%	Similar	0.0%	Similar	0.0%
Zoning	Similar	0.0%	Similar	0.0%	Similar	0.0%	Similar	0.0%
Subtotal		0.0%		0.0%		-10.0%		0.0%
Adjusted Price	$6.73		$7.21		$7.09		$6.35	

The adjusted data indicates a range of bulk sale value from $6.35 to $7.21 per square foot and an average adjusted price of $6.85 per square foot. All of the sales are given generally equal weight in my final value reconciliation.

Based on the above analysis, I have concluded at a value of $6.80 per square foot of land area, before deduction of assessment debt. The total value for the bulk purchase of the four finished lots by this approach follows.

Bulk Sale Value of Block #1:

Gross Lot Area (SF)		Value Per SF	=	Value	
186,184	x	$6.80		$1,266,051	
Bond Assessment Debt				$ 198,773	
Total Bulk Value – 4 Lots (1)				$1,067,278	($5.73/SF)

(1) Value is net of bond assessment debt

INDICATED BULK SALE VALUE OF BLOCK #1 BY SALES COMPARISON APPROACH $1,067,000

Discounted Cash Flow Analysis

The discounted cash flow analysis estimates the net cash flow which can be generated from a lot sales program for the subject blocks of lots. The gross revenue source is the retail value (market value) of the individual lots as they are sold out during a sales program. The expenses associated with a sales program are selling and holding costs during the sell-out period. The net cash flow (before debt service) is valued using a discounted cash flow technique where each periodic cash flow is discounted to a present value indication using a discount or yield rate. The sum of the discounted cash flows results in the total present value or bulk sale value for the project. A separate calculation of a discounted cash flow analysis is presented for both Bulk Sale Block #1 and Block #2. A discussion of each element of this analysis follows.

Gross Revenue Estimate

Gross revenues result from the sale of the individual lots to owner/users or other developers. The sales prices are based on the estimated individual retail lot values estimated in the previous valuation section. The total cumulative retail value of the four lots in Block #1 and the five lots in Block #2 is as shown summarized below.

Concluded Finished Lot Retail Values Subject to Lien Assessment - Bulk Sale Value Block #1

Assessment Number	*APN*	*SF*	*Unit Value*	*Total Value*	*Value of Lien Assessment*	*Value Net of Assessment*	*Rounded Value*
11	646-150-11	52,272	$7.25	$378,972	$55,935	$323,037	$323,000
12	646-150-12	42,000	$7.25	$304,500	$44,823	$259,677	$259,700
15	646-150-15	55,757	$7.25	$404,238	$59,469	$344,769	$344,800
41	646-150-42	36,155	$7.75	$280,201	$38,546	$241,656	$241,700
Totals		186,184		$1,367,912	$198,773	$1,169,138	$1,169,200

Concluded Semi-Finished Lot Retail Values Subject to Lien Assessment - Bulk Sale Value Block #2

Assessment Number	*APN*	*SF*	*Unit Value*	*Total Value*	*Value of Lien Assessment*	*Value Net of Assessment*	*Rounded Value*
94	646-120-39	2,208,492	$3.70	$8,171,420	$455,937	$7,715,484	$7,715,500
85	646-261-07	69,696	$6.00	$418,176	$24,546	$393,630	$393,600
95	646-260-16	295,772	$3.50	$1,035,202	$49,388	$985,814	$985,800
96 & 97	646-261-18,19	449,539	$4.50	$2,022,926	$150,128	$1,872,799	$1,872,800
98 & 99	646-261-20,21	358,063	$4.50	$1,611,284	$119,579	$1,491,706	$1,491,700
Totals		3,381,562		$13,259,009	$799,576	$12,459,433	$12,459,400

The average retail value, net of assessments, is used as a basis for estimating the annual lot sale revenue for the first year. The average lot value for the subsequent sell-out periods will be inflated using a general value inflation rate of three percent annually. This inflation rate is based on an expected increase in lot prices over the next couple years as shown by a trending of average lot prices in the Otay Mesa market area over the past several years.

Sales Rate Analysis

The sell-out period for the lots is forecast based on a sales rate analysis of historical industrial lot sales in Otay Mesa. I have researched public records for sales of individual and bulk sales of finished lots in Otay Mesa subdivisions over the past several years. I have also considered future supply and demand for industrial lots in this market. Based on this data, a forecast has been made for the annual sales potential for the subject property.

I have researched public records and the Comps.com database of sales to tabulate the number of lot sales on an annual basis over the past several years. Finished lots under 10 acres in size were included in this tabulation. Lots that were absorbed by build-to-suit or new leasing were not included in this data. A summary of this data follows.

Lot Sales – Otay Mesa	***2001***	***2002***	***YTD 2003***
No. Finished Lot Sales	12	10	5
Average Price/SF	$4.49	$4.99	$6.96
Total Acres – Sold	38.92	28.22	8.81
No. Finished Lot Escrows	N/A	N/A	16-18
Average Price/SF Escrow	N/A	N/A	$5.80
Total Acres – Escrow	N/A	N/A	32.36
Bulk Sale Lots	6	6	0
Average Price/SF	$7.50	$5.80	N/A
Total Bulk Sale Acres	6.71	14.37	0
Total Lots Sales	18	16	21-23
Total Acres Sold/Escrow	45.63	42.59	41.17

The sale data over the past several years indicates a rather stable trend in lots sold and acreage absorbed. Excluded from this data are larger lot parcels not considered finished or not within the industrial subdivision table previously presented in the Market Analysis section of this report. Sunroad sold 16 unfinished mapped lots to a single owner/user buyer in 2002. This purchase totaled 26.6 acres and is not reflected in the above table.

Future Developer/Competition

Of the seventeen major industrial subdivisions listed in the previous table, six projects have potential for providing finished lot competition for the subject. A description of these projects follows.

Ocean View Hills Corporate Center: This project has 36 finished lots with 22 available for sale. A reported pending bulk sale of 8 to 10 lots in this project will reduce that number by nearly half. This project's most recent single lot sale was for $7.62 per square foot. The lots in this project will be considered direct competition to the subject. There is no bond financing for this subdivision.

Brown Field Technology Park: This 21-lot mapped but undeveloped subdivision is located on the south side of Otay Mesa Road near Brown Field. The project is a development of Murphy Development who also owns and is developing lots in the Siempre Viva Business Park. Murphy Development reportedly is not actively pursuing development of this project at this time as it is focusing on the Siempre Viva Business Park. This project may be competition near the end of the subject's marketing period.

Otay Mesa Center: This is a small mapped but undeveloped subdivision located on the south side of Otay Mesa Road approximately ½ mile west of the subject. This project is being offered for sale in bulk, unfinished for $5.00 per square foot. This subdivision will not likely be considered competition for the subject until possibly late in the sell-out period, if at all.

Sunroad Otay 1: This project was mapped for 32 lots with the future Highway 905 crossing through the center. The subdivision is located directly south of Otay Mesa Road. The developer sold the southern half of the project to an owner/user and is marketing the northern parcels. The project remains unfinished at this time. Sunroad will sell the project at finished lots for $7.00 to $8.00 per square foot or $6.50 per square foot in bulk for the 16 lots. The property is also available for sale unfinished in bulk at $3.10 per square foot. A thirteen percent discount is indicated by this property based on an average finished lot value of $7.50 per square foot and a bulk asking price at $6.50 per square foot.

Siempre Viva Business Park: This subdivision is located adjacent to the border and west of the border crossing. The second and final phase of the subdivision was purchased by Michael Murphy in August 2000. The developer is focusing on marketing the lots on a build-to-suit basis. A recent transaction was made to Iron Mountain based on a build-to-suit with land value at $7.00 per square foot. This project will be direct competition to the subject property for those potential buyers who would also consider a build-to-suit arrangement.

Piper Ranch: This is a 24-lot industrial subdivision located north of Highway 905 and east of Brown Field. It has lots ranging in size from 2 to 5 acres. The project is in the construction phase of the streets and infrastructure and is actively marketing lots. The asking prices are in the range of $6.50 to $8.50 per square foot. This project will have bond debt estimated in the range of $1.60 to $1.95 per square foot. The developer has pre-sold eight lots in a single bulk transaction and has pre-leased on a build-to-suit two lots. This project will be direct competition to the subject finished lots.

Based on this data, there appears to be only two subdivisions selling finished lots that directly compete with the subject. The other projects are either in unfinished condition or are marketing to build-to-suit buyers. The subject will also compete with resale listings of finished lots in other existing subdivisions, with the Otay International Center as one of the main secondary resale competitors.

In terms of new industrial subdivision development, there are several industrial land parcels in the immediate area that could be developed in the next several years. However, I am not aware of any parcels that are close enough to having a final map and breaking ground such as to be considered competition in the immediate future. Sewer capacity in Otay Mesa appears to be a major road block to new subdivision map approval.

The subject property has an advantage in being able to provide truck parking onsite without a conditional use permit (according to the property owner). There is a demonstrated demand for truck parking in this market. Demand for medium-sized industrial buildings appears to be soft at this time.

I have concluded that the subject project should be able to market and sell the four subject finished lots within one year. The five semi-finished larger acreage lots are projected to have a two-year sell out period due to the large amount of gross acreage involved.

Sales and Holding Costs

Sales costs are estimated at five percent of gross lot sales proceeds. This cost accounts for marketing, sales commissions and closing costs.

Holding costs during the sell-out period will include project association dues estimated at $150 per month per lot, real estate taxes on the unsold lot inventory and special assessment bond payments on the unsold inventory. Real estate taxes are calculated based on multiplying the market value of the lots times the real estate tax rate of $1.18 per $100 of market value. I have used an average mid-year accounting for calculation of taxes due for each year. This assumes that the lot absorption will occur spread evenly over the year. Special assessments are based on the allocated bond financing debt previously presented in this report. The bond debt is amortized over 30 years with an interest rate of 6.5 percent. I have calculated the bond payments using the average mid-year accounting technique based on unsold inventory.

Discount Rate

The discount rate is the rate of return required by a developer to invest in the subject project. The rate of return includes a return on the equity investment and a developer's profit allowance for taking on the lot

sale program over the duration of the sell-out period. The discount rate is therefore a combined measure of profit and rate of return on the investment. Although some analysts break out these two components, I have found in my experience that most calculations by developers are performed using a single rate. A typical profit allowance for subdivision development will typically be in the range of 8 percent to 12 percent of gross sale proceeds, depending on the level of risk and expertise needed in marketing and promoting the project.

The discount rate selected for the subject project is based in part on analyzing the levels and components of risk assumed by the developer. Land development projects have varying risk components during the life of the project. The first level is entitlement risk. This risk relates to unentitled projects where the developer will assume the risk of obtaining development entitlements from the various governing agencies. In the case of the subject, this risk has been removed since the project has a final map and has finished and semi-finished lots as of the date of value. A second related risk is development cost risk. Again this risk has been removed from the subject project due to a finished lot condition. The final elements of risk are for price and timing or absorption. These risks exist in the subject project. Price risk exists through the possibility of price changes during the sell-out period. The market could be affected by internal or external market forces that could adversely impact the finished lot values for the area and therefore expose the subject developer to this price change risk. The timing risk exists through the market forces impacting the demand for new finished lot supply and therefore possibly extending the sales absorption period.

The investment rate of return component of the discount rate is typically measured by comparison with yield requirements by real estate investors. I have researched published surveys of real estate investor yield expectations and find that most investors are requiring an investment rate of return on equity from 10 percent to 13 percent, depending on the real estate and risk.

In selecting an appropriate discount rate for the subject project, I have researched published data sources and interviewed developers active in this market. PriceWaterhouseCoopers, a national real estate firm, publishes a semi-annual survey of the national development land market. The most recent survey was published for the Fourth Quarter 2002. The survey of developers indicates a range of expected free and clear discount rates, including a developer's profit allowance, of 11 percent to 35 percent and an average of 20.21 percent for those surveyed. The range of rates subject to financing debt was from 15 percent to 30 percent with an average of 22.08 percent. Because of the blending of debt and equity rate of return requirements, the overall discount rate based on a free and clear investment will be less than a pure equity investment rate. The survey indicates that developers rate industrial property near the top of the list of desired projects compared to office, hotels and regional malls near the low end of their desirability list. The previously indicated range of discount rates included the spectrum of land development projects including residential.

A more specific survey of individual developers indicates that those focusing on industrial land development have free and clear discount rate requirements in the range of 11 percent to 15 percent while the rate subject to financing is much higher near 20 percent. I have performed my analysis on a free and clear basis. A typical land development project may obtain up to a 50 percent loan to value ratio with current land development interest rates in the range of 1.5 to 2 points floating over prime with a floor around 6.5 percent for credit worthy borrowers.

I have interviewed a local prominent developer in San Diego who develops residential, commercial, office and industrial projects throughout southern California. This developer indicates that they require a return on equity invested, including developer profit, in the range of 20 percent to 30 percent. This is an equity return assuming debt financing at around 50 percent loan to value ratio. The higher end of the yield rate range is for projects with more extended sell-out periods and entitlement risk. This developer is currently considering an investment of 60 acres of entitled, rough graded business park land that will need streets and utilities installed. The developer is considering a purchase price offer based on a 25 to 30 percent rate of return on equity, subject to debt financing. This project will have development cost risk as well as price and timing risk. The rate of return range indicted by this developer is within the range of the national developer survey published by PriceWaterhouseCoopers.

Based on this analysis, I have selected a discount rate based on a free and clear equity investment of 15 percent for the subject property. A 15 percent discount rate applied on a free and clear basis is generally equivalent to a 28 percent yield rate on the equity investment assuming acquisition financing at a 50% loan to value ratio with a 150% repayment schedule. This equity yield rate is consistent with data provided by national surveys and local developer indicators.

A summary of the discounted cash flow analysis follows.

Discounted Cash Flow Analysis
Otay Acquisitions LP Bulk Sale Block #1

	Totals	8/1/2003 Year 1
Lot Sale Revenue:		
Lot Inventory – EOY	4	0
Lot Inventory – MidYear		2
Lot Sales	4	4
Lot Sale Revenue (Net of Assessments)	$1,169,200	$1,169,200
Sales and Holding Costs:		
Sales and Marketing @ 5%	$58,460	$58,460
Association Dues @ $150 per month	$3,600	$3,600
Real Estate Taxes	$6,898	$6,898
Special Assessments Bond Debt Payment	$8,148	$8,148
Subtotal Expenses	$77,106	$77,106
Net Cash Flow	$1,092,094	$1,092,094
Discount Factor @ 15%		0.8696
Present Value of Cash Flow	$949,647	$949,647
Total Indicated Bulk Value (Net of Assessments)	**$950,000**	

Discounted Cash Flow Analysis
Otay Mesa Property LP Bulk Sale Block #2

	Totals	8/1/2003 Year 1	8/1/2004 Year 2
Lot Sale Revenue:			
Lot Inventory - EOY	5	2.5	0
Lot Inventory – MidYear		3.75	1.25
Lot Sales	5	2.5	2.5
Lot Sale Revenue (Net of Assessments)	$12,646,291	$6,229,700	$6,416,591
Sales and Holding Costs:			
Sales and Marketing @ 5%	$632,315	$311,485	$320,830
Association Dues	$9,000	$6,750	$2,250
Real Estate Taxes	$149,226	$111,920	$37,307
Special Assessments Bond Debt Payment	$65,550	$49,163	$16,388
Subtotal Expenses	$856,091	$479,317	$376,774
Net Cash Flow	$11,790,200	$5,750,383	$6,039,817
Discount Factor @ 15%		0.8696	0.7561
Present Value of Cash Flow	$9,567,303	$5,000,333	$4,566,970
Total Indicated Bulk Value (Net of Assessments)	**$9,567,000**		

RECONCILIATION

Summary

The approaches to value utilized to estimate the bulk sale value of the subject provided the following value indications:

Bulk Sale Value Block #1 – Otay Acquisitions Ownership:

Sales Comparison Approach – Bulk Value	$1,067,000
Discounted Cash Flow Analysis – Bulk Value	$950,000

Bulk Sale Value Block #2 – Otay Mesa Property LP:

Discounted Cash Flow Analysis – Bulk Value	$9,567,000

In reconciling these indications to a final estimate, I have considered the applicability and reliability of each approach from the viewpoint of a potential buyer. The Sales Comparison Approach considered four bulk purchases of finished lots in Otay Mesa. The data required significant adjustment for differences in total size and resulting differences in holding costs and sales absorption risk. The DCF directly reflected these factors and is a commonly used approach by investors in this property type. Both methods are considered supported by market evidence and have been given generally equal weight. I have concluded at a bulk sale value of $1,000,000 for Block #1 consisting of Parcels 11, 12, 15 and 41.

The sales comparison approach was not applied in the valuation of Block #2 due to the lack of directly comparable bulk purchases of unfinished or semi-finished lots for resale purposes. I have considered the impact of the discounting process on the bulk value of this group of lots. A large portion of the bulk parcel is comprised by a single parcel, Parcel 94 with 50.7 acres. It is my opinion that including this parcel in the discounting process may cause a double-discount to the already discounted value of a large parcel. The retail value of this lot reflects the large parcel size and therefore an additional discount for holding and reselling this parcel would not appear to be appropriate. If the value of this parcel is removed from the discounting process, but leaving the lot sales period at two years to allow for reselling all five parcels, the discounted value of the four remaining lots is $3,626,000. Adding the retail value of Parcel 94 to this total results in a combined bulk value estimate of $11,341,500. This value represents a nine percent discount from the total combined retail value and is within a reasonable discount range.

Based on the two discounted cash flow indications for this bulk sale property, I have reconciled at a value opinion of $10,400,000. This value represents a 16 percent discount from the cumulative retail value of the five lots and an average bulk value of $3.08 per square foot. This discount and resulting average value is considered reasonable for this holding. Block #2 consists of Parcels 85, 94, 95, 96, 97, 98 and 99.

CONCLUDED BULK SALE VALUE SUBJECT TO SPECIAL ASSESSMENT LIENS FOR PARCELS 11, 12, 15 AND 41 (OTAY ACQUISITIONS LP OWNERSHIP) $1,000,000

CONCLUDED BULK SALE VALUE SUBJECT TO SPECIAL ASSESSMENT LIENS FOR PARCELS 85, 94, 95, 96, 97, 98 AND 99 (OTAY MESA PROPERTY LP OWNERSHIP) $10,400,000

LIMITING CONDITIONS AND MAJOR ASSUMPTIONS

This appraisal is made expressly subject to the following conditions and stipulations:

General Limiting Conditions and Assumptions:

1. No responsibility is assumed for matters which are legal in nature, nor is any opinion on the title rendered herewith. This appraisal assumes good title, responsible ownership and competent management. The property has been appraised as though free of indebtedness.
2. The factual data utilized in this analysis has been obtained from sources deemed to be reliable; however, no responsibility is assumed for its accuracy.
3. Unless otherwise stated in this report, the existence of hazardous material, which may or may not be present on the property, was not observed by the appraisers. The appraisers have no knowledge of the existence of such materials on or in the property. The appraisers, however, are not qualified to detect such substances. The presence of substances such as asbestos, urea-formaldehyde foam insulation, or other potentially hazardous materials may affect the value of the property. The value estimate is predicated on the assumption that there is no such material on or in the property that would cause a loss in value.
4. Except as noted, this appraisal assumes the land to be free of adverse soil conditions which would prohibit development of the property to its highest and best use.
5. This appraisal is of surface rights only, and no analysis has been made of the value of subsurface rights, if any.
6. Disclosure of the contents of this appraisal report is governed by the By-Laws and Regulations of the Appraisal Institute.
7. Neither all nor any part of the contents of this report (especially any conclusions as to value, the identity of the appraisers or this appraisal firm, or any reference to the Appraisal Institute or to its designations) shall be disseminated to the general public by the use of advertising media, public relations media, news media, sales media or other media for public communications without the prior written consent of the signatory of this appraisal report. Possession of this report or a copy thereof, does not carry with it the right of publication. It may not be used for any purpose by any person other than the party to whom it is addressed without the written consent of the appraiser, and in any event only with the proper written qualification and only in its entirety.
8. This appraisal has been prepared as a complete summary appraisal report prepared under Standards Rule 2-2(b) of USPAP.

Specific Limiting Conditions and Major Assumptions:

9. This valuation is of the fee simple interest in the subject parcels. The valuation is of land value only for the subject lots and does not include any structural improvements that may exist on the lots. Site improvements are not valued for Parcels 15, 41, 89 and 90.
10. I have not been provided with a title report for the subject lots. This valuation assumes that there are no significant easements or encumbrances that would impact the value or development potential of these lots other than as discussed in this report.

CERTIFICATION

I certify that, to the best of my knowledge and belief, ...

- the statements of fact contained in this report are true and correct.
- the reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.
- I have no present or prospective interest in the property that is the subject of this report, and no personal interest with respect to the parties involved.
- I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- my engagement in this assignment was not contingent upon developing or reporting predetermined results.
- my compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- my analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics and the Standards of Professional Practice of the Appraisal Institute and the Uniform Standards of Professional Appraisal Practice.
- the use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
- as of the date of this report, Gary L. Rasmuson, MAI SRA has completed the requirements of the continuing education program of the Appraisal Institute.
- I have made a personal inspection of the property that is the subject of this report.
- no one provided significant professional assistance to the person signing this report other than Wendy Rasmuson, a State Certified General Appraiser who assisted in the data verification and report writing aspects of this report.

Gary L. Rasmuson, MAI SRA
Certified General Real Estate Appraiser
State of California
OREA Appraiser I.D. No. 002574
Expiration Date: 2/4/2004

Date: July 18, 2003

Addenda

ADDENDA

ADDENDUM A - APPRAISER QUALIFICATIONS

QUALIFICATIONS OF GARY L. RASMUSON, MAI SRA

Expertise:

Mr. Rasmuson has been actively appraising real estate since 1977 as an independent fee appraiser. Rasmuson Appraisal Consultants was established in 1984 and has valued over 1,000 properties to date. Specialties include the valuation for litigation purposes including easement and right-of-way appraisals, appraisal of motels/hotels, apartments, office buildings, industrial properties and all types of vacant land.

General appraisal experience includes valuation of residential subdivisions, industrial subdivisions, single-family residences, mobile home parks, estate valuations, partial interest valuation and retail commercial properties. Appraisal assignments have been performed primarily in San Diego County but have included within communities in Southern California and Arizona.

Business:

President – Rasmuson Appraisal Consultants
14665 Yukon Street, San Diego CA 92129
Phone: (858) 672-1796
Fax: (858) 672-3816
Email: gary@rasmusonappraisal.com

Selected List of Clients:

Arco	Fidelity Federal Bank
Bank of America	Great Western Bank
California Bank and Trust	Grossmont Bank
Caltrans	McMillin Communities
Centre City Development Corporation	Imperial Bank
City of Chula Vista	La Jolla Bank and Trust
City of Poway	Midas Realty Corporation
City of San Diego	Office of Thrift Supervision
City of Oceanside	Port of San Diego
City of Vista	Southern Pacific Bank
County of San Diego	San Diego City Schools
Comerica Bank	San Diego Gas & Electric Company
Daley & Heft	Union Bank of California
Higgs, Fletcher & Mack	U.S. Navy
John Burnham Company	Wells Fargo Bank
Washington Mutual Bank	

Memberships:

- *Appraisal Institute* - MAI Designation (No. 6926); SRA Designation
  Past National Director - 1994; San Diego Chapter President – 1984 (SREA)
  Director - 1987-89; 1994-1997; Regional Representative - 1991-1997; Treasurer - 1990;
  California Legislative Committee: 1992
- *State of California* - California General Real Estate Appraiser
  License No. AG002571; Expires February 4, 2004
- *International Right of Way Association* - Member

Education:

Bachelor of Science, Business Administration; Economics Major
University of North Dakota - 1977

Successful completion of the following courses sponsored by Appraisal Institute:

Basic Appraisal Principles (1-A)	Business Valuation - SREA
The Appraisal of Partial Acquisitions	Standards of Professional Practice
Capitalization Theory and Techniques (1-B)	Case Studies in Real Estate Valuation
Valuation Analysis and Report Writing	Litigation Valuation

Seminars (Partial List):

Litigation Seminar	Analysis of Problem Properties
Apartment Seminar	Capitalization Update Seminar
Appraisal Regulation Seminar	Fair Housing Seminar
Subdivision Analysis Seminar	Hotel/Motel Valuation Seminar

Qualifications:

- Qualified Expert Witness, Federal Bankruptcy Court
- Qualified Expert Witness, California Superior Court
- Appointed Special Master to Superior Court
- Course Instructor – Appraisal Institute Course Capitalization Theory & Techniques 310 and Capitalization Theory & Techniques 510
- Received Distinguished Service Award - 1991 San Diego Chapter of the Appraisal Institute

APPENDIX B

GENERAL INFORMATION REGARDING REASSESSED PROPERTIES

Assessor Parcel Number	Reassessment Number(1)	Acres	Owner's Name	Reassessment Lien	% of Lien	2002/03 Assessed Value Land	Imp	Total	Assessed Value to Lien Ratio	Appraised Value	Appraised Value to Lien Ratio
646 150 01 00	1	1.55	Garcia Produce LLC	$70,403.52	0.80%	$247,396	$0	$247,396	3.51		
646 150 02 00	2	1.15	Gutierrez, Salvador Garcia et al.	$52,211.39	0.59%	$392,268	$0	$392,268	7.51		
646 150 03 00	3	1.15	Gutierrez, Salvador G. et al.	$52,211.39	0.59%	$385,870	$990,997	$1,376,867	26.37		
646 150 04 00	4	1.15	Gutierrez, Salvador G. et al.	$52,211.39	0.59%	$275,621	$0	$275,621	5.28		
646 150 05 00	5	1.15	Garcia Produce LLC	$52,211.39	0.59%	$257,517	$0	$257,517	4.93		
646 150 06 00	6	1.15	Otay Mesa Property LP	$52,211.39	0.59%	$143,939	$0	$143,939	2.76	$183,100	3.51
646 150 07 00	7	6.97	RKR DLFY LLC	$316,997.72	3.58%	$1,137,019	$1,819,233	$2,956,252	9.33		
646 150 08 00	8	1.02	Gutierrez, Salvador G. et al.	$46,571.83	0.53%	$244,750	$0	$244,750	5.26		
646 150 09 00	9	0.96	Gutierrez, Salvador Garcia et al.	$43,843.01	0.50%	$324,048	$0	$324,048	7.39		
646 150 10 00	10	1.36	Garcia Produce LLC	$59,124.39	0.67%	$174,302	$0	$174,302	2.95	350,100	5.92
646 150 11 00	11	1.20	Otay Acquisitions LP	$54,712.81	0.62%	$162,591	$0	$162,591	2.97	323,000	5.90
646 150 12 00	12	0.96	Otay Acquisitions LP	$43,843.01	0.50%	$130,640	$0	$130,640	2.98	259,700	5.92
646 150 13 00	13	0.96	Otis Holding	$43,843.01	0.50%	$240,000	$500,000	$740,000	16.88		
646 150 14 00	14	1.07	Otis Holding	$48,754.89	0.55%	$279,000	$0	$279,000	5.72		
646 150 15 00	15	1.28	Otay Acquisitions LP	$58,169.31	0.66%	$169,412	$0	$169,412	2.91	344,800	5.93
646 150 16 00	16	0.92	Dajoma LLC	$41,750.92	0.47%	$270,000	$0	$270,000	6.47		
646 150 17 00	17	0.92	DeLozano, Marta Diaz Mercado	$41,750.92	0.47%	$421,351	$576,112	$997,463	23.89		
646 150 19 00	18	0.92	Crosthwaite, Alejandro J. & Mildred B.	$41,750.92	0.47%	$318,362	$523,705	$842,067	20.17		
646 150 20 00	19	1.28	Fine Particle LLC	$58,169.31	0.66%	$306,000	$816,000	$1,122,000	19.29		
646 150 21 00	20	1.23	Otay Acquisitions LP	$56,077.21	0.63%	$288,590	$0	$288,590	5.15		
646 150 22 00	21	1.06	Otay Acquisitions LP	$48,254.60	0.55%	$249,679	$117,858	$367,537	7.62		
646 150 23 00	22	1.06	Otay Acquisitions LP	$48,163.64	0.54%	$324,261	$892,044	$1,216,305	25.25		
646 150 24 00	23	1.28	Otay Acquisitions LP	$58,078.35	0.66%	$179,645	$0	$179,645	3.09		
646 150 25 00	24	0.69	Otay Acquisitions LP	$31,335.93	0.35%	$101,207	$0	$101,207	3.23		
646 150 26 00	25	0.69	Otay Acquisitions LP	$31,335.93	0.35%	$101,207	$0	$101,207	3.23		
646 150 27 00	26	0.69	Cacho Family	$31,335.93	0.35%	$187,272	$0	$187,272	5.98		
646 150 28 00	27	0.69	Soriano, Adolfo	$31,335.93	0.35%	$180,000	$0	$180,000	5.74		
646 150 29 00	28	0.69	Chapman, Diane	$31,335.93	0.35%	$216,173	$399,921	$616,094	19.66		
646 150 30 00	29	0.69	Lobato, Toribio & Norma	$31,335.93	0.35%	$218,484	$462,978	$681,462	21.75		
646 150 31 00	30	0.69	Vazquez, Jose L. & Blanca B.	$31,335.93	0.35%	$112,749	$0	$112,749	3.60	200,500	6.40
646 150 32 00	31	0.69	Ranch Partnership	$31,335.93	0.35%	$298,007	$362,792	$660,799	21.09		
646 150 33 00	32	1.28	Franke John C. & Lois R. Living Trust	$58,078.35	0.66%	$312,120	$832,320	$1,144,440	19.71		
646 150 34 00	33	0.92	Dowdy, Lewis H. & Earl R.	$41,659.96	0.47%	$204,000	$40,800	$244,800	5.88		
646 150 35 00	34	0.69	Ting, Darwin & Kuei-Mei & Lan Chao Family TR	$31,335.93	0.35%	$140,454	$20,808	$161,262	5.15		
646 150 36 00	35	0.69	Orange Coast LLC	$31,335.93	0.35%	$180,000	$0	$180,000	5.74		
646 150 37 00	36	0.69	Inter-American Investments, Inc.	$31,335.93	0.35%	$180,000	$0	$180,000	5.74		
646 150 38 00	37	0.69	Inter-American Investments, Inc.	$31,335.93	0.35%	$180,000	$0	$180,000	5.74		
646 150 39 00	38	0.69	Inter-American Investments, Inc.	$31,335.93	0.35%	$180,000	$0	$180,000	5.74		
646 150 40 00	39	0.69	Inter-American Investments, Inc.	$31,335.93	0.35%	$135,000	$0	$135,000	4.31		
646 150 41 00	40	0.69	Grave, Rodolfo	$31,335.93	0.35%	$214,200	$0	$214,200	6.84		
646 150 42 00	41	0.83	Otay Acquisitions LP	$37,703.18	0.43%	$112,560	$0	$112,560	2.99	241,700	6.41
646 150 43 00	42	0.94	Otay Acquisitions LP	$42,796.96	0.48%	$137,191	$0	$137,191	3.21		
646 150 44 00	43	1.75	South Otay Mesa Business Park	$79,590.53	0.90%	$420,000	$0	$420,000	5.28		
646 150 45 00	44	1.14	South Otay Mesa Business Park	$51,983.99	0.59%	$228,062	$0	$228,062	4.39		
646 150 46 00	45	1.15	South Otay Mesa Business Park	$52,211.39	0.59%	$230,223	$0	$230,223	4.41		
646 150 47 00	46	1.15	Dowdy, Lewis H. & Earl R.	$52,165.91	0.59%	$255,000	$887,400	$1,142,400	21.90		
646 150 48 00	47	1.15	Dowdy, Lewis H. & Earl R.	$52,120.43	0.59%	$255,000	$61,200	$316,200	6.07		
646 150 49 00	48	1.61	Otay Acquisitions LP	$72,995.89	0.82%	$385,000	$0	$385,000	5.27		
646 150 50 00	49	1.48	Otay Mesa Property LP	$67,219.89	0.76%	$208,071	$0	$208,071	3.10		
646 150 51 00	50	1.48	Otay Mesa Property LP	$67,219.89	0.76%	$351,281	$0	$351,281	5.23		

Assessor Parcel Number	Reassessment Number(1)	Acres	Owner's Name	Reassessment Lien	% of Lien	2002/03 Assessed Value Land	Imp	Total	Assessed Value to Lien Ratio	Appraised Value	Appraised Value to Lien Ratio
646 210 02 00	51	1.23	Otay Acquisitions LP	$68,443.69	0.77%	$280,000	$110,000	$390,000	5.70		
646 210 03 00	52	1.60	Mexbros Holdings Inc.	$89,032.46	1.01%	$254,143	$0	$254,143	2.85		
646 210 04 00	53	1.67	Mexbros Holdings Inc.	$92,927.63	1.05%	$472,000	$0	$472,000	5.08		
646 210 05 00	54	1.43	Mexbros Holdings Inc.	$79,572.76	0.90%	$405,000	$0	$405,000	5.09		
646 210 06 00	55	1.27	L & S Americas West LLC	$70,669.51	0.80%	$257,129	$1,000,000	$1,257,129	17.79		
646 210 07 00	56	1.15	Kuroda-San, Jesus H.	$63,992.08	0.72%	$219,415	$0	$219,415	3.43		
646 210 08 00	57	1.15	Kuroda-San, Jesus H.	$63,992.08	0.72%	$217,253	$0	$217,253	3.39		
646 210 09 00	58	1.15	A G M LLC	$63,992.08	0.72%	$242,587	$0	$242,587	3.79		
646 210 10 00	59	1.28	A G M LLC	$78,030.67	0.88%	$287,382	$0	$287,382	3.68		
646 210 11 00	60	0.92	Pina, Luis & Virginia	$56,084.55	0.63%	$184,828	$479,000	$663,828	11.84		
646 210 12 00	61	0.92	Kuroda-San, Jesus H.	$56,084.55	0.63%	$181,585	$0	$181,585	3.24		
646 210 13 00	62	0.92	L & S Americas West LLC	$56,084.55	0.63%	$186,347	$0	$186,347	3.32		
646 210 14 00	63	1.10	Mexbros Holdings Inc.	$67,057.61	0.76%	$310,000	$0	$310,000	4.62		
646 210 15 00	64	1.29	Mexbros Holdings Inc.	$78,640.28	0.89%	$287,640	$0	$287,640	3.66		
646 210 16 00	65	1.39	Mexbros Holdings Inc.	$84,736.42	0.96%	$311,100	$0	$311,100	3.67		
646 210 01 00	66	1.26	Camacho, Enrique & Margarita	$76,811.45	0.87%	$263,731	$114,444	$378,175	4.92		
646 210 17 00	67	0.97	Kiana R & E LTD	$59,132.61	0.67%	$230,000	$0	$230,000	3.89		
646 210 18 00	68	0.92	Cornejo, Jose H. & Rebecca	$56,084.55	0.63%	$248,598	$32,252	$280,850	5.01		
646 210 39 01	69	1.26	Paoli, Roberta	$33,528.80	0.38%	$249,900	$515,100	$765,000	22.82		
646 210 39 02	70	1.23	Rodriguez, Juan I & Gomez Elsa	$33,528.80	0.38%	$248,880	$510,000	$758,880	22.63		
646 210 39 03	71	1.60	Lopez, Juan E.	$33,528.80	0.38%	$129,248	$542,048	$671,296	20.02		
646 210 39 04	72	1.67	Dos Amigos Distributors, Inc.	$33,528.80	0.38%	$129,248	$542,048	$671,296	20.02		
646 210 20 00	73	1.15	Tegel-Otay LLC, Coasta Brava Trade Center LLC	$70,105.68	0.79%	$288,660	$0	$288,660	4.12		
646 210 22 00	74		PAID IN FULL								
646 210 23 00	75		PAID IN FULL								
646 210 25 00	76	1.60	Tegel-Otay LLC, Coasta Brava Trade Center LLC	$97,538.33	1.10%	$400,860	$0	$400,860	4.11		
646 210 27 00	77	1.27	Cornejo, Jose H. & Rebecca	$77,421.06	0.87%	$345,876	$50,979	$396,855	5.13		
646 210 28 00	78	1.27	Kiana R & E LTD	$77,421.06	0.87%	$300,000	$0	$300,000	3.87		
646 210 30 00	79	1.51	A G M LLC	$84,024.39	0.95%	$317,524	$1,232,874	$1,550,398	18.45		
646 210 31 00	80	1.61	Delgadillo, Abel & Maria	$89,588.90	1.01%	$314,195	$476,340	$790,535	8.82		
646 210 35 00	81	1.01	Salas, Martin G.	$61,571.07	0.70%	$227,119	$0	$227,119	3.69		
646 210 36 00	82	1.29	Kuo, Ben Y. & Tsai C.	$78,640.28	0.89%	$310,000	$0	$310,000	3.94		
646 210 37 00	83	5.79	San Diego International Center LLC	$352,966.48	3.99%	$1,279,874	$4,211,074	$5,490,948	15.56		
646 210 38 00	84	7.67	San Diego International Center LLC	$467,574.76	5.28%	$1,694,835	$6,261,678	$7,956,513	17.02		
646 261 07 00	85	1.60	Otay Mesa Property LP	$23,887.35	0.27%	$53,028	$0	$53,028	2.22	393,600	16.48
646 261 08 00	86	1.13	Otay Mesa Property LP	$16,870.44	0.19%	$57,350	$0	$57,350	3.40		
646 261 09 00	87	1.00	Otay Mesa Property LP	$14,929.59	0.17%	$50,603	$0	$50,603	3.39		
646 261 10 00	88	0.98	Otay Mesa Property LP	$14,631.01	0.17%	$49,479	$0	$49,479	3.38		
646 261 11 00	89	1.55	United States of America	$23,140.88	0.26%	$0	$0	$0	0.00	465,700	20.12
646 261 12 00	90	1.92	United States of America	$28,664.82	0.32%	$0	$0	$0	0.00	576,900	20.13
646 261 13 00	91	1.21	Otay Mesa Property LP	$18,064.81	0.20%	$174,299	$0	$174,299	9.65		
646 261 14 00	92	1.21	Otay Mesa Property LP	$18,064.81	0.20%	$174,299	$0	$174,299	9.65		
646 261 15 00	93	1.21	Otay Mesa Property LP	$18,064.81	0.20%	$174,299	$0	$174,299	9.65		
646 120 39 00	94	50.70	Otay Mesa Property LP	$443,707.53	5.01%	$1,117,923	$0	$1,117,923	2.52	7,715,500	17.39
646 260 16 00	95	6.79	Otay Mesa Property LP	$48,063.29	0.54%	$175,567	$0	$175,567	3.65	985,800	20.51
646 261 18 00	96	2.30	Otay Mesa Property LP	$146,101.06	1.65%	$266,861	$0	$266,861	1.83	1,872,800	12.82
646 261 19 00	(1)	8.02					$0				
646 261 20 00	98	5.67	Otay Mesa Property LP	$116,371.20	1.31%	$208,315	$0	$208,315	1.79	1,491,700	12.82
646 261 21 00	(1)	2.55									
646 120 34 00	100	N/A	Otay Mesa Property LP	$0.00	0.00%	$0	$0	$0	N/A		
667 050 41 00	101	2.76	ACZ LLC	$73,031.64	0.83%	$287,056	$351,655	$638,711	8.75		
667 050 42 00	102	3.00	Crower Engineering & Sales Co.	$84,288.68	0.95%	$550,000	$0	$550,000	6.53		
667 050 43 00	103	4.79	Foster, Stanley E. & Pauline M. TR	$128,701.20	1.45%	$1,215,935	$1,261,577	$2,477,512	19.25		
667 050 44 00	104	5.25	Aceves, Eduardo & Irene	$118,122.98	1.33%	$549,897	$0	$549,897	4.66		
667 050 45 00	105	7.50	Aceves, Eduardo & Irene	$149,879.64	1.69%	$750,302	$424,449	$1,174,751	7.84		
667 050 46 00	106	6.50	Connelly W R, Inc.	$125,100.62	1.41%	$644,305	$0	$644,305	5.15		
667 050 47 00	107	2.78	Camacho Fam TR	$76,289.22	0.86%	$350,198	$21,224	$371,422	4.87		
667 050 48 00	108	2.44	Bartolic, Richard	$68,101.28	0.77%	$365,333	$107,100	$472,433	6.94		

Assessor Parcel Number	Reassessment Number(1)	Acres	Owner's Name	Reassessment Lien	% of Lien	2002/03 Assessed Value Land	Imp	Total	Assessed Value to Lien Ratio	Appraised Value	Appraised Value to Lien Ratio
667 050 49 00	109	6.84	Cactus Road LP	$149,320.26	1.69%	$918,000	$0	$918,000	6.15		
667 050 50 00	110	6.63	Roadway Express, Inc.	$100,329.93	1.13%	$680,000	$572,886	$1,252,886	12.49		
667 050 51 00	111	7.61	Otay Distribution Center LLC	$204,303.83	2.31%	$865,774	$4,044,555	$4,910,329	24.03		
667 050 52 00	112	6.93	Swift Transportation Co., Inc.	$187,995.12	2.12%	$1,530,000	$800,000	$2,330,000	12.39		
667 050 53 00	113	8.50	Keller Uchida Realty Resources LLC	$235,285.92	2.66%	$1,073,924	$1,569,943	$2,653,867	11.24		
667 050 54 00	114	13.50	McMahon Real Estate Investment LLC	$352,492.26	3.98%	$1,611,192	$2,958,000	$4,569,192	12.96		
667 050 55 00	115	25.40	House M. Family LP	$318,213.35	3.60%	$1,411,654	$7,537,900	$8,949,554	28.12		
667 050 56 00	116	11.50	House M. Family LTD Partnership	$108,604.07	1.23%	$843,500	$0	$843,500	7.77		
667 050 57 00	117	N/A	United States of America	$0.00	0.00%	$0	$0	$0	N/A		
		318.3		8,850,000.00	100.00%	$39,869,572	$45,031,294	$84,900,866	9.59		

(1) Reassessment Numbers 97 and 99 not used.
(2) Reassessment Numbers 100 and 117 acre in the District but have no Reassessment lien.
(3) Reassessment Numbers 74 and 75 have been paid in full.

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APPENDIX C

SUPPLEMENTAL INFORMATION CONCERNING THE CITY OF SAN DIEGO

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

INTRODUCTION

With a total population of approximately 1.3 million in 2003, and a land area of 330 square miles, the City of San Diego (the "City") is the seventh largest city in the nation and the second largest city in California. The City is the county seat for the County of San Diego (the "County") and is the County's business and financial center.

Based on estimates published by the California Department of Finance in May 2003, the City's population grew by 11.4% between 1994 and 2003, with an average increase of approximately 14,544 annually. A major factor in the City's growth is its quality of life. In addition to having a favorable climate, the City offers a wide range of cultural and recreational services to both residents and visitors. With mild temperatures year round, the City's numerous beaches, parks, tennis courts, and golf courses are in constant use.

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

ECONOMIC AND DEMOGRAPHIC INFORMATION

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

Population

As set forth in Table 1 below, between January 1, 1994, and January 1, 2003, the City's population has increased by 130,900 (or by approximately 14,544 new residents annually during this period).

Table 1
POPULATION GROWTH
Calendar Years 1994 through 2003

Calendar Year[1]	City of San Diego	Annual Growth Rate	County of San Diego	Annual Growth Rate	State of California	Annual Growth Rate
1994	1,144,200	0.0%	2,604,400	0.4%	31,418,000	0.9%
1995	1,145,400	0.1%	2,613,100	0.3%	31,617,000	0.6%
1996	1,146,900	0.1%	2,621,100	0.3%	31,837,000	0.7%
1997	1,159,100	1.1%	2,653,400	1.2%	32,207,000	1.2%
1998	1,176,900	1.5%	2,702,800	1.9%	32,657,000	1.4%
1999	1,200,800	2.0%	2,751,000	1.8%	33,140,000	1.5%
2000	1,221,200	1.7%	2,805,900	2.0%	33,753,000	1.8%
2001	1,238,500	1.4%	2,856,000	1.8%	34,367,000	1.8%
2002	1,251,700	1.1%	2,908,500	1.8%	35,000,000	1.8%
2003	1,275,100	1.9%	2,961,600	1.8%	35,591,000	1.7%

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

Source: State of California, Department of Finance

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

Table 2
SAN DIEGO UNIFIED SCHOOL DISTRICT
ENROLLMENT[(1)]
School Year 1998-1999 through 2002-2003

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

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

Source: San Diego Unified School District, Pupil Accounting

Employment Summary

As seen in Table 3, the City's unemployment rate for calendar year 2002 averaged 4.4%, up from a rate of 3.3% during calendar year 2001. The City's 2002 unemployment rate was below both the national rate of 5.8% and the State's rate of 6.7%. During 2002, average employment in the City was up by approximately 10,710 from 2001 levels. Preliminary data for June 2003, the latest available data, indicates that the City's unemployment rate was 4.5% continuing to be lower than both the national rate of 6.4% and the State's rate of 6.7%.

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

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

(1) Subject to future revision.

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

Table 4 provides the California Employment Development Department's estimates of total annual nonagricultural wage and salary employment by major industry in the County from calendar years 1998 through 2002. Annual employment information is not regularly compiled by sector for the City alone. In prior years, industry data from Labor Market Information Division programs were classified using the Standard Industrial Classification (SIC). This has now been replaced by the new North American Industry Classification System (NAICS). The table below reflects figures classified under this new system. As shown, total nonagricultural wage and salary employment in the County increased by 123,000 new jobs during this period. During calendar year 2002, employment in San Diego County increased by 10,100 new jobs over the prior year.

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

INDUSTRY CATEGORY	1998	1999	2000	2001	2002(1)
Natural Resources & Mining	300	300	300	300	300
Construction	60,200	67,000	69,700	75,100	76,000
Manufacturing	124,000	122,900	122,600	119,000	112,200
Nondurable Goods	30,400	30,500	30,400	29,800	27,800
Durable Goods	93,600	92,400	92,200	89,300	84,500
Trade, Transportation, & Utilities	187,900	194,200	202,600	209,000	209,400
Wholesale Trade	34,700	36,800	39,100	41,500	41,300
Retail Trade	124,700	128,200	133,800	135,600	137,500
Transportation & Utilities	28,600	29,200	29,800	32,000	30,700
Financial Activities(2)	66,000	70,400	71,200	72,000	73,800
Professional and Business Services	173,100	185,000	195,200	198,200	201,300
Government	194,500	199,300	206,600	213,800	221,000
Federal	43,300	42,500	42,100	40,200	39,900
State and Local	151,200	156,800	164,600	173,600	181,100
TOTAL NONAGRICULTURAL(3)	1,105,500	1,152,900	1,193,800	1,218,400	1,228,500

(1) Subject to future revision.
(2) Includes finance, insurance, and real estate.
(3) Figures may not add to total due to independent rounding.

Source: State of California Employment Development Department

During calendar year 2002, while the manufacturing sector experienced a decline (-6,800), there was a significant employment growth in the Government sector (+7,200) and the professional and business services sector (+3,100). The increase in the Government sector, which accounted for 18% of the total nonagricultural wage and salary employment in the County in 2002, occurred in State and local government agencies. Almost all of the increase in State and local government agencies is due to gains in public education and the Other Local Government category, which includes Special Districts and Indian Tribal Governments.

Preliminary year-to-date estimates for the County as of June 2003 reflect a slight drop (-0.9%) in the total nonagricultural wage and salary employment. The State Government sector was among the few sectors that continue to show an increase (+2.4%).

Taxable Sales

Taxable transactions at retail and other outlets in the City at the end of the Second Quarter of 2002, the most recent data available from the California State Board of Equalization, totaled $4.1 billion, up 0.07% from the end of the Second Quarter of 2001. Taxable transactions in the City during calendar year 2001 totaled approximately $16.4 billion, up 1.7% from 2000, and up 32.1% from 1997. The slight increase in taxable sales from calendar years 2000 to 2001 can be attributed to the general slow down of the economy. Table 5 provides annual sales information by type of outlet for calendar years 1997 through 2001.

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

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

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

Source: California State Board of Equalization

Tourism

Based on year-end data for 2002 from Smith Travel Research, San Diego outperformed most major markets, ranking third highest among the top 25 hotel markets in terms of average occupancy rate during 2002 and sixth highest in terms of average daily room rate. For January 2003, due to activity related to the San Diego's hosting of Super Bowl XXXVII, the region far outperformed the other top 25 markets, with room revenues up 33.2% from January 2002. Average occupancy rates through June of Fiscal Year 2003 was 67.9%, the third highest rate among the top 25 hotel markets, and up 1.9% over the same period in Fiscal Year 2002. The city's average room rate through June was $111.23, up 3.1% from the prior year, the third largest increase among the top 25 markets.

According to the San Diego Chamber of Commerce, the visitor industry is the County's third largest industry in terms of income generation, behind manufacturing and the military. As shown in Table 6, visitor spending in the County totaled $5.04 billion in 2002, up 7.2% from 1998 but down 1.6% from 2001. According to the San Diego Convention and Visitors Bureau, a decline in business spending, weakening consumer confidence, and the threat and the subsequent outbreak of war in Iraq have had an impact on the tourism industry nationwide. The San Diego Convention and Visitor's Bureau also reported that there were 7.5 million passenger arrivals at Lindberg Field in 2002, down by approximately 1.5% from 2001. As of April 2003, year to date visitor spending totaled $1.7 billion, a 9.4% increase from the same period in 2002. This includes visitor spending generated from the Super Bowl XXXVII in January 2003.

Table 6
SAN DIEGO COUNTY
TOTAL VISITOR SPENDING[(1)]
Calendar Years 1998 through 2002
(in billions)

Calendar Year	Amount
1998	$4.70
1999	$4.88
2000	$5.23
2001	$5.12
2002	$5.04

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

Source: San Diego Convention and Visitors Bureau

As shown in Table 7, the City's Transient Occupancy Tax ("TOT") revenues have grown approximately 17% between Fiscal Year 1998 and Fiscal Year 2002, an average annual increase of 4.1%. In the Fiscal Year 2002 TOT revenues decreased by 9.8% from the prior year due in part to the effects of a weak economy and the events of September 11, 2001. Revenue estimates for Fiscal Year 2003 indicate that TOT receipts totaled approximately $107 million.

Table 7
CITY OF SAN DIEGO
TRANSIENT OCCUPANCY TAX[(1)]
Fiscal Years 1998 through 2002
(in thousands)

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

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

Source: City of San Diego Comprehensive Annual Financial Report

The City is the focal point for tourism in the County. The Convention Center, approximately 70% of the County's hotel and motel rooms, and most of the County's major tourist attractions, including the world-renowned San Diego Zoo, the San Diego Wild Animal Park, and Sea World, are located in the City. Other attractions located in the City include the Cabrillo National Monument on Point Loma, the historic Gaslamp Quarter in the downtown area, the Old Town State Park, and Balboa Park – home to the San Diego Zoo and a host of other cultural and recreational activities.

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

The City also hosted the America's Cup in 1992 and 1995, the Super Bowl and World Series in

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

In September 2001, the San Diego Convention Center expansion was completed, doubling the size of the existing facility to 2.6 million total gross square feet. According to the San Diego Convention Center Corporation, in Fiscal Year 2002 the Convention Center generated approximately $363 million in direct delegate spending and an estimated $880 million in total regional economic impact (direct and indirect spending). Since its opening, it is estimated that as of June 2003, over $9 billion has been infused into the local economy as a result of both direct and indirect spending by visiting convention delegates. Attendance figures for Fiscal Year 2003 have shown an 8% increase over the number of out-of-town delegates in Fiscal Year 2002.

Military

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

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

International Trade

The value of exports presented in the table below is from RAND California, *Merchandise Exports from U.S. Customs District* series. In prior years, exports were reported based on Metropolitan Areas as reported by the International Trade Administration. The Customs District classification has been adopted because of the availability of more current data. Export values reflect exports of merchandise grown, produced, or manufactured in the U.S as well as re-exports of foreign merchandise. The total value of exports from San Diego Customs District grew approximately 31% in the five-year period from 1998 to 2002. While there was a slight decline in annual exports from 2000 to 2001, the latest data indicates a turnaround. At the end of calendar year 2002, the value of exports totaled approximately $12.9 billion, up 4.3% from calendar year 2001. Year-to-date data as of March 2003 shows that the value of exports totaled approximately $3.0 billion, a 3.5% increase from the same period in 2002.

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

Calendar Year	Total Exports
1998	$ 9.8
1999	$10.8
2000	$12.7
2001	$12.3
2002	$12.9

Source: RAND California, Business and Economic Statistics

Major Employers

The City is host to a diverse mix of major employers representing industries ranging from education and health services, to diversified manufacturing, financial services, retail trade and amusement and recreation. Table 9 lists the City's major employers. The list is compiled from information gathered by the City of San Diego. All of the businesses listed in the table have their main offices in the City, with many having branch offices and/or production facilities in other areas of the County. Accordingly, not all employees of these businesses work within the City.

Table 9
CITY OF SAN DIEGO
MAJOR EMPLOYERS(1)
As of April 2002

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

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

Source: City of San Diego

Effective Buying Income

Table 10 shows the per capita Effective Buying Income (EBI) for the City, the County, the State, and the United States for calendar years 1997 through 2001.

Table 10
PER CAPITA EFFECTIVE BUYING INCOME(1)
Calendar Years 1997 through 2001

Calendar Year	City of San Diego	County of San Diego	State of California	United States
1997	$15,804	$15,618	$15,797	$16,281
1998	$16,291	$16,101	$16,299	$16,895
1999	$17,443	$17,270	$17,245	$17,691
2000	$19,238	$19,498	$19,081	$18,426
2001	$19,723	$19,092	$18,652	$18,491

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

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

Building Permits

Table 11 provides a summary of the building permit valuations, and the number of new dwelling units authorized in the City, for Fiscal Years 1998 through 2002. The valuation of non-residential permits includes both private, commercial construction and publicly funded, non-tax generating projects. Fiscal year-to-date data as of May 2003 shows that the value of residential permits was approximately $1.3 billion, a 17% increase from the same period in 2002, and that of nonresidential permits was approximately $796.6 million, a 42% decline from the same period in 2002.

Table 11
CITY OF SAN DIEGO
BUILDING PERMIT VALUATIONS
AND NUMBER OF DWELLING UNITS
Fiscal Years Ended June 30, 1998 through 2002

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

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

Business Development Program

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

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

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

Transportation

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

Public transportation through the City and surrounding communities is provided by the San Diego Metropolitan Transit Development Board ("MTDB"). The San Diego Trolley, Inc. operates a fleet of electric trolleys that provides transportation for commuters and tourists from downtown San Diego to San Ysidro (adjacent to Tijuana), and from downtown San Diego to the southern part of the County and East County. The East Line extension to Santee was completed in 1996. This 3.6-mile extension connects the cities of El Cajon and Santee. The trolley also provides service from downtown San Diego to the waterfront area, including the Convention Center. An extension providing additional service from downtown to the historical Old Town section of the City was completed in 1996. In addition, the Mission Valley extension, which connects Old Town with Qualcomm Stadium and the Mission Valley shopping area, ending at the Mission San Diego, opened in 1997.

Construction is in progress on the 6-mile Mission Valley East Trolley Extension. The project, scheduled for completion in 2004, will extend east from Qualcomm Stadium connecting Mission Valley with San Diego State University, La Mesa, and East County**.** The extension will include four new trolley stops, including a subterranean station at San Diego State University. The project is estimated to cost approximately $435 million, including $330 million in appropriations from the federal government. Additionally, the project received a $63.9 million grant from the U.S. Department of Transportation in May 2003.

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

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

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

Proposition A, is scheduled to expire in 2008.

In June 1990, voters approved State Propositions 108, 111, and 116 which, increased the State gas tax and authorized the sale of rail bonds. The revenues generated from these measures are to be used to implement a comprehensive Statewide transportation funding program. The City's budget for Fiscal Year 2003 included $22.9 million in Proposition 111 funds. Revenues from this source supplement the City's street maintenance and resurfacing program and other street related services, including traffic light and signal maintenance, median maintenance and traffic engineering to ensure efficient traffic flow.

MUNICIPAL GOVERNMENT AND FINANCIAL INFORMATION

Governmental Organization

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

Accounting Practices

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

The City prepares financial statements annually in conformity with generally accepted accounting principles for governmental entities, which are audited by an independent certified public accountant. The annual audit report is generally available about 180 days after the June 30 close of each Fiscal Year. The City's most recent general purpose financial statements for the Fiscal Year ended June 30, 2002, were audited by Calderon, Jaham & Osborn, CPAs.

Budgetary Process

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

Based upon City Council budget priorities, departments submit operating and capital improvement project requests to the City Manager for review by the Financial Management Department. The City Manager evaluates and prioritizes the program requirements, determines funding availability, and develops a balanced budget as required by the City Charter. This proposed balanced budget is published and presented to the City Council by their first meeting in May.

During May and June, the Mayor and City Council conduct budget meetings to review the Proposed Budget. Public comment is received at this time. The budget meetings are conducted as Council workshops focusing on policy issues.

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

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

State Budget Deficit

The State of California's Fiscal Year 2004 proposed budget was passed by both the Senate and the Assembly as of July 29, 2003. While the new plan closes a $38.2 billion shortfall through a combination of borrowing, tax shifts, fees and spending cuts, lawmakers acknowledged it will also leave California with approximately an $8 billion gap in Fiscal Year 2005. The State's Fiscal Year 2004 proposed budget, yet to be approved by the Governor, includes discontinuing the State backfill of motor vehicle license fees (VLF) and incorporates the restoration of the vehicle license fees to pre-1998 levels under the provisions of the state law. In Fiscal Year 2004, the City budgeted $74.9 million in VLF revenues; it is currently estimated that the potential impact would be a projected reduction of $12.6 million of VLF Backfill funds in the City's Fiscal Year 2004 budget. Additionally, while the Assembly passed most of the budget bills approved by the Senate without alteration, they did not concur with the Senate proposal to eliminate Booking Fees Reimbursement, choosing instead to fully restore the existing program. The City budgeted approximately $5.2 million in Booking Fees Reimbursement for Fiscal Year 2004

Other impacts of the State's Fiscal Year 2004 proposed budget could include an estimated reduction for libraries of approximately $565,000 and a property tax increment shift to the Educational Revenue Augmentation Fund (ERAF) that could result in a $2.4 to $2.9 million loss for the City of San Diego's Redevelopment Agency.

The proposed budget also contains a provision referred to as the "Triple Flip", which is intended to leave local governments in a revenue neutral position. This provision would swap ½ cent of the local sales tax revenues for an equal amount of property tax. This ½ cent sales tax would then be reenacted at the state level in order to secure a dedicated revenue source to finance deficit reduction bonds that would be issued for approximately the next 5 years to finance part of its $38 billion budget deficit. The sales tax rate would be lowered a ½ cent from the current 1 cent rate at the local level. To make up for the loss of sales tax, cities and counties would receive an equal amount of property taxes from the ERAF.

As of August 1, 2003, the proposed budget is awaiting the Governor's signature. Since the Governor has the authority to veto or reduce specific line items, the City cannot predict with certainty beyond this date what impacts the state's Fiscal Year 2004 proposed budget will have on those City revenues received from the State, including VLF revenues and Booking Fees Reimbursement. In addition, there are various trailer bills to the main budget proposal that will be considered by the Legislature when the session resumes on August 18, which could potentially change current revenue estimates in the City's Fiscal Year 2004 budget. Future State Budgets could also be affected by changes in the California economy and other factors over which the City has no control. To the extent that the State budget process results in reduced revenues or increased expenses to the City, the City will be required to make adjustments to its Fiscal Year 2004 budget.

Property Taxes

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

Pool, if any, could be temporarily unavailable to the City. In the event of such an occurrence, General Fund revenue requirements could be met through the use of other City funds. Ad valorem taxes are subject to constitutional limits.

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

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

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

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

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

Table 11 presents the assessed valuation within the City for each of the last ten Fiscal Years.

Table 11
ASSESSED VALUATION[1] [2]
Fiscal Years Ended June 30, 1994 through 2003
(in thousands except for percentages)

Fiscal Year Ending June 30	Secured Property	Unsecured Property	Gross Total	Less Exemptions [3]	Net Assessed Valuations [4][5]	Annual Assessed Valuation %Change
1994	$60,586,129	$4,218,892	$64,805,021	$2,360,741	$62,444,280	1.13 %
1995	$60,939,995	$4,371,923	$65,311,918	$2,420,027	$62,891,891	0.72%
1996	$61,793,760	$4,303,198	$66,096,958	$2,489,507	$63,607,451	1.14%
1997	$61,893,902	$4,353,543	$66,247,445	$2,355,174	$63,892,271	0.45%
1998	$63,562,588	$4,988,950	$68,551,538	$2,910,753	$65,640,785	2.74%
1999	$68,648,609	$5,337,916	$73,986,525	$2,994,814	$70,991,711	8.15%
2000	$75,788,751	$5,852,822	$81,641,573	$2,987,620	$78,653,953	10.79%
2001	$82,195,239	$6,347,101	$88,542,340	$3,249,480	$85,292,860	8.44%
2002	$89,259,317	$6,838,926	$96,098,243	$3,572,188	$92,526,055	8.48%
2003	$96,534,652	$6,959,602	$103,494,254	$3,189,764	$100,304,490	8.41%

(1) The official date of assessment is the first day of January preceding the fiscal year during which taxes are levied. For example, January 1, 2002 is the official assessment date for property taxes due during Fiscal Year 2003. The City receives preliminary estimates from the County Assessor in March and final assessment estimates in late June, or early July.
(2) Includes both locally assessed and State assessed utility property.
(3) Excludes homeowners' and business inventory exemptions.
(4) Net assessed valuation for tax rate purposes. Includes both locally assessed and State assessed utility property.
(5) The City does not participate in the Teeter Plan.

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

Table 12 shows the City's secured tax collections for each of the ten Fiscal Years.

Table 12
SECURED TAX LEVIES AND COLLECTIONS
Fiscal Years Ended June 30, 1993 through 2002
(in thousands except for percentages)

Fiscal Year Ending June 30	Tax Levy(1)	Current Year Collections	Current Year Collections as Percentage of Current Tax Levy	Total Tax Collections	Total Collections as Percentage of Current Tax Levy(2)
1993	$120,574	$114,821	95.23%	$119,867	99.41%
1994	$109,881	$105,911	96.39%	$110,738	100.78%
1995	$109,754	$104,295	95.03%	$108,192	98.58%
1996	$111,281	$108,137	97.18%	$110,513	99.31%
1997	$111,719	$108,676	97.28%	$110,563	98.96%
1998	$116,912	$114,311	97.78%	$117,429	100.44%
1999	$127,846	$124,267	97.20%	$126,923	99.28%
2000	$141,963	$137,859	97.11%	$140,225	98.78%
2001	$155,060	$150,900	97.32%	$153,406	98.93%
2002	$167,077	$163,357	97.77%	$165,446	99.02%

(1) Commencing in Fiscal Year 1993, by action of the State Legislature, there was a permanent shift of some property taxes from cities to schools.
(2) Total Collections include unpaid taxes from previous years' tax levies collected in the current fiscal year.

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

APPENDIX D

FORMS OF CONTINUING DISCLOSURE AGREEMENTS

City of San Diego
Reassessment District No. 2003-1
Limited Obligation Refunding Bonds

Continuing Disclosure Agreement - Landowners

This Continuing Disclosure Agreement – Landowners dated for reference purposes as of July 1, 2003 (this "Disclosure Agreement") is executed and delivered by (i) Otay Mesa Property L.P., a California limited partnership ("Otay Mesa Property"); (ii) Otay Acquisitions LP, a California limited partnership ("Otay Acquisitions"); (iii) R.K.R. DLFY LP, a California limited partnership ("RKR"); and (iv) Fine Particle LLC, a California limited liability company ("Fine Particle") and (v) South Otay Business Park LLC, a California limited liability company ("South Otay" and with Otay Mesa Property, Otay Acquisitions, RKR, and Fine Particle, collectively, the "Owners"); and U.S. Bank National Association, as Dissemination Agent hereunder (the "Fiscal Agent" or the "Dissemination Agent"), in connection with the issuance of the City of San Diego Reassessment District No. 2003-1 (the "District") Limited Obligation Refunding Bonds (the "Bonds"). The Bonds are being issued pursuant to a Bond Indenture dated as of July 1, 2003 (the "Indenture"), between the City and U.S. Bank National Association, as fiscal agent. The Owners covenant and agree as follows:

1. Purpose of this Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Owners and Dissemination Agent for the benefit of the owners and beneficial owners of the Bonds and in order to assist the Participating Underwriter in complying with the Rule.

2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized tern used in this Disclosure Agreement unless otherwise defined herein, the following capitalized terms shall have the following meanings:

2.1 "Affiliate" of another Person means (a) a Person directly or indirectly owning, controlling or holding, with power to vote, 5% or more of the outstanding voting securities of such other Person; (b) any Person 5% or more of whose outstanding voting securities are directly or indirectly owned, controlled or held, with power to vote, by such other Person; (c) any Person directly or indirectly controlling such other Person. With respect to any general partner of a partnership or member of a limited liability company for purposes hereof, control means the power to exercise a controlling influence over the management or policies of a Person, unless such power is solely the result of an official position with such Person. Notwithstanding the foregoing, for all the purposes of this Disclosure Agreement, the City of San Diego has determined that Otay Mesa Property, Otay Acquisitions, RKR, Fine Particle and South Otay will be treated as Affiliates of each other.

2.2 "Assumption Agreement" means an agreement between a landowner in the District, or an Affiliate thereof, and the Dissemination Agent containing terms substantially similar to this Disclosure Agreement, whereby such landowner or Affiliate agrees to provide semi-annual reports and notices of significant events to the Dissemination Agent of the character described in Sections 3 and 4 hereof, with respect to the portion of the Property owned by such landowner and its Affiliates and which contains an assumption provision of the character set forth in Section 6 hereof to be applicable to sales of Property by such landowner.

2.3 "City" means The City of San Diego, California.

2.4 "Dissemination Agent" shall mean U.S. Bank National Association, 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 Owners, the City and the Fiscal Agent a written acceptance of such designation.

2.5 "Event of Bankruptcy" means, with respect to a Person, that such Person files a petition or institutes a proceeding under any act or acts, state or federal, dealing with or relating to the subject or subjects of bankruptcy or insolvency, or under any amendment of such act or acts, either as a bankrupt or as an insolvent, or as a debtor, or in any similar capacity, wherein or whereby such Person asks or seeks or prays to be adjudicated a bankrupt, or is to be discharged from any or all of such Persons debts or obligations, or offers to such Persons creditors to effect a composition or extension of time to pay such Persons debts or asks, seeks or prays for reorganization or to effect a plan of reorganization, or for a readjustment of such Person's debts, or for any other similar relief, or if any such petition or any such proceedings of the same or similar kind or character is filed or instituted or taken against such Person, or if a receiver of the business or of the property or assets of such Person is appointed by any court, or if such Person makes a general assignment for the benefit of such Persons creditors.

2.6 "Improvements" means all real property structures and improvements located from time to time on the Property.

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

2.8 "National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule.

2.9 "Participating Underwriter" shall mean Stone & Youngberg LLC, the original underwriter of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

2.10 "Person "means an individual, a corporation, a partnership, a limited liability company, an association, a joint stock company, a trust, any unincorporated organization or a government or political subdivision thereof.

2.11 "Property" means the real property within the boundaries of the District, on which Reassessments are presently or in the future authorized to be levied by the District.

2.12 "Property Owner" or "Owner" means De La Fuente, Otay Mesa Property, Otay Acquisitions, RKR, Fine Particle and South Otay, or any Affiliate of the above.

2.13 "Repository" shall mean each National Repository and each State Repository.

2.14 "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.

2.15 "Semi-Annual Report" shall mean any semi-annual report provided by the Owners pursuant to, and as described in, Sections 3(a) and 4 of this Disclosure Agreement.

2.16 "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 Agreement, there is no State Repository.

3. Provision of Semi-Annual Reports.

3.1 Until this Disclosure Agreement terminates in accordance with Section 7 below, the Owners shall, not later than January 1 and July 1 of each year, commencing with the report due not later than January 1, 2004, provide to the Dissemination Agent a Semi-Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement, with a copy to the City, the Participating Underwriter and the Fiscal Agent. The Owners shall provide a written certification with each Semi-Annual Report furnished to the Dissemination Agent, the City, the Participating Underwriter and the Fiscal Agent to the effect that such Semi-Annual Report constitutes the Semi-Annual Report required to be furnished by the Owners hereunder. The Dissemination Agent, the District, the City and the Fiscal Agent may conclusively rely upon such certification of the Owners, and shall have no duty or obligation to review such Semi-Annual Report. The Semi-Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Agreement.

3.2 Not later than fifteen (15) business days after the date specified in Section 3.1 for providing the Semi-Annual Report to the Dissemination Agent, the Dissemination Agent shall provide the Semi-Annual Report to the Repositories. If by such date the Dissemination Agent has not received a copy of the Semi-Annual Report, the Dissemination Agent shall send notice to each Repository and the Municipal Securities Rulemaking Board in substantially the form attached hereto as Exhibit A.

3.3 The Dissemination Agent shall:

3.3.1 determine each year prior to the date for providing the Semi-Annual Report the name and address of each National Repository and each State Repository, if any; and

3.3.2 to the extent the Semi-Annual Report has been provided to the Dissemination Agent or to the extent of information that is known to it, file a report with the Owners, the City and the Fiscal Agent (if the Dissemination Agent is other than the Fiscal Agent) certifying that the Semi-Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided.

4. Content of Semi-Annual Reports.

4.1 The Owners' Semi-Annual Report shall contain or incorporate by reference the following:

4.1.1 A description of any sales, leasing or encumbrance of material portions of the Property during the period covered by the Semi-Annual Report, including the identification of each material lessee, buyer or lender, as applicable, and the square footage leased, sold or encumbered, as applicable.

4.1.2 A description of the status of completion of any development on the Property (not completed by the date of this Disclosure Agreement), including estimated completion date and whether certificates of occupancy or completion have been issued.

4.1.3 Any delinquency in the payment of the Reassessment by any Owner, specifying the amount of each such delinquency and describing any plans to resolve such delinquency.

4.1.4 Any pending litigation which could reasonably be expected to adversely affect the ability of any Owner to develop or operate its Property or to pay the Reassessments levied on its Property.

4.1.5 Any material changes in the information relating to any Owner and/or the Property contained in the Official Statement.

4.1.6 An update of the status of any previously reported Listed Event described in Section 5 hereof.

4.1.7 The assumption of any obligations by a landowner pursuant to Section 6.

4.2 In addition to any of the information expressly required to be provided, as described above, the Owners shall provide such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

4.3 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 Owners or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Owners shall clearly identify each such other document so included by reference.

5. Reporting of Significant Events.

5.1 Pursuant to the provisions of this Section 5, the Owners shall give, or cause to be given, notice of the occurrence of any of the following events, if material:

5.1.1 failure of any Owner to pay any real property taxes (including any Reassessment levied within the District);

5.1.2 material damage to or destruction of any of the Improvements;

5.1.3 default by any Owner on any loan with respect to the Improvements;

5.1.4 the occurrence of an Event of Bankruptcy with respect to any Owner, or an Affiliate of any Owner;

5.1.5 filing of a lawsuit against any Owner seeking damages, or a judgment in a lawsuit against any Owner, which could have a significant impact on any Owner's ability to pay the Reassessments or to sell or develop the Property;

5.1.6 any denial or termination of credit, any denial or termination of, or default under, any line of credit or loan or any other loss of a source of funds that could have a material adverse affect on any Owner's most recently disclosed financing plan or the ability of any Owner or any Affiliate thereof to pay the Reassessments when due; and

5.1.7 any previously undisclosed legislative, administrative or judicial challenges to development on the Property.

5.2 Whenever an Owner obtains knowledge of the occurrence of a Listed Event, the Owner shall, as soon as possible, determine if such event would be material under applicable federal securities law.

5.3 If the Owner determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities law, the Owner shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection 5.5.

5.4 If the Owner determines that the Listed Event would not be material under applicable federal securities laws, the Owner shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence pursuant to Section 5.5.

5.5 If the Dissemination Agent has been instructed by the Owner to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the Municipal Securities Rulemaking Board and the Repositories.

6. Assumption of Obligations.

6.1 If a portion of the Property owned by any Owner, or any Affiliate of any Owner, is to be conveyed to a Person that, upon such conveyance, will, together with the Owners and any Affiliates of the Owners and such Person, be responsible in the aggregate for more than twenty percent (20%) of the Reassessments, the selling Owner shall include a provision in the conveyance agreement for a Person to agree to execute an Assumption Agreement following the closing of escrow for the conveyance.

6.2 The selling Owner shall enter into an Assumption Agreement with any landowner described in Section 6.1, which Assumption Agreement shall be in form and substance satisfactory to the City, or the landowner shall otherwise enter into an agreement with Dissemination Agent in form substantially identical to this Disclosure Agreement (except for the identity of the "Owner" therein). From and after the date on which an Assumption Agreement (or replacement agreement in form equivalent to this Disclosure Agreement) is executed with respect to

Property, the selling Owner shall no longer be required to take such Property into account in connection with any Semi-Annual Reports required under Sections 3 and 4 hereof.

6.3 If, following a conveyance by an Owner of the character described in the first sentence of Section 6.1, an Assumption Agreement (or replacement agreement in form equivalent to this Disclosure Agreement) is not executed (other than by reason of the willful misconduct of the Dissemination Agent), such Owner shall continue to include such Property in its Semi-Annual Reports, and, for purposes of Section 3, the term "Owner" shall include, in addition to Owner, the Person to whom the Property has been conveyed.

7. Termination of Reporting Obligation. The Owners' obligations under this Disclosure Agreement shall terminate upon the earliest to occur of (i) the legal defeasance, prior redemption or payment in full of all the Bonds; (ii) the date on which the Owners and all Affiliates of the Owners are responsible for the less than twenty percent (20%) of the Reassessments, in the aggregate (subject, however, to the last paragraph of Section 6 above); (iii) the date on which all Reassessments on the Property owned by the Owners and their respective Affiliates are paid or prepaid in full; and (iv) the date on which the Owners deliver to the City and the Dissemination Agent an opinion of bond counsel acceptable to the City to the effect that the continuing disclosure provided for in this Disclosure Agreement is no longer required under the Rule to allow the Participating Underwriter to deal in the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Owners shall give notice of such termination in the same manner as for a Listed Event under Owner Section 5.3.

8. Dissemination Agent.

8.1 The City may, from time to time, appoint or engage a Dissemination Agent to act as such under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the City pursuant to this Disclosure Agreement. If at any time there is not any other designated Dissemination Agent, the Fiscal Agent shall be the Dissemination Agent.

8.2 The Dissemination Agent may at any time resign by providing thirty (30) days written notice to the City, the Owners and the Fiscal Agent, such resignation to become effective upon acceptance of appointment by a successor Dissemination Agent. Upon receiving notice of such resignation, the City shall promptly appoint a successor Dissemination Agent by an instrument in writing, delivered to the Fiscal Agent and the Owners. If no appointment of a successor Dissemination Agent shall be made pursuant to the foregoing provisions of this Section 8.2 within forty-five (45) days after the Dissemination Agent shall have given to the City, the Owners and the Fiscal Agent written notice of its resignation, the Dissemination Agent may apply to any court of competent jurisdiction to appoint a successor Dissemination Agent. Said court may thereupon after such notice, if any, as such court may deem proper, appoint a successor Dissemination Agent. The City shall provide the Owners and the Fiscal Agent with written notice of the identity of any successor Dissemination Agent appointed or engaged by the City.

9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Owners and Dissemination Agent may amend this Disclosure Agreement (and the Fiscal Agent shall agree to any amendment so requested by the Owners, which does not impose any greater duties, nor risk of liability, on the Fiscal Agent) and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

9.1 if the amendment or waiver relates to the provisions of Sections 3, 4 or 5.1, 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 Bonds or type of business conducted;

9.2 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 Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances;

9.3 the proposed amendment or waiver either (i) is approved by owners of the Bonds in the manner provided in the Indenture for amendments to the Indenture with the consent of owners or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the owners or beneficial owners of the Bonds; and

9.4 no amendment increasing or affecting the obligations or duties of the Owners, the Dissemination Agent or the Fiscal Agent shall be made without the consent of such party.

10. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Owners from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Semi-Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Owners choose to include any information in any Semi-Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the Owners shall have no obligation under this Disclosure Agreement to update such information or include it in any future Semi-Annual Report or notice of occurrence of a Listed Event.

11. Default. In the event of a failure of the Owners or Dissemination Agent to comply with any provision of this Disclosure Agreement, any Participating Underwriter or any owner or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Owners or Dissemination Agent, as the case may be, to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed a default under the Indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of the Owners or Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

12. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the Owners agree to indemnify, jointly and severally, 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 Owners for its services provided hereunder and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder, promptly following receipt by the Owners of a written invoice therefor. The Dissemination Agent shall have no duty or obligation to review any information provided to it by the Owners and shall not be deemed to be acting in any fiduciary capacity for the Owners, the bondholders or any other party. The obligations of the Owners under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds. The Fiscal Agent shall not be responsible to any person for any failure by the Owners or the Dissemination Agent (if other than the Fiscal Agent) to perform their duties or obligations imposed hereby, or for any decision of the Owners regarding the reporting of Listed Events.

13. Notices. Any notices or communications to or among any of the parties to this Disclosure Agreement may be given at the address set forth on signature page of this Disclosure Agreement. Any person may, by written notice to the other parties hereto, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

14. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the City, the Owners (their respective successors and assigns), Fiscal Agent, the Dissemination Agent, the Participating Underwriter and the owners and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

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

Dated: ___________, 2003

OWNERS:

Otay Mesa Property L.P., a California limited partnership

By: ______________________________
Its: ______________________________

Address: ______________________________
____

Otay Acquisitions LP, a California limited partnership

By: ______________________________
Its: ______________________________

Address: ______________________________
____

R.K.R. DLFY LP, a California limited partnership

By: ______________________________
Its: ______________________________

Address: ______________________________
____

Fine Particle LLC, a California limited liability company

By: ______________________________
Its: ______________________________

Address: ______________________________
____

South Otay Business Park LLC, a California limited liability company

By: ______________________________
Its: ______________________________

Address: ______________________________
____

U.S. Bank National Association agrees to act as Dissemination Agent pursuant to the foregoing Concluding Information -- Continuing Disclosure Agreement - Landowners

By: ___________________________________
___________________, Authorized Officer

Address: ______________________________
____
____

EXHIBIT A

NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD OF FAILURE TO FILE SEMI-ANNUAL REPORT

Name of Issuer:	City of San Diego
Name of Bond Issue:	City of San Diego Reassessment District No. 2003-1 Limited Obligation Refunding Bonds
Date of Issuance:	___________, 2003

NOTICE IS HEREBY GIVEN that __________________________________ (the "Owner") has not provided a Semi-Annual Report with respect to the above-named Bonds as required by Section 3 of the Concluding Information -- Continuing Disclosure Agreement - Landowners dated as of July 1, 2003 executed by the Owner for the benefit of the owners and beneficial owners of the above-referenced bonds. The Owner anticipates that the Semi-Annual Report will be filed by _____________________.

Dated: _________________, 20__

U.S. Bank National Association

By: ____
____________________________, Authorized Officer

cc: Deputy City Manager
City of San Diego
Financial and Technical Services Business Center
202 "C" Street, MS-9B
San Diego, CA 92101-3868

City of San Diego
Reassessment District No. 2003-1
Limited Obligation Refunding Bonds

Continuing Disclosure Certificate- City

This Continuing Disclosure Certificate– City (this "Disclosure Certificate") is executed and delivered by the City of San Diego (the "City"), for and on behalf of the City's Reassessment District No. 2003-1 (the "District"), as Dissemination Agent hereunder (the "Dissemination Agent"), in connection with the issuance of Limited Obligation Refunding Bonds (the "Bonds") by the District. The Bonds are being issued pursuant to a Bond Indenture dated as of July 1, 2003 (the "Indenture"), between the City and U.S. Bank National Association, as fiscal agent ("Fiscal Agent"). The City covenants and agrees as follows:

1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the Owners and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with the Rule.

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 herein, the following capitalized terms shall have the following meanings:

2.1 "Annual Report" shall mean the City's annual continuing disclosure report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

2.2 "City" shall mean the City of San Diego.

2.3 "Disclosure Representative" shall mean the Deputy City Manager of the City or his or her designee, or such other person as the City shall designate in writing to the Fiscal Agent from time to time.

2.4 "Dissemination Agent" shall mean City, or any successor Dissemination Agent designated in writing by the City and that has filed with the City a written acceptance of such designation.

2.5 "Listed Events" shall mean any of the events listed in Section 5.1 of this Disclosure Certificate.

2.6 "National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purpose of the Rule. The National Repositories currently approved by the Securities and Exchange Commission can be obtained at http://www.sec.gov/info/municipal/nrmsir.htm.

2.7 "Participating Underwriter" shall mean Stone & Youngberg LLC, the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

2.8 "Person "means an individual, a corporation, a partnership, a limited liability company, an association, a joint stock company, a trust, any unincorporated organization or a government or political subdivision thereof.

2.9 "Repository" shall mean each National Repository and the State Repository.

2.10 "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.

2.11 "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.

3. Provision of Annual Reports.

3.1 Until this Disclosure Certificate terminates in accordance with Section 7 below, the City shall, not later than April 1st after the end of the City's fiscal year (which fiscal year presently ends June 30), commencing with the report for the 2002/03 fiscal year, provide to each Repository a Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate, with a copy to the Participating Underwriter and the Fiscal Agent. 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 and later than the balance of the Annual Report, if they are not available by the date required above for the filing of the Annual Report. If City's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5.

3.2 Not later than fifteen (15) business days after the date specified in Section 3.1 for providing the Annual Report to the Repositories, the City shall provide the Annual Report to the Dissemination Agent (if other than the City or an employee of the City).

3.3 If the City or the Dissemination Agent (if other than the City) is unable to provide to the Repositories an Annual Report by the date required in Section 3.1, the City or the Dissemination Agent (if other than the City) shall send a notice to each Repository and the Municipal Securities Rulemaking Board in substantially the form attached as Exhibit A.

3.4 The City or the Dissemination Agent (if other than the City) shall determine each year prior to the date for providing the Annual Report the name and address of each National Repository and the State Repository, if any.

4. Content of Annual Reports. The City's Annual Report shall contain or include by reference the following:

4.1 The audited financial statements of the City for the most recently ended fiscal year, prepared in accordance with generally accepted accounting principles applicable to the City from time to time. If the audited financial statements of the City are not available by the time the Annual Report is required to be filed pursuant to Section 3.1, the Annual Report shall contain unaudited financial statements, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

4.2 Other financial information and operating data relating to the District contained in the Official Statement for the Bonds as follows:

4.2.1 Principal amount of Bonds outstanding;

4.2.2 Balance in the Redemption Fund;

4.2.3 Balance in the Reserve Fund and a statement of the Reserve Requirement;

4.2.4 An update of the following tables in the Official Statement; and

(a) Table 2: Development Status and Land Use Summary.

(b) Table 4: Assessed Value-to-Lien Ratio Ranges

(c) Table 6: Appraised Value-to-Lien Ratios by Property Owner (but not including the columns headed "Appraised Value" and "Appraised Value-to-Lien Ratio")

(d) Table 8: Delinquency History

4.2.5 Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The City shall clearly identify each such other document so included by reference.

5. Reporting of Significant Events.

5.1 Pursuant to the provisions of this Section 5, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if the City determines that such event is material:

5.1.1 Bond principal and interest payment delinquencies;

5.1.2 non-payment related defaults;

5.1.3 unscheduled draws on debt service reserves reflecting financial difficulties;

5.1.4 unscheduled draws on credit enhancements reflecting financial difficulties;

5.1.5 substitution of credit or liquidity providers, or their failure to perform;

5.1.6 adverse tax opinions or events affecting the tax-exempt status of the Bonds clarify;

5.1.7 modifications to rights of Owners of Bonds;

5.1.8 optional, contingent or unscheduled Bond calls;

5.1.9 Bond defeasances;

5.1.10 release, substitution or sale of property securing repayment of the Bonds; and

5.1.11 any changes in the “NOT RATED” status of the Bonds.

5.2 If the Dissemination Agent (if other than the City) shall, as soon as reasonable practicable after obtaining actual knowledge of the occurrence of any of the Listed Events contact the Disclosure Representative, inform such person of the event, and request that the City promptly notify the Dissemination Agent (if other than the City) in writing whether or not to report the event pursuant to Section ___ and promptly direct the Dissemination Agent whether or not to report such event to Bondholders. In the absence of such direction, the Dissemination Agent shall not report such event unless otherwise required to be reported by the Dissemination Agent to the Bondholders under the Indenture.

5.3 Whenever the City obtains knowledge of the occurrence of a Listed Event, because of a notice from the Dissemination Agent pursuant to Section 5.2 or otherwise, the City shall as soon as possible determine if such event would be material under applicable federal securities laws.

5.4 If the City has determined that knowledge of the occurrence of a Listed Event would be material under the applicable federal securities laws, the City shall promptly notify the Dissemination Agent (if other than the City) in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to Section ___ below.

5.5 If in response to a request under Section 5.2, the City determines that the Listed Event would not be material under applicable federal securities laws, the City shall so notify the Dissemination Agent (if other than the City) in writing and instruct the Dissemination Agent (if other than the City) not to report the occurrence pursuant to Section 5.6.

5.6 The City or the Dissemination Agent (if other than the City) shall file a notice of the occurrence of any Listed Event with the Municipal Securities Rulemaking Board and the Repositories with a copy to the City and the participating underwriter. Notwithstanding the foregoing, notice of the Listed Events described in Section 5.1.8 and Section 5.1.9 need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to the Owners of the affected Bonds pursuant to the Indenture.

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 Bonds.

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 the Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the City pursuant to this Disclosure Certificate.

8. Amendment; Waiver.

8.1 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 that the following conditions are satisfied:

8.1.1 if the amendment or waiver relates to the provisions of Sections 3.1, 4 or 5.1, 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 Bonds, or the type of business conducted;

8.1.2 the undertaking, as 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 original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

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

8.2 In the event of any amendment or waiver of a provision of this Disclosure Certificate, the City shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5.6 and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The Dissemination Agent shall not be obligated to enter into any such amendment that modifies or increases its respective duties or obligations hereunder. The Dissemination Agent may rely on an opinion of counsel that the amendment or waiver complies with the requirements of the Rule.

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 Certificate to update such information or include it in any future Annual Report or notice if occurrence of a Listed Event.

10. Default. In the event of a failure of the City to comply with any provision of this Disclosure Certificate, the Participating Underwriter or any Owner or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City 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 or the Dissemination Agent to comply with this Disclosure Certificate shall be an action to compel performance.

11. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Fiscal Agent, the Dissemination Agent, the Participating Underwriters and Owners and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other Person or entity.

12. Notices. Notices should be sent in writing to the following addresses. The following information may be conclusively relied upon until changed in writing.

The City:	Deputy City Manager City of San Diego Financial and Technical Services Business Center 202 "C" Street, MS-9B San Diego, CA 92101-3868 Attention: Patricia T. Frazier
Dissemination Agent:	___________________________ ___________________________ ___________________________ ___________________________

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

Dated: July __, 2003

CITY:

City of San Diego, on behalf of the City of San Diego Reassessment District No. 2003-1

By: ____
Authorized Representative

DISSEMINATION AGENT:

U.S. Bank National Association

By:
____
_____________________, Authorized Officer

EXHIBIT A

NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD OF FAILURE TO FILE SEMI-ANNUAL REPORT

Name of Issuer: City of San Diego

Name of Bond Issue: City of San Diego Reassessment District No. 2003-1 Limited Obligation Refunding Bonds

Date of Issuance: July __, 2003

NOTICE IS HEREBY GIVEN that the City of San Diego (the "City") has not provided a Semi-Annual Report with respect to the above-named Bonds as required by Section 3 of the Concluding Information -- Continuing Disclosure Certificate - Issuer dated July __, 2003 executed by the City for the benefit of the owners and beneficial owners of the above-referenced bonds. The City anticipates that the Semi-Annual Report will be filed by _____________________.

Dated: _________________, 20__

CITY OF SAN DIEGO

By:____
____________________________, Authorized Officer

cc: Deputy City Manager
City of San Diego
Financial and Technical Services Business Center
202 "C" Street, MS-9B
San Diego, CA 92101-3868

APPENDIX E

BOND COUNSEL OPINION

BEST BEST & KRIEGER LLP

a california limited liability partnership including professional corporations

LAWYERS

402 WEST BROADWAY, 13TH FLOOR
SAN DIEGO, CALIFORNIA 92101-3542
(619) 525-1300
(619) 233-6118 FAX
BBKLAW.COM

RIVERSIDE
(909) 686-1450

INDIAN WELLS
(760) 568-2611

ONTARIO
(909) 989-8584

ORANGE COUNTY
(949) 263-2600

SACRAMENTO
(916) 325-4000

July 18, 2003

Mayor and City Council
City of San Diego

Re: $8,850,000 City of San Diego Reassessment District No. 2003-1 Limited Obligation Refunding Bonds

Ladies and Gentlemen:

We have acted as bond counsel to the City of San Diego (the ?City") in connection with the sale and delivery of the City of San Diego Reassessment District No. 2003-1 Limited Obligation Refunding Bonds in the aggregate principal amount of $8,850,000 (the ?Refunding Bonds"). The Refunding Bonds are issued under that certain Bond Indenture dated July 1, 2003 (the ?Indenture") and entered into by and between the City and U.S. Bank National Association, as fiscal agent. Capitalized terms used herein, but not defined herein, have the meaning ascribed to those terms in the Indenture.

The Refunding Bonds are special, limited obligations of the City. The Refunding Bonds are payable from and secured by unpaid reassessments (?Reassessment") against those properties located within the Reassessment District No. 2003-1.

We have examined the law and such certified proceedings and other papers as we deem necessary to render the opinion. As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications, documents, and written opinions provided to us by persons believed to be responsible without undertaking to verify such facts by independent investigation. We have also assumed the genuineness of the signatures appearing upon such records, proceedings, certifications, documents, and opinions.

We call attention to the fact that the rights and obligations under the Bonds and the Indenture are subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against governmental entities in the State of California.

We have not been engaged to take, and have not undertaken, any responsibility for the accuracy, completeness or fairness of the Official Statement or other offering materials relating to the Refunding Bonds and express no opinion relating thereto (excepting only the matters set forth as our opinion in the Official Statement).

Based upon our examination and subject to the foregoing, we are of the opinion, as of the date hereof, that:

1. The Indenture has been duly entered into by the City and constitutes a legal, valid and binding limited obligation of the City enforceable in accordance with its terms.

2. The Indenture creates valid liens on the funds pledged by the Indenture for the security of and payment on the Refunding Bonds.

3. The Refunding Bonds have been duly authorized, executed and delivered by the City and are valid and binding limited obligations of the District, payable solely from the sources provided in the Indenture.

4. Under existing laws, regulations, rulings and judicial decisions, the interest on the Refunding Bonds (including any original issue discount properly allocable to a holder thereof) is exempt from personal income taxation of the State of California, is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; it should be noted, however, that, for purposes of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposed), such interest is taken into account in determining adjusted current earnings. The opinions set forth in the preceding sentence are subject to the condition that the City comply with all applicable requirements of the Internal Revenue Code of 1986 and the regulations promulgated thereunder that must be satisfied subsequent to the delivery of the Refunding Bonds in order that the interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The City has covenanted to comply with each such applicable requirement. Failure to comply with certain of the requirements may cause the inclusion of such interest in gross income fore federal income tax purposes to be retroactive to the date of delivery of the Refunding Bonds. We express no opinion regarding other federal or state tax consequences arising with respect to the Refunding Bonds.

Respectfully submitted,

BEST BEST & KRIEGER LLP

APPENDIX F

SUMMARY OF INDENTURE

The following is a summary of certain provisions of the Bond Indenture. This summary is not intended to be definitive, and reference is made to the complete text of each of such documents for the complete terms thereof.

DEFINITIONS

Except as otherwise defined in this summary, the terms previously defined in this Official Statement have the respective meanings ascribed to such terms in the body of this Official Statement.

In addition to the preceding definitions, the following terms defined in the Bond Indenture have, except where specified otherwise, the following meanings

"**Act**" means the "Refunding Act of 1984 for 1915 Improvement Act Bonds," being Division 11.5 of the Streets and Highways Code of the State of California.

"**Annual Debt Service**" means, for each Bond Year, the sum of (a) the interest payable on the Outstanding Bonds in such Bond Year, and (b) the principal amount of the Outstanding Bonds scheduled to be paid in such Bond Year, including from mandatory sinking fund payments.

"**Authorized Representative**" means the City Manager or any other person designated in writing by the City Manager as authorized to act on behalf of the City under or with respect to the Indenture and all other agreements related thereto.

"**Bond Counsel**" means an attorney or firm of attorneys, selected by the City, of nationally recognized standing in matters pertaining to the tax treatment of interest on bonds issued by states and their political subdivisions, duly admitted to practice law before the highest court of the State.

"**Bond**" or "**Bonds**" means the City of San Diego Reassessment District No. 2003-1 Limited Obligation Refunding Bonds.

"**Bondowner**" or "**Owner**" means, whenever used with respect to a Bond, the person in whose name the ownership of such Bond is registered on the registration books of the Fiscal Agent maintained pursuant to the provisions of the Indenture.

"**Bond Year**" means each twelve-month period extending from September 2 in one calendar year to September 1 of the succeeding calendar year, except in the case of the initial Bond Year which shall be the period from the Delivery Date to September 1, 2003.

"**Business Day**" means a day that is not a Saturday or a Sunday or a day of the year on which banks in New York, New York and Los Angeles, California, or where the Principal Corporate Trust Office is located, are not required or authorized to remain open.

"**City**" means the City of San Diego, California, a municipal corporation and charter law city.

"**City Clerk**" means the City Clerk of the City.

"**City Treasurer**" means the City Treasurer of the City.

"**Code**" means the Internal Revenue Code of 1986, as amended.

"**Comptroller of the Currency**" means the Comptroller of the Currency of the United States.

"**Continuing Disclosure Agreement**" means that certain Continuing Disclosure Agreement by and among the City and U.S. Bank National Association dated as of July 1, 2003, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

"**Costs of Issuance**" means all expenses incurred in connection with the authorization, issuance, sale and delivery of the Bonds, including but not limited to compensation, fees and expenses of the City and its counsel, fees and expenses of the assessment engineer, financial advisor, Fiscal Agent and verification agents, legal fees and expenses of Bond Counsel and disclosure counsel, filing and recording fees, costs of preparation and reproduction of documents and the costs of compliance with the Code in calculating the rebate obligation, if any, with respect to the Original Bonds.

"**Costs of Issuance Fund**" means the fund established under the provisions of the Indenture.

"**Date of Delivery**" means the date on which the Bonds are delivered the original purchaser thereof.

"**Depository**" means DTC and its successors and assigns or if (a) the then Depository resigns from its functions as securities depository of the Bonds, or (b) the City discontinues use of the Depository pursuant to the Indenture, any other securities depository which agrees to follow procedures required to be followed by a securities depository in connection with the Bonds and which is selected by the City.

"**DTC**" means The Depository Trust Company, New York, New York, and its successors and assigns.

"**Escrow Agent**" means U.S. Bank National Association, acting as escrow agent under the Escrow Agreement.

"**Escrow Agreement**" means that Escrow Agreement dated as of July 1, 2003 by and between the City and the Escrow Agent.

"**Fiscal Agent**" means U.S. Bank National Association, or any successor thereto acting as Fiscal Agent pursuant to the provisions of the Indenture.

"**Government Obligations**" means obligations described in Paragraph 1 of the definition of Permitted Investments.

"**Interest Payment Date**" means March 2 and September 2 of each year during the term of the Bonds, commencing March 2, 2004.

"**Maximum Annual Debt Service**" means, as of the date of any calculation, the largest Annual Debt Service during the current or any future Bond Year.

"**Original Bonds**" means the outstanding bonds of each of the following series of bonds:

A. City of San Diego Assessment District No. 4011 (De La Fuente Business Park - Phase I) Limited Obligation Improvement Bonds (the "**AD 4011 Bonds**");

B. City of San Diego Assessment District No. 4021 (De La Fuente Business Park - Phase II) Limited Obligation Improvement Bonds (the "**AD 4021 Bonds**"); and

C. City of San Diego Assessment District No. 4036 (International Business Center) Limited Obligation Improvement Bonds (the "**AD 4036 Bonds**").

"**Original Assessment Districts**" means the following assessment districts formed by the City:

A. Assessment District No. 4011 (De La Fuente Business Park - Phase I);

B. Assessment District No. 4021 (De La Fuente Business Park - Phase II); and

C. Assessment District No. 4036 (International Business Center)

"**Nominee**" means the nominee of the Depository that may be the Depository, as determined from time to time by the Depository.

"**Outstanding**" means as to the Bonds, all of the Bonds, except:

1. Bonds theretofore canceled or surrendered for cancellation in accordance with the provisions of the Bond Indenture;
2. Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Fiscal Agent pursuant to the terms of the Indenture; and
3. Bonds for the payment or redemption of which monies shall have been theretofore deposited in trust (whether upon or prior to the maturity or the redemption date of such bonds), provided that, if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in the Indenture.

"**Participant**" means a member of or participant in the Depository.

"**Permitted Investments**" means any of the following which at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested therein (the Fiscal Agent shall be entitled to rely upon any written investment direction from an Authorized Representative of the City as a certification to the Fiscal Agent that such investment constitutes a Permitted Investment):

1. A. Direct obligations (other than an obligation subject to variation in principal payment) of the United States of America ("United States Treasury Obligations");

   B. Obligations fully and unconditionally guaranteed as to timely payment of principal and interest by the United States of America;

   C. Obligations fully and unconditionally guaranteed as to timely payment of principal and interest by any agency or instrumentality of the United States of America when such obligations are backed by the full faith and credit of the United States of America, or

   D. Evidences of ownership of proportionate interests in future interest and principal payments on obligations described above held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying government obligations are not available to any person claiming through the custodian or to whom the custodian may be obligated.

2. Federal Housing Administration debentures.

3. The listed obligations of government-sponsored agencies which are not backed by the full faith and credit of the United States of America:

   A. Federal Home Loan Mortgage Corporation (FHLMC)

      (1) Participation certificates (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts)

      (2) Senior Debt obligations

   B. Farm Credit Banks (formerly: Federal Land Banks, Federal Intermediate Credit Banks and Banks for Cooperatives)

      (1) Consolidated system-wide bonds and notes

   C. Federal Home Loan Banks (FHL Banks)

      (1) Consolidated debt obligations

   D. Federal National Mortgage Association (FNMA)

      (1) Senior debt obligations

      (2) Mortgage-backed securities (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts)

   E. Student Loan Marketing Association (SLMA)

      (1) Senior debt obligations (excluded are 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)

   F. Financing Corporation (FICO)

      (1) Debt obligations

   G. Resolution Funding Corporation (REFCORP)

      (1) Debt obligations

4. Unsecured certificates of deposit, time deposits, and bankers' acceptances (having maturities of not more than 30 days) of any bank the short-term obligations of which are rated "A-1" or better by S&P.

5. Deposits the aggregate amount of which are fully insured by the Federal Deposit Insurance Corporation (FDIC), in banks which have capital and surplus of at least $5 million.

6. Commercial paper (having original maturities of not more than 270 days rated "A-1" by S&P and "Prime-1" by Moody's.

7. Money market funds rated "AAm-1" or "AAm-G" by S&P, or better.

8. State Obligations, which means:

   A. Direct general obligations of any state of the United States of America or any subdivision or agency thereof to which is pledged the full faith and credit of a state the unsecured general obligation debt of which is rated "A3" by Moody's and "A" by S&P, or better, or any obligation fully and unconditionally guaranteed by any state, subdivision or agency whose unsecured general obligation debt is so rated.

   B. Direct general short-term obligations of any state agency or subdivision or agency thereof described in (A) above and rated "A-1+" by S&P and "Prime-1" by Moody's.

   C. Special Revenue Bonds (as defined in the United States Bankruptcy Code) of any state, state agency or subdivision described in (A) above and rated "AA" or better by S&P and "AA" or better by Moody's.

9. Pre-refunded municipal obligations rated "AAA" by S&P and "Aaa" by Moody's meeting the following requirements:

   A. the municipal obligations are (1) not subject to redemption prior to maturity or (2) the trustee for the municipal obligations has been given irrevocable instructions concerning their call and redemption and the issuer of the municipal obligations has covenanted not to redeem such municipal obligations other than as set forth in such instructions;

   B. the municipal obligations are secured by cash or United States Treasury Obligations which may be applied only to payment of the principal of, interest and premium on such municipal obligations;

   C. the principal of and interest on the United States Treasury Obligations (plus any cash in the escrow) has been verified by the report of independent certified public accountants to be sufficient to pay in full all principal of, interest, and premium, if any, due and to become due on the municipal obligations ("Verification");

   D. the cash or United States Treasury Obligations serving as security for the municipal obligations are held by an escrow agent or trustee in trust for owners of the municipal obligations;

   E. no substitution of a United States Treasury Obligation shall be permitted except with another United States Treasury Obligation and upon delivery of a new Verification; and

   F. the cash or United States Treasury Obligations are not available to satisfy any other claims, including those by or against the trustee or escrow agent.

10. Repurchase agreements:

With (1) any domestic bank, or domestic branch of a foreign bank, the long term debt of which is rated at least "A" by S&P and Moody's; or (2) any broker-dealer with "retail customers" or a related affiliate thereof which broker-dealer has, or the parent company (which guarantees the provider) of which has, long-term debt rated at least "A" by S&P and Moody's, which broker-dealer falls under the jurisdiction of the Securities Investors Protection Corporation, or (3) any other entity rated "A" or better by S&P and Moody's, provided that:

A. The market value of the collateral is maintained at levels and upon such conditions as would be acceptable to S & P and Moody's to maintain an "A" rating in an "A" rated structured financing (with a market value approach);

B. The Fiscal Agent or a third party acting solely as agent therefor or for the District (the "Holder of the Collateral") has possession of the collateral or the collateral has been transferred to the Holder of the Collateral in accordance with applicable state and federal laws (other than by means of entries on the transferor's books);

C. The repurchase agreement shall state and an opinion of counsel shall be rendered at the time such collateral is delivered that the Holder of the Collateral has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the Holder of the Collateral is in possession);

D. The repurchase agreement shall provide that if during its term the provider's rating by either Moody's or S&P is withdrawn or suspended or falls below "A-" by S&P or "A3" by Moody's, as appropriate, the provider must, at the direction of the District or the Fiscal Agent, within 10 days of receipt of such direction, repurchase all collateral and terminate the agreement, with no penalty or premium to the District or Fiscal Agent.

Notwithstanding the above, collateral levels need not be as specified in "A" above, so long as such collateral levels are 103% or better and the provider is rated at least "A" by S&P and Moody's, respectively.

11. Investment agreements with a domestic or foreign bank or corporation the long-term debt or financial strength of which, it or its guarantor is rated at least "AA-" by S&P and "Aa3" by Moody's; provided that, by the terms of the investment agreement:

A. the invested funds are available for withdrawal without penalty or premium, upon not more than seven days' prior notice; the District and the Fiscal Agent hereby agree to give or cause to be given notice in accordance with the terms of the investment agreement so as to receive funds thereunder with no penalty or premium paid;

B. the investment agreement shall state that it is the unconditional and general obligation of, and is not subordinated to any other obligation of, the provider thereof; or, in the case of a bank, that the obligation of the bank to make payments under the agreement ranks pari passu with the obligations of the bank to its other depositors and its other unsecured and unsubordinated creditors;

C. the District and the Fiscal Agent receives the opinion of domestic counsel that such investment agreement is legal, valid, binding and enforceable upon the provider in accordance with its terms and of foreign counsel (if applicable);

D. the investment agreement shall provide that if during its term

(1) the provider's rating by either S&P or Moody's falls below "AA-" or "Aa3", respectively, the provider shall, at its option, within 10 days of receipt of publication of such downgrade, either (a) collateralize the investment agreement by delivering or transferring in accordance with applicable state and federal laws (other than by means of entries on the provider's books) to the District, the Fiscal Agent or a Holder of the Collateral free and clear of any third-party liens or claims the market value of which collateral is maintained at levels and upon such conditions as would be acceptable to S & P and Moody's to maintain an "A" rating in an "A" rated structured financing (with a market value approach); or (b) transfer and assign the investment agreement to a then qualifying counterparty with ratings specified above; and

(2) the provider's rating by either S&P or Moody's is withdrawn or suspended or falls below "A-" or "A3", respectively, the provider must, at the direction of the District or the Fiscal Agent, within 10 days of receipt of such direction, repay the principal of and accrued but unpaid interest on the investment;

E. The investment agreement shall state and an opinion of counsel shall be rendered, in the event collateral is required to be pledged by the provider under the terms of the investment agreement, at the time such collateral is delivered, that the Holder of the Collateral has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the Holder of the Collateral is in possession);

F. the investment agreement must provide that if during its term

(1) the provider shall default in its payment obligations, the provider's obligations under the investment agreement shall, at the direction of the District or the Fiscal Agent, be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the District or Fiscal Agent, as appropriate, and

(2) the provider shall become insolvent, not pay its debts as they become due, be declared or petition to be declared bankrupt, etc. ("Event of Insolvency"), the provider's obligations shall automatically be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the District or Fiscal Agent, as appropriate.

12. The Local Agency Investment Fund (LAIF) administered by the treasurer of the State to the extent such deposits remain in the name of and control of the Fiscal Agent.

"**Prepayment Account**" means the account by such name within the Redemption Fund established pursuant to the provisions of the Indenture.

"**Principal Corporate Trust Office**" means the office of the Fiscal Agent at Corporate Trust Division, 550 South Hope Street, Suite 500, Los Angeles, CA 90071 or such other offices as may be specified to the District by the Fiscal Agent in writing.

"**Reassessment District**" means the City of San Diego Reassessment District No. 2003-1.

"**Rebate Fund**" means the fund by such name established pursuant to Section 20(d) the provisions of the Indenture.

"**Record Date**" means the 15th day of the month preceding each Interest Payment Date regardless of whether such day is a business day.

"**Redemption Fund**" means the fund by such name established pursuant to the provisions of the Indenture.

"**Reserve Fund**" means the fund by such name established pursuant to the provisions of the Indenture.

"**Reserve Requirement**" means an amount initially equal to $_,___,___.__ which amount shall, as of any date of calculation, be equal to the least of (i) Maximum Annual Debt Service for the Bonds, (ii) one hundred twenty-five percent (125%) of Average Annual Debt Service for the Bonds, or (iii) ten percent (10%) of the original principal amount of the Bonds less original issue discount, if any, plus original issue premium, if any, applicable to the Bonds.

"**Yield**" has the meaning assigned to such term for purposes of Section 148(f) of the Code.

FUNDS AND ACCOUNTS

Redemption Fund

The Fiscal Agent shall place into the Redemption Fund (i) all sums received by the City for the collection of the reassessments and the interest thereon, (ii) all sums received by the City for the prepayment of reassessments, and (iii) any surplus in the Costs of Issuance Fund as provided below.

The City shall transfer or cause to be transferred all sums received for the collection of the reassessments and of interest thereon and all sums received for the prepayment of reassessments to the Fiscal Agent within thirty (30) business days of the receipt thereof by the City.

Principal of and interest on the Bonds shall be paid by the Fiscal Agent to the registered owners out of the Redemption Fund on the Interest Payment Dates to the extent funds on deposit in said Redemption Fund are available therefor.

In all respects not recited in the Indenture, payment of principal and interest on said Bonds shall be governed by the Indenture or such other written direction of the City to the Fiscal Agent given in accordance with the provisions of the Act. Under no circumstances shall the Bonds or interest thereon be paid out of any other fund except as provided in the Indenture.

The Fiscal Agent shall establish a prepayment account within the Redemption Fund to be known as the Prepayment Account. The Fiscal Agent shall deposit in the Prepayment Account all monies received from the City representing the principal of and redemption premium on any prepaid reassessments. Such amounts shall be identified in writing to the Fiscal Agent. Such monies shall be applied solely to the payment of principal of and premium and interest on Bonds to be redeemed prior to maturity pursuant to the provisions of the Indenture.

Reserve Fund

The Reserve Fund shall be initially funded from a portion of the Bond proceeds in an amount equal to $________. In the event of a transfer pursuant to paragraph 1. below, the Fiscal Agent shall also deposit in the Reserve Fund funds transferred to the Fiscal Agent from the City which represent the proceeds of (i) payments made to redeem delinquent reassessment installments or (ii) the judicial foreclosure sale of parcels. Any transfer of funds pursuant to the preceding sentence shall be accompanied by written instructions of the City directing the Fiscal Agent to deposit such funds in the Reserve Fund.

Monies in the Reserve Fund shall be applied as follows:

1. Amounts in the Reserve Fund shall be transferred by the Fiscal Agent to the Redemption Fund if there are insufficient monies in said Redemption Fund to pay principal of and interest on the Bonds when due. Amounts so transferred shall be repaid to the Reserve Fund from proceeds from the redemption or foreclosure of property with respect to which an assessment is unpaid and from payments of the delinquent assessments.

2. Interest earned on the permitted investment of monies on deposit in the Reserve Fund shall remain in the Reserve Fund to the extent required to maintain the Reserve Fund at the Reserve Requirement. Not later than July 15 of each fiscal year the amount on deposit in the Reserve Fund in excess of the Reserve Requirement shall be transferred from the Reserve Fund to the Redemption Fund and, in the sole discretion of the City, may be used for the optional redemption of the Bonds or credited to the unpaid assessment installments payable during the succeeding fiscal year. The Auditor's record shall reflect any such credits against each of the unpaid assessments in amounts equal to each parcel's proportionate share of such transfer.

Notwithstanding the above, interest earnings on monies on deposit in the Reserve Fund in excess of the Yield on the Bonds shall be subject to transfer and rebate at the written direction of the City to the United States Treasury.

3. Whenever monies in the Reserve Fund are sufficient to retire all of the Bonds outstanding, plus accrued interest thereon, such money shall be transferred to the Redemption Fund upon the written direction of the City and collection of a corresponding amount of the remaining unpaid assessments shall cease.

4. In the event an assessment is prepaid in cash, the City shall credit the prepaid assessment with a proportionate share of the Reserve Fund and transfer an amount equal to such credit to the Redemption Fund to be utilized for the advance retirement of Bonds.

Costs of Issuance Fund

The Fiscal Agent shall pay from the Costs of Issuance Fund any Costs of Issuance of the Reassessment District upon the written direction of the City. On February __, 2004 the Fiscal Agent shall transfer any unspent funds remaining in the Costs of Issuance Fund to the Redemption Fund.

Rebate Fund

The Fiscal Agent shall establish and transfer into a Rebate Fund all amounts specified in writing by the City Treasurer, such instructions prepared in accordance with the provisions of the Tax Certificate. Subject to the provisions of said Tax Certificate, amounts on deposit in the Rebate Fund shall be paid only to the United States of America in accordance with written instructions of the City Treasurer. Notwithstanding any other provisions of the Indenture, all earnings on amounts on deposit in the Rebate Fund shall remain therein until all amounts payable to the United States of America have been paid. Any excess funds shall be transferred in accordance with written instructions received from the City Treasurer.

INVESTMENTS

Unless otherwise specified in the Indenture, monies in the funds and accounts established thereunder shall, at the written direction of the City executed by an Authorized Representative given at least two (2) days prior, be invested and reinvested in Permitted Investments (including investments with the Fiscal Agent or an affiliate of the Fiscal Agent or investments for which the Fiscal Agent or an affiliate of the Fiscal Agent acts as investment advisor or provides other services so long as the investments are Permitted Investments). Monies in the Prepayment Account of Redemption Fund and the Rebate Fund shall, at the written direction of the City executed by an Authorized Representative, be invested in Government Obligations or money market funds comprised solely of Government Obligations and rated in the highest rating category of S&P. Notwithstanding anything therein to the contrary, in the absence of written investment instructions, the Fiscal Agent shall invest solely in investments identified in paragraph 7 of the definition of Permitted Investments. Any Permitted Investments that are registerable securities shall be registered in the name of the Fiscal Agent.

Obligations purchased as investments of monies in any fund or account shall be deemed at all times to be a part of such fund or account. Except where provided otherwise in the Indenture, any income realized on or losses resulting from investments in any fund or account shall be credited or charged to such fund or account.

Moneys in all Funds and Accounts may be aggregated for purposes of investing in Permitted Investments except when it is necessary to segregate a Fund or Account or portion thereof for purposes of restricting the Yield on the investment of such funds.

Subject to the restrictions set forth in the Indenture and/or any written investment instructions received by Fiscal Agent, moneys in all funds and accounts, except for the Reserve Fund, shall be invested in Permitted Investments maturing, or with respect to which payments of principal and interest are scheduled or otherwise payable, not later than the date on which it is estimated that such moneys will be required by the Fiscal Agent for the purposes specified in the Indenture. With respect to amounts in the Reserve Fund, if such investments may be redeemed without penalty or premium on the business day prior to each Interest Payment Date, 100% of the amount on deposit in the Reserve Fund may be invested in such redeemable investments of any maturity on or prior to the final maturity of the Bonds. Permitted Investments purchased under a repurchase agreement may be deemed to mature on the date or dates on which the Fiscal Agent may deliver such Permitted Investments for repurchase under such agreement.

OWNERSHIP, TRANSFER OR EXCHANGE OF BONDS

Ownership of Bonds

The person in whose name any Bond shall be registered shall be deemed and regarded by the Fiscal Agent and the City as the absolute owner thereof for all purposes and shall not be affected by any notice to the contrary, and payment of or on account of the principal and redemption premium, if any, of any such Bond, and the interest on any such Bond, shall be made only to or upon the order of the registered owner thereof or his legal representative shown on the books of registration. All such payments shall be valid and effectual to satisfy and discharge the liability upon such Bond, including the redemption premium, if any, and interest thereon, to the extent of the sum or sums so paid.

Transfer

Any Bond may, in accordance with its terms, be transferred, upon the books of registration required to be kept pursuant to the provisions of the Indenture, by the owner in whose name it is registered, or by his or her duly authorized attorney or legal representative, upon surrender of such Bond for registration of such transfer, accompanied by delivery of a written instrument of transfer in a form acceptable to the Fiscal Agent and duly executed by the owner of said Bonds.

The Fiscal Agent may require the payment by the Bondowner requesting such transfer of any tax or other governmental charge required to be paid with respect to such transfer and such charges as provided for in the system of registration for registered debt obligations. The cost of printing Bonds and any services rendered or expenses incurred by the Trustee in connection with any transfer shall be paid by the City.

The Fiscal Agent shall not be required to register the transfer of any Bonds during the fifteen (15) days preceding the selection of any Bonds for redemption prior to the maturity thereof, nor with respect to any Bond which has been selected for redemption prior to the maturity thereof.

Upon any registration of transfer, a new Bond or Bonds shall be authenticated and delivered by the Fiscal Agent in exchange for such Bond, in the name of the transferee, in any denomination or denominations authorized by the Indenture, and in an aggregate principal amount equal to the principal amount of such Bond or principal amount of such Bond or Bonds so surrendered. In all cases in which Bonds shall be exchanged or transferred, the Fiscal Agent shall authenticate Bonds in accordance with the provisions of the Indenture. All Bonds surrendered in such exchange or registration transfer shall forthwith be canceled.

Bonds may be exchanged at the principal corporate trust office of the Fiscal Agent, or at such other place as designated by the Fiscal Agent, for a like aggregate principal amount of Bonds of the same series, interest rate and maturity, subject to the payment of any tax or governmental charges, if any, upon surrender and cancellation of the Bond. Upon such transfer and exchange, a new registered Bond or Bonds of any authorized denomination or denominations of the same series and maturity for the same aggregate principal amount will be issued to the transferee in exchange therefor.

Mutilated, Destroyed, Stolen or Lost Bonds

In case any Bond shall become mutilated or be destroyed, stolen or lost, the City shall cause to be executed and authenticated a new Bond of like date and tenor and principal or maturity amount in exchange and substitution for and upon the cancellation of such mutilated Bond or in lieu of and in substitution for such Bond mutilated, destroyed, stolen or lost, upon the owner's paying the reasonable expenses and charges in connection therewith, and, in the case of a Bond destroyed, stolen or lost, his filing with the Fiscal Agent and City of evidence satisfactory to them that such Bond was destroyed, stolen or lost, and of his ownership thereof, and furnishing the Fiscal Agent and City with indemnity satisfactory to them.

COVENANTS

Covenant for Superior Court Foreclosure

The City covenants that it will determine or cause to be determined, no later than August 15 of each Fiscal Year in which the Bonds are Outstanding, whether or not any owners of the real property within the Reassessment District are delinquent in the payment of reassessment installments. If such delinquencies exist, the City shall order and cause to be commenced an action in the Superior Court to foreclose the lien of a reassessment or installment thereof not paid when due, not later than the next following November 1 against any parcel that is subject to delinquencies of more than $7,500 or any group of parcels under common ownership with aggregate delinquencies of more than $7,500, except that during any period in which the amount on deposit in the Reserve Fund is less than the Reserve Requirement then the City shall commence foreclosure proceedings against any parcel that is subject to delinquencies of more than $2,500 or any group of parcels under common ownership with aggregate delinquencies of more than $2,500.

The City further covenants to diligently prosecute any such foreclosure action to judgment and foreclosure sale.

Covenant to Maintain Tax-Exempt Status

The City covenants that it will not make any use of the proceeds of the Bonds issued hereunder which would cause the Bonds to become "arbitrage bonds" subject to Federal income taxation pursuant to the provisions of Section 148(k) of the Code, or to become "Federally-guaranteed obligations" pursuant to the provisions of Section 149(b) of the Code, or to become "private activity bonds" pursuant to the provisions of Section 141(a) of the Code. To that end, the City will comply with all applicable requirements of the Code and all regulations of the United States Department of Treasury issued thereunder to the extent such requirements are, at the time, applicable and in effect. Additionally, the City agrees to implement and follow each and every recommendation provided by Bond Counsel and deemed to be necessary to be undertaken by the City to ensure compliance with all applicable provisions of the Code in order to preserve the exclusion of interest on the Bonds from gross income for Federal income tax purposes.

Covenant Regarding Arbitrage

The City shall not take or permit nor suffer to be taken any action with respect to the gross proceeds of the Bonds as such term is defined under the Code which, if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the date of issuance of the Bonds, would have caused the Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code and the regulations promulgated thereunder.

MODIFICATION OR AMENDMENT TO THE INDENTURE.

The Indenture and the rights and obligations of the City and of the owners of the Bonds may be modified or amended at any time by a supplemental indenture pursuant to the affirmative vote at a meeting of the owners, or with the written consent without a meeting, of the owners of at least a majority in aggregate principal amount of the Bonds then outstanding. No such modification or amendment shall (i) extend the maturity of any Bond or the time for paying interest thereon, or otherwise alter or impair the obligation of the City to pay the principal of, and the interest and any premium on, any Bond, without the express consent of the owner of such Bond, or (ii) permit the creation of any pledge of or lien upon the reassessments superior to or on a parity with the pledge and lien created for the benefit of the Bonds, (iii) reduce the percentage of Bonds required for the amendment hereof, or (iv) reduce the principal amount of or redemption premium on any Bond or reduce the interest rate thereon. Any such amendment may not modify any of the rights or obligations of the Fiscal Agent without its written consent.

The Indenture and the rights and obligations of the City and the owners may also be modified or amended at any time by a supplemental indenture, without the consent of any owners, only to the extent permitted by law and only for any one or more of the following purposes:

(1) to add to the covenants and agreements of the City contained in the Indenture, other covenants and agreements thereafter to be observed, or to limit or surrender any right or power in the Indenture reserved to or conferred upon the City;

(2) to make modifications not adversely affecting any outstanding series of Bonds in any material respect;

(3) to make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provisions of the Indenture, or in regard to questions arising under the Indenture, as the City may deem necessary or desirable and not inconsistent with the Indenture, and which shall not materially adversely affect the rights of the owners; or

(4) to make such additions, deletions or modifications as may be necessary or desirable to assure compliance with Section 148 of the Code relating to required rebate of excess earnings to the United States of America or otherwise as may be necessary to assure exclusion from gross income for federal income tax purposes of interest on the Bonds or to conform with the federal tax regulations.

PROVISIONS CONSTITUTE CONTRACT

The provisions of the Indenture and the Bonds shall constitute a contract between the City and the Bondowners and the provisions hereof and thereof shall be enforceable by any Bondowner for the equal benefit and protection of all Bondowners similarly situated by mandamus, accounting, mandatory injunction or any other suit, action or proceeding at law or in equity that is now or may hereafter be authorized under the laws of the State of California in any court of competent jurisdiction. Said contract is made under and is to be construed in accordance with the laws of the State of California.

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APPENDIX G

BOOK–ENTRY ONLY SYSTEM

The following description of the procedures and record-keeping with respect to beneficial ownership interests in the Bonds, payment of principal, interest and other payments on the Bonds to Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interests in such Bonds and other related transactions by and between DTC, the Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the Participants, as the case may be.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co., (DTC's partnership nominee). One fully-registered Bond certificate will be issued for each maturity of the Bonds in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking law, a member of a Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trusts companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

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

To facilitate subsequent transfers, all Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

Redemption notices shall be sent to Cede & Co. If less than all of the Bonds 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. will consent or vote with respect to the Bonds. Under its usual procedures. DTC mails an Omnibus Proxy to the issuer of the Bonds as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co's consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on payable date. Payments by participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Fiscal Agent, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the City or the Fiscal Agent, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have the Bonds purchased or tendered, through its Participant, to the Fiscal Agent, and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's Interest in the Bonds, on DTC's records, to the Fiscal Agent. The requirement for physical delivery of the Bonds in connection with a demand for purchase or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records.

DTC may determine to discontinue providing its services with respect to the Bonds at any time by giving notice to the City or the Fiscal Agent and discharging its responsibilities with respect thereto under applicable law. Under such circumstances, if there is not a successor securities depository, the Bonds are required to be delivered as described in the Indenture. The Beneficial Owner upon registration of Bonds held in the Beneficial Owner's name will become the Owner of the Bonds.

The City may at times discontinue the use of the system of book-entry only transfers through DTC (or a successor securities depository). In such event, Bond certificates will be printed as described in the Indenture. In the event that the book-entry only system is discontinued, payments of principal of and interest on the Bonds shall be payable to the registered owners of the Bonds in accordance with the procedures set forth in the Indenture.

The City cannot and does not give any assurances that DTC, Participants or others will distribute payments of principal, interest or premium with respect to the Bonds paid to DTC or its nominees as the registered owner, or will distribute any redemption 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. The City is not 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 Bonds or an error or delay relating thereto.